



# Annual Report 2017



## HEAD OFFICE

P.O Box 545, PC 116, Mina al Fahal, Telephone: (+968) 24577000, Call Centre: (+968) 24577177  
Email: info@ahlibank.om, www.ahlibank.om

## CONVENTIONAL BRANCHES

### Al Wattaya

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

### Al Seeb

P.O Box 270, PC 121, Seeb  
Telephone: (+968) 24427627

### Avenues Mall

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24577222

### Khoudh

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24541386

### Al Khuwair

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24480050

### Sohar

P.O Box 454, PC 321, Tarif  
Telephone: (+968) 26843843

### Barka

P.O Box 494, PC 320, Barka  
Telephone: (+968) 26883092

### Sur

P.O Box 806, PC 411, Sur  
Telephone: (+968) 25542244

### Ibra

P.O Box 565, PC 400, Ibra  
Telephone: (+968) 25570568

### Nizwa

P.O Box 1212, PC 611, Nizwa  
Telephone: (+968) 25412370

### Salalah

P.O Box 636, PC 211, Salalah  
Telephone: (+968) 23298288

### Ibri

P.O Box 300, PC 516, Ibri  
Telephone: (+968) 25690005

### Mabella

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24563071

## AL HILAL ISLAMIC BANKING BRANCHES

### Bahla

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24577862

### Rustaq

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24577859

### Samail

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24577854

### Salalah

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24577894

### Saham

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24577874

### Wattayah

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24577954

### Mawaleh

P.O Box 545, PC 116, Mina Al Fahal  
Telephone: (+968) 24577834



His Majesty Sultan Qaboos bin Said

ahlibank corporate headquarters in Watayyah, Muscat.





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CELEBRATING **10** YEARS

As a leading retail bank within the Sultanate of Oman, we take this opportunity to dedicate ourselves to the pursuit of enrichment - working to enhance our customers' lives and aspirations; helping our staff who strive to excel each day, and including all of our stakeholders who, proud of our achievements, remain dedicated to growing our services and reaching out to our community in every way possible.

This Annual Report sets out an account of our 10th year, reports on our progress and celebrates both the diversity and integrity of our valued customers. Without them, we wouldn't have made it that far.

On the occasion of our 10th anniversary, we dedicate our continued efforts to the progress of our people and of our country, under the wisdom and leadership of His Majesty, the Sultan.

Together, for the next decade - and for future generations.



# Sustainable results

## An overview

### FIVE YEAR SUMMARY

RO ' Million	December 2017	December 2016	December 2015	December 2014	December 2013
Net profit	26.7	29.6	27.7	25.1	23.0
Total assets	2,014.6	1,899.7	1,898.3	1,644.8	1,339.5
Loans & advances and financings, net	1,634.5	1,522.1	1,518.1	1,388.9	1,104.9
Total Deposits	1,450.9	1,271.0	1,300.8	1,076.2	955.1
Total liabilities	1,709.8	1,656.7	1,671.0	1,445.3	1,154.6
Shareholders' equity	304.8	242.9	227.3	199.5	184.9
Return on average assets (ROAA)	1.4%	1.6%	1.6%	1.7%	1.9%
Return on average equity (ROAE)	10.7%	12.6%	13.0%	13.1%	13.1%
Cost to income ratio	35.3%	35.9%	36.3%	34.3%	33.9%
Capital adequacy ratio	16.7%	15.0%	14.5%	14.0%	14.6%
Net interest margin	1.9%	2.2%	2.4%	2.5%	2.7%
Earnings per share (baizas)	18.7	20.7	19.5	17.6	16.2
Total Number of Branches	20	20	20	19	19
- Conventional	13	13	13	12	12
- Islamic	7	7	7	7	7
ATM's	30	30	30	25	25
Number of staff	542	538	505	445	427

Although operating income increased by 2.6% to RO 55.0 million and operating expenses slightly increased by 1.0% to RO 19.4 million, net profit after tax decreased by 10.8% to RO 26.7 million as at December 31, 2017. The bank still maintained a cost to income ratio of 35.3%, the best amongst peers.

#### 2017 AT A GLANCE

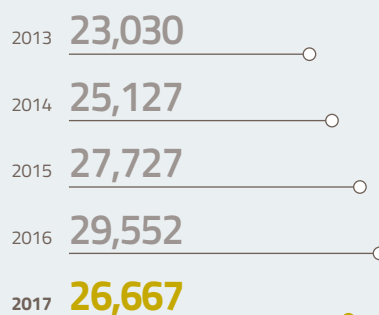
Despite the global, regional and local economic and geopolitical challenges the bank faced in 2017, the bank's total operating income reached RO 55 million, an increase of 2.6% compared to 2016. The bank achieved a return of shareholders' equity of 10.7% despite a slight increase in operating expenses. Due to the prudent risk management framework adopted by the bank, the ratio of non-performing loans remained stable at 1.16% in 2017, although total loans and financing increased by 7.3% in 2017.

*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.

#### Net Profit RO '000's



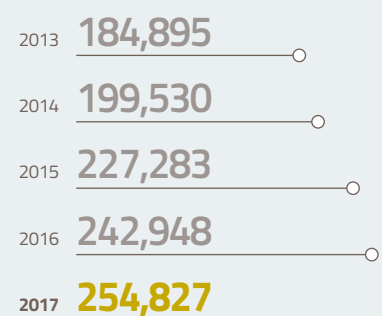
#### Total Loans, NET RO '000's



#### Total Assets RO '000's



#### Shareholder's Equity RO '000's



## Board of Directors



1

Hamdan Ali Nasser Al Hinai



2

Adel Mohamed Abdelshafe  
El-Labban



3

Anwar Hilal Hamdoon Al Jabri



4

Sanjeev Bajjal



5

Keith Gale



6

Mustafa Shafqat Anwar



7

Rashad Khamis Hamed  
Al Battashi



8

Khalid Ali Saif Al Yahmadi

**1. 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 Defence; Chairman, Oman Power and Water Procurement Co. SAOC; Director, Oman Trading Company.

**2. 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).

**3. Anwar Hilal Hamdoon Al Jabri***Second Deputy Chairman*

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA. 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.

**4. 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.

**5. 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.

**6. 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.

**7. Rashad Khamis Hamed Al Battashi***Director*

Hold High Diploma in Advanced Accounting; Bachelor degree in Accounting. Having more than 15 years' experience in Investment field. Investment Analyst, Civil Services Employees Pension Fund; Director, National Gas and Director, Unigaz Oman.

**8. Khalid Ali Saif Al Yahmadi**

Certified Islamic Finance Professional (CIFP), INCEIF, Malaysia, Certified Public Accountant (CPA), USA, Master of Science in Accounting & Finance, University of Illinois, Urbana-Champaign, USA and Bachelor of Science in Finance, Sultan Qaboos University, Oman. Acting Chief Executive Officer and Investment Director (RML) of Oman Investment Fund (A Sovereign Wealth Fund). Previous experience as Chief Investment Officer in Almadina Financial Services after 3 years as DGM-Investment Banking within the same establishment.

# Chairman's Report

Hamdan Ali Nasser Al Hinai

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present the annual report and financial statements of ahlibank for the year ended 31 December 2017.

The year has been eventful with challenges for the world and the region, in terms of continued economic retrenchment and its reflection on business. However, with a robust strategy, the Bank has adapted to external conditions and has performed satisfactory despite the prevailing economic challenges. The Bank benefits from solid capitalization; stable funding and low levels of non-performing loans, due to its prudent risk management approach.

Oman's fiscal Budget 2018 forecasts a reduction in the budgetary deficit to RO 3.0 bn compared to the 2017 estimated actual deficit of RO 3.5 bn. Revenues from the hydrocarbon sector are expected to increase by 11% compared to the 2017 budget, contributing 71% of total government revenues of total RO 9.5 bn. Non-oil and gas revenues are projected to increase by 5% over the 2017 budget, to contribute RO 2.7 bn, being 29% of total revenues. Expenditure for the year has been budgeted at RO 12.5 bn, reflecting a small reduction from the estimated 2017 actual.

The Government has undertaken various initiatives that will both enhance and diversify its revenues in 2018. Further, the Government is promoting the Sultanate as an attractive location for investment into various economic activities, benefiting from

	31 Dec 2017	31 Dec 2016	% Growth
	RO Million		
Total assets	2,014.6	1,899.7	6.0%
Loans & advances and financing, net	1,634.5	1,522.1	7.4%
Customers' deposits	1,450.9	1,271.0	14.2%
Equity	304.8	242.9	25.5%
Operating income	55.0	53.6	2.6%
Operating expenses	19.4	19.2	1.0%
Profit for the year	26.7	29.6	-9.8%

our favourable geographical location and by political stability, with the grace of Allah (almighty). Initiatives include the promotion by the Ministry of Tourism for Oman as a unique tourist attraction, the promotion of the Sultanate as a global terminal in maritime, air and land transport, and the enhancement of handling opportunities for this sector. The opening of the Muscat International Airport is a turning point for air transport in the Sultanate, which will strengthen this sector and those supporting sectors. The government support and promotion of the Duqm Economic Zone will provide for economic expansion at all levels. These initiatives, which are well documented, are expected to play a positive role in moving forward local development, while strengthening the economy and business in the Sultanate.

As mentioned above, despite the difficulties we faced, with the grace of Allah and the determination of our employees, we have achieved remarkable progress in the Bank. The Bank's total operating income increased by 2.6% to RO 55 million. Due to cautious

management, the ratio of non-performing loans remained stable at 1.16% and equity increased to RO 304.8 million compared to RO 242.9 million. The return on shareholders' equity reached 10.7% while operating expenses increased slightly by 1% over the previous year. The bank's total assets grew 6% to RO 2,014.6 million; customers' deposits increased by 14.2% to reach RO 1,450.9 million; and Total loans and financing grew by 7.4% to reach RO 1,634.5 million.

During the year we continued to strengthen our capabilities to support business growth. This involved a renewed focus to closer align people, products, processes and systems across the organization. We enhanced our human capital and information technology infrastructure, and further streamlined back office processes and procedures to achieve operational cost efficiencies. We also strengthened our corporate governance framework to ensure ongoing compliance in an evolving regulatory environment; and intensified our focus on a prudent risk management approach, to ensure that the Bank remains methodical and resilient in the face of volatile economic and market conditions.



**During ahlibank's 10th anniversary year, we are optimistic that the gradually easing economic landscape will offer opportunities for the bank to grow across all business verticals. We will maintain our fundamental strengths in cost discipline and prudent risk assessment, while further diversifying revenue streams.**

During 2017 the Bank revamped the "My Hassad" prize scheme, with the total prize money exceeding 1 Million, inclusive of the "Salary for Life" grand prize. The Bank also launched a new savings plan called "MySaver", which has been well received.

To better serve customers, the Bank launched a range of Bancassurance products through a tie up with Takaful Insurance Oman, one of the Sultanate's leading insurance companies. The Bank also surpassed a significant milestone, with corporate net Loans & Advances crossing RO 1 bn for the first time. The bank also completed rights issue of Basel III compliant Perpetual Subordinated bonds (Additional Tier 1 Capital Instruments) of RO 50 million, which was oversubscribed by 19.6%, re-emphasizing the stakeholders trust in the Bank.

As we begin another challenging year, we are delighted to celebrate the 10th Anniversary of the foundation of ahlibank, from the erstwhile Alliance Housing Bank, back in 2008. This has been a journey of consistently profitable growth, from a balance sheet base of circa RO 175 million and a 7 branch network, to a RO 2,014 million balance sheet and 20 branches.

During ahlibank's 10th anniversary year, we are optimistic that the gradually easing economic landscape will offer opportunities for the bank to grow across all business verticals. We believe that the combination of ahlibank's focused strategy and diversified business model will continue to create long-term value for our stakeholders.

We will maintain our fundamental strengths in cost discipline and prudent risk assessment, while further diversifying revenue streams. We look forward to expanding the Bank's branch footprint, while continuing to invest in alternate channels and innovative new product launches. We maintain our resolution of being a financial institution that contributes to the growth of the local economy, serves Omani people & businesses, contributes to the success & aspirations of our clients, our employees, our community and our shareholders.

Our commitment to the social welfare of Oman continues. In 2017 our programme covered a wide range of support initiatives. During Ramadan, the Bank distributed refrigerators and air-conditioning equipment to those in need, through the Ministry of Social Development, and 150,000 bottles of water to mosques across our Country. Many other programs were undertaken throughout the year: Together with Burjeel Hospital in Muscat, we conducted free health screenings for our staff and run a blood donation 'camp' at our head office for staff and clients. We also joined with the Ministry of Health's nation-wide programme to raise awareness and encourage vaccination against Measles.

On behalf of the Board of Directors, I take this opportunity to convey our gratitude to His Majesty Sultan Qaboos Bin Said for his foresight and guidance, which has helped develop the banking sector and propel the country along its continuous path of growth and prosperity.

I would also like to thank the Central Bank of Oman, for its confidence and support and to acknowledge the close cooperation, professional advice and guidance received from various Ministries and official bodies. These include the Capital Market Authority and other regulatory authorities.

In closing, I would also like to express my appreciation to our shareholders, management and staff for their strong commitment and dedication; to our strategic partner Ahli United Bank BSC for their valuable continuous support, and above all, to our clients for their loyalty and trust in our efforts.

**Hamdan Ali Nasser Al Hinai**  
Chairman

Dated: 22 January 2018





## ***HELPING PEOPLE LIVE BETTER***

Home is where the heart is, for all of us. At ahlibank we never forget that we all have families, with personal needs and requirements. That's why we have invested heavily in providing a range of personal financing solutions, to make life more livable, ranging from home loans, personal loans, vehicle and assets financing and more.

The bottom line of the Tanfeedh economic vision of Oman is dedicated to improving the lives of all Omanis through growth in business, increase of economic efficiency and promotion of investment. In line with that bottom line, ahlibank is dedicated to supporting the personal lives of Omanis, by providing financial flexibility – through helpful and friendly banking services.



## ***ADDRESSING REAL ESTATE GROWTH***

ahlibank has actively contributed to the growth of Oman's real estate and tourism sectors. The bank's real estate financing offerings include simple home mortgages to address the housing needs of individuals, financing of big ticket mixed use developments carried out by reputed developers, and financing contractors in the real estate space.

ahlibank is also associated with development of high profile tourism projects like Five Star Hotels, Malls, ITCs etc. through structured financing options, or as a lead banker and/or participating banker.



# Management Discussion and Analysis

## ECONOMIC REVIEW

Globally, 2017 was a challenging year for the region and the Sultanate of Oman, in terms of continued economic retrenchment and its impact on local businesses.

Oman's fiscal Budget 2018 forecasts a reduction in the budgetary deficit to RO 3.0 billion compared to the 2017 estimated actual deficit of RO 3.5 billion. Revenues from the hydrocarbon sector, are budgeted to increase by 11% compared to the 2017 budget, contributing 71% of total government revenues of RO 9.5 billion. Non-oil and gas revenues are projected to increase by 5% over the 2017 budget, to contribute RO 2.7 billion, being 29% of total revenues. Expenditure for the year has been budgeted at RO 12.5 billion, reflecting a small reduction from the estimated 2017 actual, but an increase of 7% compared with the budgeted spending in 2017.

In January 2018, Oman completed a USD 6.5 billion bond sale to contribute to fiscal finances. The successful sale combined with the rise in oil prices are seen as positive factors in the medium term. Furthermore, the Sultanate has executed a 7-year deal to export 1.1 million tons of LNG per year, which shall increase the revenues going forward. With the ramp up of production of the Khazzan gas fields, the higher oil prices, proposed reforms for foreign ownership and investment laws and other initiatives taken under the National Program for Enhancing Economic Diversification (Tanfeedh), the Sultanate is positioned to achieve progress in GDP growth in the coming years.

## FINANCIAL SECTOR

The Sultanate's financial sector showed reasonable growth in both credit and deposits in 2017. Total credit extended by banks in Oman registered a growth of 6.4% in 2017 compared to 2016. Total deposits by, and credit to the private sector registered growth of 5.6% and 6.5% respectively in 2017. However, the Muscat Securities Market (MSM) recorded a sharp decline of 11.82% in 2017 due to the negative sentiments, reflecting the region's geopolitical developments. All the sectoral indices, including, the financial sector finished 2017 in the red. The financial sector registered a yearly drop of around 2.58%. However, the 2018 budget outlook and the various initiatives underway, are likely to support growth from 2018 onwards.

## FINANCIAL REVIEW

Despite the global, regional and local economic and geopolitical challenges the bank faced in 2017, the bank's total operating income reached RO55 million, an increase of 2.6% compared to 2016. The bank achieved a return of shareholders' equity of 10.7% despite a slight increase in operating expenses. Due to the prudent risk management framework adopted by the bank, the ratio of non-performing loans remained stable at 1.16% in 2017, although total loans and financing increased by 7.3% in 2017.

### Capital and Reserves

Capital and Reserves of the Bank as of 31 December 2017 stood at RO 304.8 million compared to RO 184.9 million as at 31

December 2013; representing a Compound Annual Growth Rate (CAGR) of 10.5%. The bank having completed a rights issue of Basel III compliant Perpetual Subordinated bonds (Additional Tier 1 Capital Instruments) of RO 50 million, which was oversubscribed by 19.6%, re-emphasizing the stakeholders trust in the Bank. This issue further solidifies the bank's position. The Capital adequacy ratio of 16.7% stands comfortably above the regulatory requirement 13.25% (including capital conversion buffer).

### Loans and Financing

The increase in gross loans and financing during 2017 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. The Bank's loan and financing grew at a CAGR of 10.5% to RO 1.634 billion as at 31 December 2017, from RO 1.105 billion as at 31 December 2013. The focus in 2017 having been to maintain high asset quality with a low Non Performing Loans to Gross Loans ratio of 1.16%; comparably the lowest amongst peers.

### Customer Deposits

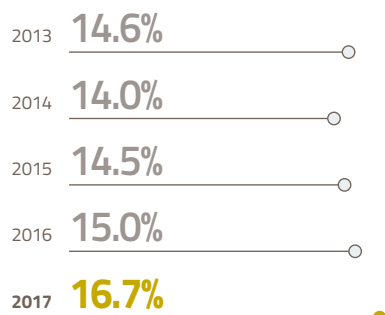
Customer deposits of RO 1.45 billion at year-end 2017 reflected an increase of 14.1% compared to 2016; deposits having increased at CAGR of 8.7% from the year ended 2013. The Bank maintains its strategy to focus on expanding a lower cost funding base, through product innovation and balance sheet management

### Profitability

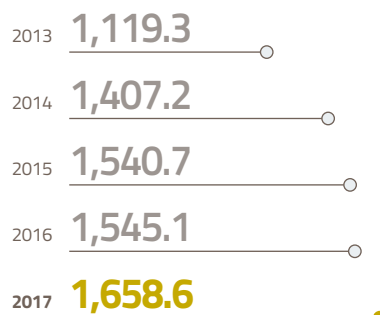
Although operating income increased by 2.6% to RO 55.0 million and operating expenses

**Capital Adequacy Ratio**

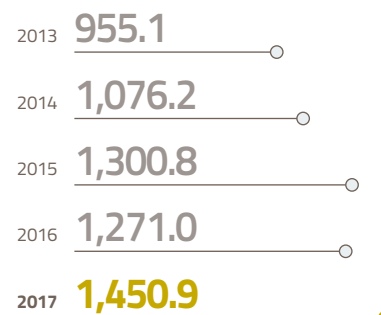
Per cent

**Gross Loans & Advances and Financing**

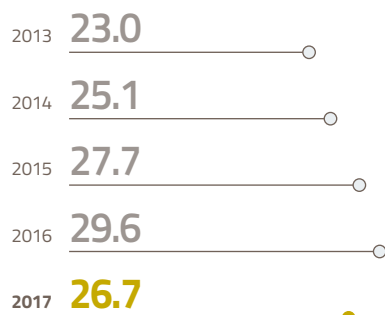
RO' Million

**Customer Deposits**

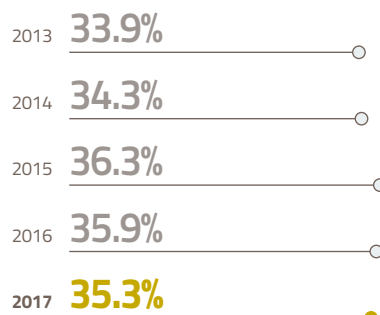
RO' Million

**Profit after Tax**

RO' Million

**Cost-to-Income Ratio**

Per cent



slightly increased by 1.0% to RO 19.4 million, net profit after tax decreased by 10.8% to RO 26.7 million as at December 31, 2017. The bank still maintained a cost to income ratio of 35.3%, the best amongst peers.

**BUSINESS UNITS**

The bank is fully committed to continually enhance its effective governance policies, prudent risk assessment procedures, cost efficiency strategy and the introduction of new products and services to promote the interests of our stakeholders and hence to ensure the long-term sustainability of the bank. Our employees are encouraged to aim high, enabled with a sense of empowerment to achieve their tasks. Coupled with continued training and development, the management aim to continually build a talent pool that is able to achieve performance and innovation. Furthermore, the bank strives to provide customers with optimal banking propositions, through convenient channels, in a timely manner, with the highest levels of accuracy and reliability. This year the bank worked actively on numerous initiatives such

as revamping the "MyHassad" proposition and the launch of new products including Bancassurance, "Exclusiv" and "MySaver".

**Corporate Banking**

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:

- food and general trading;
- contracting and manufacturing;
- energy and utilities;
- real estate;
- financial services;
- travel and tourism;
- SME;
- Midmarket;
- Al Hilal Islamic Banking Services.

We have also aligned the teams to focus on the sectors that form a part of the

Sultanate's diversification strategy, as we continue to contribute towards the economic development of these sectors. 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 business to business (B2B) platform.

**SME Banking**

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.

## Management Discussion and Analysis (continued)

### Retail Banking

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 2017, the Bank has revamped products and services, while introducing new products and services to further enhance customer experience and to strengthen the portfolio. The new MyHassad Prize Scheme features unique special prize drawings consisting of a one of a kind "Salary for Life" and bigger prizes with higher frequencies of winners. Recently the bank launched its suite of Bancassurance products including Motor and Travel insurance. A recurring deposit product was launched to establish long relationships with our customers who wish to save for their future goals. Premium and Private Banking services have been enhanced with new features and more relationship managers across the sultanate.

Other products and services in development for launch in 2018 include a point of sale (POS) platform, investment/savings plans and bespoke card propositions with enhanced features. These enhancements along with process efficiencies will ensure a richer customer experience leading to sustainable growth in the long term.

Retail banking will further benefit from a strategic expansion in ahlibank's branch network. The main objective of this expansion is increase touch points with customers, cater to their needs conveniently and contribute to the development of local communities. Increased geographical coverage along with strategic sales plans will facilitate maximizing stakeholders equity in an efficient manner over the medium term.

### Premium Banking

With extensive regional and international experience, our clients benefit through our expert talent pool, who deliver an extensive range of services. Our dedicated Relationship Managers offer personalized services to clients through our branches. Additionally, clients benefit from a vast range of financial and non-financial privileges available especially for them.

### Services

- Dedicated Relationship Manager available at all times to meet your banking needs.
- Premium service center and lounges to conduct your banking transactions privately.
- 24 hour call center support and free SMS Banking Services.
- Free Internet Banking and Mobile Banking Services.

### Benefits

- Free for life Credit Card & Debit Card.
- Unlimited Complimentary lounge access to over 750 international airports for credit cardholders.
- Preferential pricing on Deposits and Loans.
- Special discounted tariffs on bank charges.
- Discounts and offers from selected Premium merchants.
- Personalized Concierge service, free travel insurance, purchase protection and extended warranty.

### Wealth Management

- Tailor made portfolios to suit your investment needs.
- Convenient subscription to IPOs.
- Protection solutions for you and your family.
- Brokerage Services.

### Private Banking "Exclusiv"

We strive to help our clients manage their wealth effectively in order to maximise returns and minimise risk. We provide personalized services to our clients by understanding their financial requirements and providing world class, tailor made investment solutions. ahlibank presents a unique combination of local knowledge of the region with global experience. With nearly four decades of private banking experience behind us, we are able to provide our clients with financial solutions that benefit from continuing on-going research in investment opportunities with one-to-one personalized service that promises complete confidentiality. The London branch of our strategic partner Ahli United Bank is uniquely placed to serve HNWIs from the Region, in all of their banking, property and investment requirements in London.

### Services

- Dedicated Private Banking Manager available at all times to meet your banking needs.
- State of the Art Online and Mobile Banking.
- 24 hour call centre support & Free SMS and Internet Banking.

### Benefits

- Free for life Infinite Credit card & Signature Debit Card.
- Unlimited Complimentary lounge access to over 500 international airports.
- Preferential pricing on Deposits and Loans.
- Special discounted tariffs on bank charges.
- Discounts and offers from selected Exclusive merchants.
- Personalized Concierge service, free travel insurance, purchase protection and extended warranty.

### Wealth Management

- Tailor made portfolios to suit your investment needs.
- Convenient subscription to IPOs.
- Protection products for you and your family.
- Brokerage Services.
- Asset Management Services: DPM, sectoral funds, real estate funds.

### Group "Exclusiv" Services

- Conventional and Islamic Banking Services.
- Investment Solutions: dual currency deposits, structured notes, fixed income securities, mutual funds and multi-manager funds, real estate funds management.
- Trust and Offshore companies.
- Mortgage & Real estate services.
- Loans and Overdrafts against investment securities.
- Online Banking.
- Brokerage service to trade in GCC and Global securities.
- The private banking and real estate services of Ahli United Bank London office.

### Cards

ahlibank offer a comprehensive range of credit and debit cards, 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, travel protection insurance, extended warranty on appliances, priority pass for airport lounge access, purchase protection, priority traveller program etc.

### Personal Loans

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

### Home Loans

With the most experienced and highly trained staff in Home Financing, ahlibank offer 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.

### Car Loans

ahlibank offer Instant Car Loans 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 amounts.

### 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

The 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.

### MySaver

With MySaver Plan, customers can invest small amounts on a monthly basis, which multiplies with regular bonuses over a period of time, to offer a large sum to fulfill their end goals. Interest rate of 2% p.a. will be paid monthly to the account based on daily available balance and free Life insurance coverage is bundled with the account of up to RO 50,000.

### Bancassurance

ahlibank offer a wide range of insurance products to protect our customers assets and property. The insurance products cover unexpected events, where the customer is protected from collateral damage that could otherwise erode savings or investments.

### MyGlobal

ahlibank gives its customers the freedom of using their bank across borders! With MyGlobal, ahlibank in Oman, Egypt, Bahrain, Kuwait and UK, provides a single consolidated relationship statement covering accounts in those 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 our strategic partner and avail the privileges of banking with ahlibank in Oman and across the network.

### Alternative Channels

In order to meet the growing demand for efficient ATM and online services, ahlibank continues to enhance customer experience by providing banking services at customers' fingertips. By offering secure and reliable banking technologies, ahlibank is making banking more convenient, together with 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 ahlibank ATM card holders to transfer funds to any other bank's ATM in Oman. Further, ahlibank 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 ahlibank'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 ahlibank'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 ahlibank's Mobile Banking and SMS Banking services. Additionally, ahlibank's e-statement service allows customers to receive bank account statements and view the summary of every transaction via e-mail. Statements can be received on a daily, weekly or monthly basis.

Apart from the wide range of innovative product and services, ahlibank has a wide 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.

## Management Discussion and Analysis (continued)

### TREASURY AND FINANCIAL INSTITUTIONS

#### Treasury

ahlibank's professional and experienced Treasury team, provide 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.

#### Financial Institutions

ahlibank provides various product services to financial institutions supported by the regional network of Ahli United Bank. "Nostro Services" in major currencies and "Vostro Services" for Omani Riyal Account are available. In addition, ahlibank provides international interbank clearing across 100 countries.

### 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 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, 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 managed equity funds and discretionary portfolios delivered another year of relative outperformance in 2017, a year marked by geo-political risks in the region. Our Al Hilal MENA Fund delivered -1.86% (FY 2017), leading the Oman Sharia mutual fund segment, for the third consecutive year in a row. Our fund is also ranked in the top quartile among all mutual funds domiciled in Oman for the third straight year. In comparison, the S&P GCC Sharia Index declined 0.62% while the MSM Sharia Index declined 17.88% in 2017.

We have succeeded in improving our track record over the past three years as a result of our deep understanding of regional markets combined with investment discipline needed in a bear market. We are confident that our value investing based investment strategy will reward our investors in 2018, given improving macro-fundamentals. Further, we are planning to expand our funds offering to markets beyond the GCC as well as multiple asset classes.

### ALHILAL ISLAMIC BANKING SERVICES

Al Hilal, which is the Islamic Banking arm of ahlibank, has shown strong 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 ATMs and CDMs 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, 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 deposit / withdrawals through branches and ATMs / CDMs, 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. *Service Ijarah Personal Finance* - services agreements with various service providers (Education Financing, Membership Financing, Travel Financing, Hajj and Umrah Services Transportation, Medical Expenses Financing, Marriage Expenses Financing, Construction / Developer Expenses Financing), whereby Al Hilal purchase your desired services and extend to you through services Ijara.

**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 - anytime at their convenience.**

5. *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. 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 profit is donated to a charity organization.

In addition to the above, Al Hilal Islamic Banking Services also offer a range of customized products for corporate and SME entities, including:

- Term and fixed asset financing
- Project financing
- Trade services - import murabaha
- 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 the 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 approving all retail and commercial credit applications. This emphasizes a clear understanding of

business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading to identifying the various associated risks. The Bank is also in progressive compliance with Basel III Norms as well as IFRS9 guidelines issued by Central Bank of Oman.

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

The 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 risk, liquidity risk, etc. 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:

### Board Committees

- Audit and Compliance Committee
- Executive Credit Committee
- Executive Risk Committee
- Nomination and Remunerations Committee

### Management Committees

- Asset and Liability Committee
- Special Assets Committee
- Operational Risk Committee
- IT Steering Committee
- New Product Committee
- Credit and 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:

- Credit and Investment Policy
- 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 Policy

## Management Discussion and Analysis (continued)

- Credit and Investment Policy
- Operational Risk Policy & Procedure
- Fraud Risk Management Policy
- Liquidity and Funding 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
- Third Party Risk Management Policy

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

Services rendered by Information Technology (IT) department conform to and support all aspects of the Bank's strategic plan. The Bank's IT department plans and defines its approach in design, delivery and operationalizing technology-based products and services while remaining effective in service delivery to clients.

While standing steadfast in our efforts to offer attractive products via electronic delivery channels, the bank remains vigilant in the changing face of "cyber security". The growing cyber-attacks targeting financial organizations across the globe is the key challenge for which bank continually analyses and strengthens its controls to ensure we do everything possible to protect our customers and their confidential data.

IT, along with business and support units of the bank work closely to ensure ahlbank meets and conforms to the requirements of regulators, be this in the form of reporting or other mandatory information data. IFRS9, BASEL III and Mobile Wallet projects are just few examples of recent initiatives being undertaken.

The IT department ensures technology refresh, whether in core stack or satellite business applications, which are given highest priority in order to be at the cutting edge of banking practice and ready to support business growth and expansion. The platform to support core-banking needs is refreshed to the latest technology procured from IBM. IT infrastructure, network and security are continuously upgraded, with new hardware and software implementations.

### HUMAN RESOURCES

Being at the heart of ahlbank, the Human Resource Department plays a major role in synergizing human capital 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 moment is made better and value added. This, in turn, serves as a major catalyst for creating a lasting performance and merit based culture, concentrating on best practices to enhance the levels of Employee Engagement.

In line with the Bank's vision, retention and motivation of the workforce remains an imperative task for the HR function. The Department has taken several critical steps in this direction to ensure that we continue to remain efficient and productive in our operations, given the challenging business, regulatory and economy 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 2017 was to embolden the Omani national workforce through structured development initiatives aimed at harnessing their potential and providing a platform for career development. 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. Initiated with our focus to develop young Omani talents through the Management Trainee Program, while building upon the Middle Management Development Program to achieve long term Omanisation and Succession Plans in a systematic way.

### CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) has been at the core of our existence right from the time of the bank's inception. The bank's CSR programme is based on four main pillars:

- Support the economic development of the Sultanate.
- Improve the social well being and quality of life of our community.
- Creating opportunities to Omanis and development of our employees.
- Contributing to the growth of the financial sector in the Sultanate.

In 2017 our programme covered a wide range of support initiatives: During Ramadan, the Bank distributed refrigerators and air-conditioning equipment to those in need, through the Ministry of Social Development, and 150,000 bottles of water to mosques across our Country.

Together with Burjeel Hospital in Muscat, we conducted free health screenings for our staff and ran a blood donation 'camp' at our head office for staff and clients. We also joined with the Ministry of Health's nation-wide programme to raise awareness and encourage vaccination against Measles.

Amongst many other initiatives conducted throughout the year, the bank also participated or sponsored various conferences and events that enhance the position of the Sultanate's financial sector.

Creating career opportunities for the Omani youth remains one of our top priorities. Our commitment to the community remains firm, and we will endeavour 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.

#### **LOOKING FORWARD**

Levels of economic activity in Oman are expected to improve in 2018, with the increased oil prices combined with various government initiatives to diversify revenues and attract foreign investment. Higher oil pricing will give the government confidence to fast track development and infrastructure spending, which will have a positive bearing on both the financial sector and the general private sector. With the expansionary budget of 2018, indications of economic and earning growth is expected in 2018. We are optimistic that our focused strategy and diversified business model will enable us to capitalize and grow the bank across all business verticals and continue to create long-term value for our stakeholders. We will further enhance our initiatives of cost efficiency and continue to develop our prudent risk

assessment models, while further diversifying revenue streams. We will expand the Bank's branch footprint, and continue to invest in alternate channels and innovative new product launches.

ahlibank will leverage on its strong foundations and strive to grow and achieve higher levels of accomplishment in the industry. 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. The Bank 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. We promise to deliver a better customer experience and create good shareholder value over the long term.

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.

## Executive Management



Lloyd Maddock  
*Chief Executive Officer*



Said Abdullah Al Hatmi  
*SGM Risk, Finance and Legal  
& Compliance*



Abdullah Salim Al Jabri  
*SGM Central Operation, IT and  
Property & General Services*



Bilal Anwar  
*GM Head of  
Corporate Banking*



Ghada Abdul Latif Al Balushi  
*DGM Acting Head of Risk  
Management.*



Hanaa Al Kharusi  
*DGM Corporate Banking*



Said Al Hamdani  
DGM Head of  
Human Resources



Abdul Majeed Al Hooti  
DGM Properties and  
General Services



Yousef Salim Al Rawahi  
DGM Head of Digital Banking and  
Branch Transformation



Hanaa Al Hiani  
DGM Private Banking & Retail  
Banking Products Development



Dur Mohammed Lal  
Mohammed Al Balushi  
AGM Head of IT



Zaliya Lal Bakhsh Al Balushi  
AGM Head of Mid-Market and  
Real Estate



Azzan Abdul Amir Hameed  
AGM Head of Small & Medium  
Enterprises



Ibrahim Abdullah Al Maamari  
AGM Head of Compliance  
& Legal



Fahad Khalfan Al Shuaili  
AGM Head of Internal Audit



Balakrishnan Sriram  
AGM Head of Finance



Tariq Noor Mohd Al Zadjali  
AGM Head of Projects &  
Application Development





## ***EMPOWERING YOUTH***

Our youth are our future. We at ahlibank empower the future generation by providing them with the necessary platform to gain necessary skills, harness their strengths and unlock their potential to fast track their growth into the Banking world.

The Management Trainee (MT) Program was launched as a classroom, rotation and on the job program designed to challenge the fresh graduate recruits, propel bright and upcoming University graduates into future leadership roles, ensuring succession within the bank and harnessing the talent and dynamism of our youth, allowing them to embrace future opportunities at ahlibank and directly contribute to the development and success story of the bank.

A photograph of a male worker in profile, facing right. He is wearing a bright yellow hard hat, safety glasses, and a high-visibility yellow safety vest over a light-colored polo shirt. He is operating a piece of machinery, with his hands on the controls. The background is a blurred industrial setting with various pipes, cables, and equipment. The text is overlaid on a yellow rectangular area on the left side of the image.

## ***FINANCING THE CORPORATE WORLD***

The corporate world demands a high level of professional advice and financial support and, for over ten years ahlibank has been committed to providing bespoke services structured to the requirements of the latest influences for corporate growth. Our portfolio of services, such as Letters of Credit, Trade Finance, Treasury (etc) has expanded considerably over the years, keeping pace with both national progress and the individual needs of our clients – for flexible solutions, ‘out of the box’ thinking and structured financing.

In line with Country’s ‘Tanfeedh’ National Program for Enhancing Economic Diversification, we support manufacturing, logistics, tourism, financial and employment initiatives.





KPMG  
 4th Floor, HSBC Bank Building  
 MBD  
 P.O. Box 641  
 P.C. 112  
 Sultanate of Oman  
 Tel +968 24709181  
 Fax +968 24700839

## **CORPORATE GOVERNANCE REPORT**

### **Report to the Shareholders of Ahli Bank SAOG ("the Bank") of Factual Findings in connection with the Corporate Governance Report of the Bank and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance.**

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Bank ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance issued under Circular No. 11/2002 dated 3 June 2002 and the revised CMA Code of Corporate Governance issued under CMA Circular 4/2015 dated 22 July 2015 (together the "Governance Code"). The Report is set out on pages 31 to 38.

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 the Shareholders in evaluating the Bank's compliance with the Governance Code. The Procedures we performed were as follows:

1. Corroborated, as required, the matters disclosed in the Report by reference to: internal audit reports issued during the year ended 31 December 2017; Audit Committee and Board minutes of meetings held during the year ended 31 December 2017; and relevant supporting Bank records.
2. Confirmed that the Report discloses matters discussed in the Board of Director's report on review of the effectiveness of the Bank's system of internal controls and that these matters were reported by Bank's internal auditor to the Audit Committee during the year ended 31 December 2017.
3. Checked that the Report includes disclosures set out in Annexure 3 of the Governance Code.
4. Checked whether matters, if any, reported in the Auditors' report on the financial statements for the year ended 31 December 2017 relating to: Adequacy and efficacy of the internal control systems in place; going concern considerations; and the adequacy of policies and procedures set up by the Bank were also included in the Auditor's presentation to the Audit Committee.
5. Read the Minutes of Board and Audit Committee meetings during the year ended 31 December 2017 to confirm that any matters of non-compliance with the Governance Code mentioned therein are also included in the Report.

As a result of performing the Procedures, we have no exceptions to report.

Because the 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 Bank's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of the Report in accordance with International Standards on Auditing or International Standards on Review Engagement, other matters might have come to our attention that would have been reported to you. This report is solely for the purpose set forth in the second paragraph of this report, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose. This report relates only to the Bank's Corporate Governance Report included in the Bank's annual report for the year ended 31 December 2017 and does not extend to any financial statements or any other reports of the Bank, taken as a whole.

**Paul Callaghan**  
 8 March 2018

# Corporate Governance Report

31 December 2017

## 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:



## Corporate Governance Report (continued)

### BOARD OF DIRECTORS AND SUB-COMMITTEES OF AHLI BANK SAOG

#### Board of Directors

Our principal duty, collectively, is to promote the long term success of the ahlibank by creating and delivering sustainable 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 2020.

#### 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 Defence; Chairman, Oman Power and Water Procurement Co. 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).

#### Anwar Hilal Hamdoon Al Jabri Second Deputy Chairman

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA. 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.

#### 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 15 years' experience in Investment field. Investment Analyst, Civil Services Employees Pension Fund; Director, National Gas and Director, Unigaz Oman.

#### Khalid Ali Saif Al Yahmadi

Certified Islamic Finance Professional (CIFP), INCEIF, Malaysia, Certified Public Accountant (CPA), USA, Master of Science in Accountancy & Finance, University of Illinois, Urbana-Champaign, USA and Bachelor of Science in Finance, Sultan Qaboos University, Oman. Acting Chief Executive Officer and Investment Director (RML) of Oman Investment Fund (A Sovereign Wealth Fund). Previous experience as Chief Investment Officer in Almadina Financial Services after 3 years as DGM-Investment Banking within the same establishment.

**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 2017**

Sl. No.	Board Meeting
1.	25 January 2017
2.	27 March 2017
3.	26 April 2017
4.	26 July 2017
5.	17 August 2017
6.	25 October 2017
7.	11 December 2017

**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	7	NRC	Yes
Adel Mohamed Abdelshafe El-Labban	First Deputy Chairman	Non-Independent/ Representing Ahli United Bank	7	ECC, NRC	Yes
Anwar Hilal Hamdoon Al Jabri*	Second Deputy Chairman	Independent	7	ECC, ERC	Yes
Sanjeev Bajjal	Director	Non-Independent	7	ACC	Yes
Keith Henry Gale	Director	Non-Independent	7	ECC, ERC, NRC	Yes
Mustafa Shafqat Anwar	Director	Non-Independent	7	ERC	Yes
Rashad Khamis Hamed Al Battashi	Director	Independent	6	ACC	No
Khalid Ali Saif Al Yahmadi**	Director	Independent	3	ACC	No
Munir Abdulnabi Yousef Makki***	Second Deputy Chairman	Independent	1	ACC	Yes

\* Elected as Second Deputy Chairman on 27th March 2017.

\*\* Elected as a director by the Shareholders on 27th March 2017.

\*\*\* Not re-elected in March 2017.

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

Independent directors are defined 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.

## Corporate Governance Report (continued)

### SUB-COMMITTEES

Ahli Bank has four board sub-committees to ensure the smooth functioning of the Bank; these are:



#### A. Audit and Compliance Committee

The role of the Audit and Compliance Committee includes:

- Reviewing the scope of external and internal audits and over-see of the adequacy of the Bank's internal control systems through the reports of the internal and external auditors.
- Reviewing the quarterly and annual financial reports before submission to the Board for approval.
- Over-see the compliance with Corporate Governance and monitoring of Risk Management activity within the Bank.

#### Composition of Audit and Compliance Committee and Details of Meetings held and Attendance Record of Members during the year 2017:

Composition of Audit and Compliance Committee		Meetings Dates			
Director's Name	Position	25 Jan 2017	26 Apr 2017	26 Jul 2017	25 Oct 2017
Rashad Khamis Hamed Al Battashi*	Chairman	Yes	Yes	Yes	Yes
Sanjeev Baijal	Member	Yes	Yes	Yes	Yes
Khalid Ali Saif Al Yahmadi**	Member	N/A	No	Yes	Yes
Munir Abdulnabi Yousef Makki***	Chairman	Yes	N/A	N/A	N/A
<b>Attendance</b>	<b>-</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>3</b>

\* Elected as a Chairman on 27th March 2017.

\*\* Elected as a director by the Shareholders on 27th March 2017.

\*\*\* Not re-elected in March 2017.

#### 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 2017:

Composition of Executive and Credit Committee		Meetings Dates			
Director's Name	Position	23 Feb 2017	24 May 2017	19 Sep 2017	20 Dec 2017
Adel Mohamed Abdelshafe El-Labban	Chairman	Yes	Yes	No	Yes
Anwar Hilal Al Jabri	Member	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
<b>Attendance</b>	<b>-</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>

### 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 2017:

Composition of Executive Risk Committee		Meetings Dates			
Director's Name	Position	23 Feb 2017	24 May 2017	19 Sep 2017	20 Dec 2017
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
<b>Attendance</b>		<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>

### D. Nomination and Remuneration Committee

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 2017:

Composition of Nomination and Remuneration Committee		Meetings Dates	
Director's Name	Position	27 Mar 2017	11 Dec 2017
Hamdan Ali Nasser Al Hinai	Chairman	Yes	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes
Keith Henry Gale	Member	Yes	Yes
<b>Attendance</b>		<b>3</b>	<b>3</b>

### 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.

## Corporate Governance Report (continued)

### 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.

#### Dr. Mohammed bin Taher bin Mohammed Al Ibrahim Member

Dr. Mohammed Taher 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 Tobi 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 Council, 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 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 2017

Composition of Sharia Supervisory Board		Meetings Dates			
Member Name	Position	13 Apr 2017	13 Jul 2017	15 Oct 2017	11 Dec 2017
Dr. Ahmed Mohiyeldin Ahmed	Chairman	Yes	Yes	No	Yes
Dr. Mohammed bin Taher bin Mohammed Al Ibrahim	Member	Yes	Yes	Yes	Yes
Dr. Abdulraouf Abdullah Hamood Al Tobi	Member	Yes	Yes	Yes	Yes
Dr. Mustaien Ali Abdulhameed	Member	Yes	Yes	Yes	Yes
<b>Attendance</b>		<b>4</b>	<b>4</b>	<b>3</b>	<b>4</b>

### SSB Remuneration and Sitting Fee expenses

The shareholders' of the Bank in the AGM held on 27 March 2017 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

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 Taher bin Mohammed Al Ibrahim	Member	6,738	1,540
Dr. Abdulraouf Abdullah Hamood Al Tobi	Member	6,738	1,540
Dr. Mustaien Ali Abdulhameed	Member	6,738	1,540
<b>Total</b>		<b>29,839</b>	<b>5,775</b>

## MANAGEMENT COMMITTEE MEMBERS OF AHLI BANK

### Lloyd Maddock

#### Chief Executive Officer

Hold Bachelor of Mining Engineering from Exeter University, UK. Treasurer & Board Member, Oman Banks Association. Chairman of Al Hilal MENA Fund. 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.

### 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 sixteen years of commercial banking experience in the areas of corporate banking, risk management, finance and banking operations. 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 twenty years of banking experience in conventional and Islamic Banking with ahlibank. Started his career with National Training Institute and then joined Alliance Housing Bank in 1997, where held various positions including Manager Retail Banking and Head of Central Operations. Lead the operations team in centralisation of operations after the conversion to full-fledged commercial bank. With the start of Islamic Banking in Oman in 2013, became General Manager of Al Hilal Islamic Banking Services and contributed in the success of Islamic Banking. Certified Islamic Banker from General Council for Islamic Banks and Financial Institution, Bahrain. Hold National Diploma in Engineering from Business & Technology Education Council, UK. Hold Leadership and Management Certificate from Darden School of Business, University of Virginia, USA.

### 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.

## 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 penalties of RO 45,000 (2017: RO 28,000, 2016: RO 4,000, 2015: RO 13,000) by Central Bank of Oman for non-compliance over the last three years.

## REMUNERATION MATTERS

An amount of RO 161,600 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for year 2017.

The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (RO)
Hamdan Ali Nasser Al-Hinai	4,600
Adel Mohamed Abdelshafe El-Labban	5,100
Anwar Hilal Hamdoon Al Jabri	5,400
Sanjeev Bajjal	4,200
Keith Henry Gale	7,000
Mustafa Shafqat Anwar	4,200
Rashad Khamis Hamed Al Battashi	4,800
Khalid Ali Saif Al Yahmadi*	2,100
Munir Abdulnabi Yousef Makkii**	1,000
<b>Total</b>	<b>38,400*</b>

\* Elected by the Shareholders on 27th March 2017.

\*\* Not re-elected in March 2017.

Total remuneration paid to the top seven executives (Management Committee) of the bank amounted to RO 1,105,594 during the year 2017 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](http://www.ahlibank.om).

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

The Management report is part of the Annual Report.

## MARKET PRICE DATA

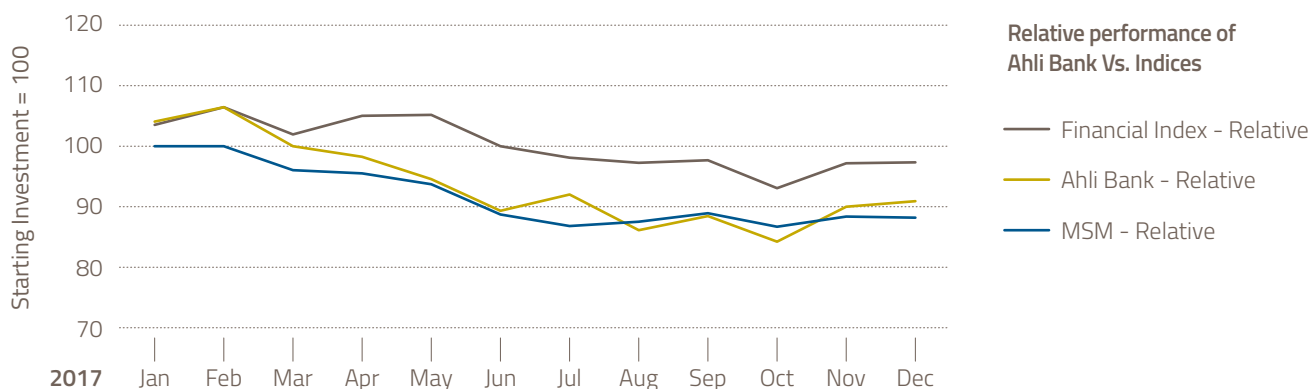
### High / Low share prices in 2017

Table below shows the high / low prices of the Bank's shares in Rial Omani during the months in the year 2017.

Month	High	Low
January 2017	0.197	0.182
February 2017	0.206	0.190
March 2017	0.203	0.180
April 2017	0.190	0.180
May 2017	0.187	0.180
June 2017	0.180	0.170
July 2017	0.175	0.163
August 2017	0.175	0.160
September 2017	0.175	0.160
October 2017	0.175	0.155
November 2017	0.175	0.160
December 2017	0.173	0.165

## Corporate Governance Report (continued)

### Performance of Ahli Bank SAOG vs MSM and Banking Indices



### Distribution of share ownership among shareholders as of 31 December 2017

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	498,762,642	35.00
International Finance Corporation	USA	140,964,260	9.89
Oman Investment Fund Holding LLC and Oman Investment Fund	Oman	135,435,914	9.50
Ubhar Capital SAOC – Asset Management	Oman	120,285,636	8.44
Civil Service Employees Pension Fund	Oman	118,257,023	8.30
Ministry of Defence – Pension Fund	Oman	100,663,096	7.06
Others	-	310,667,573	21.81

#### DONATIONS AND CHARITY

The Bank paid a donation of RO 32,080 to various charitable organizations towards MyHassad Special Ramadhan Charity offer to various organizations. In addition, the Al Hilal Islamic Banking Services paid RO 8,000 to various charitable organizations from the Charity Fund.

#### EXTERNAL AUDITOR'S PROFILE – KPMG

KPMG is a leading audit, tax and advisory firm in Oman and is part of KPMG Lower Gulf, established in 1973. KPMG in Oman employs more than 180 people, amongst whom are 4 partners, 5 directors and 30 managers, including Omani nationals. KPMG is a global network of professional firms providing audit,

tax and advisory services. KPMG operates in 154 countries and has around 197,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG billed an amount of RO 70,000 towards professional services rendered to the Company for the year 2017 (RO 44,000 for audit and RO 26,000 for tax and other services)

#### Other Important Matters

As required by the Code of Corporate Governance, the Shareholders appointed an independent third party for appraising the performance of the Board of Directors for the financial year 2017.

#### 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

**Rashad Khamis Hamed Al Battashi**  
Chairman, Audit and Compliance Committee

# Basel II Pillar III and Basel III Report

31 December 2017



KPMG  
 4th Floor, HSBC Bank Building  
 MBD  
 P.O. Box 641  
 P.C. 112  
 Sultanate of Oman  
 Tel +968 24709181  
 Fax +968 24700839

## **INDEPENDENT AUDITORS' REPORT ON FACTUAL FINDING TO THE BOARD OF DIRECTORS OF AHLI BANK SAOG IN RESPECT OF THE BASEL II – PILLAR III AND BASEL III RELATED DISCLOSURES**

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman ("CBO") Circular No. BM 1027 dated 4 December 2007 ("the Procedures") with respect to the Basel II – Pillar III disclosures and Basel III related disclosures ("the Disclosures") set out on pages 41 to 68 of Ahli Bank SAOG (the "Bank") as at and for the year ended 31 December 2017. The Disclosures were prepared by the Management in accordance with CBO Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures set out in the Circular No. BM 1027 dated 4 December 2007 were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

Based solely on performance of the procedures, we found no exceptions.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than Central Bank of Oman; and we accept no liability or responsibility to any third party. This report relates only to the Bank's Disclosures and does not extend to the financial statements of the Bank taken as a whole or to any other reports of the Bank.

**Paul Callaghan**  
 8 March 2018

# Basel II Pillar III and Basel III Report

31 December 2017

## 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.

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

## 2. SCOPE

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 Scope of application covers Ahlibank Oman SAOG only and is not part of any group either as a member or as top corporate entity in the group.

## 3. CAPITAL STRUCTURE

The capital base for complying with regulatory purposes differs from accounting capital. The regulatory capital is broadly classified into three categories- Tier I, Tier II and Tier III. Bank's capital structure comprises of Tier I and Tier II capital.

Tier I capital includes paid up capital, legal reserves, Additional Tier I capital instruments and other disclosed free reserves, including subordinated loan reserves and retained earnings after deduction of cumulative unrealized losses recognized directly in equity.

Tier II capital consists of revaluation reserves/ cumulative fair value gain or losses on available for sale instruments, General loan loss provision and subordinated debt.

There is no innovative or complex capital instrument in the capital structure of the Bank.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 3. CAPITAL STRUCTURE (continued)

#### 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		Fitch Rating	
Financial strength rating	<b>BBB</b>	Viability rating	<b>bb+</b>
Foreign currency Long Term Rating	<b>BBB+</b>	Long term foreign currency and local currency IDRs	<b>BB+</b>
Foreign currency Short term	<b>A2</b>	Short term foreign currency and local currency IDRs	<b>B</b>
Support rating	<b>3</b>	Support rating	<b>3</b>
Outlook	<b>Stable</b>	Outlook	<b>Negative</b>

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.

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.

The bank's capital structure as at 31 December 2017, based on Central Bank of Oman's (CBO) guidelines is as follows:

Sl. No	Elements of Capital	Amount (RO'000)
<b>Tier I Capital</b>		
1	Paid up capital*	149,629
2	Legal reserves	25,651
3	Subordinated loan reserve	13,600
4	Retained earnings*	45,048
5	Other non-distributable Reserve	228
<b>Total Gross Tier I Capital</b>		<b>234,156</b>
<b>Deduction</b>		
5	Intangible assets/ Cumulative unrealized losses recognized directly in equity	(3,326)
<b>Additional Tier I Capital</b>		
6	Tier 1 Perpetual Bond	50,000
<b>Tier I capital after all deductions</b>		<b>280,830</b>
<b>Tier II Capital</b>		
7	Revaluation reserves / cumulative fair value gains or losses on available for sale instruments	139
8	General loan loss provisions	20,310
9	Subordinated debt	11,400
<b>Total Tier II Capital</b>		<b>31,849</b>
<b>Total Regulatory Capital</b>		<b>312,679</b>

\* The Board of Directors have proposed a cash dividend of 10% and stock dividend of 5%, which has been adjusted.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 3. CAPITAL STRUCTURE (continued)

#### Capital adequacy

##### Qualitative disclosures

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 co-ordinated and consistent manner. Its objective is to maximize its return on capital and, at the same time, provide an adequate cushion to cover any unexpected losses. The Bank manages its capital in an integrated manner with the aim of maintaining strong capital ratios and high ratings. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders and senior creditors), and supporting future business growth. The cost of capital and its composition in terms of its quality and stability is also considered. The bank presently uses the standardized approach for arriving at the capital adequacy ratio. In order to equip the requirements of the advanced approaches, the bank has already implemented obligor rating models and the ratings are being tracked regularly.

The bank's capital adequacy ratio is 16.70% as against the CBO requirement of 13.25% as at 31 December 2017. The Bank follows a capital adequacy framework to link the Bank's annual budget projections and the capital required to achieve business objectives. It is determined by the Bank's strategic planning objectives and capital planning framework. Capital requirements are assessed for credit, operational and market risks. In order to calculate the capital adequacy ratio, the Bank follows the standardized approach forming part of the Pillar 1 requirements of Basel II Norms and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures.

In order to meet with Pillar 2 requirements of Basel II Norms, the bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing Bank's capital adequacy in relation to various risks such as interest rate risk, liquidity risk, concentration risk etc., as well as a strategy for maintaining the capital level. Based on the guidelines issued by Central Bank of Oman, assessment under ICAAP has been completed for the years from 2017-2020.

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

In order to equip the bank for meeting the requirements of advanced approaches for capital adequacy calculations, the bank has also been using the rating models for its corporate portfolio, apart from performing rating validation.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 3. CAPITAL STRUCTURE (continued)

#### Quantitative disclosures

#### i) Position of various Risk weighted Assets is presented as under (RO '000)

As on 31 December 2017

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	2,038,681	2,014,582	1,588,225
2	Off-balance sheet items	306,180	306,180	51,584
	<b>Total</b>	<b>2,344,861</b>	<b>2,320,762</b>	<b>1,639,809</b>
5	Tier 1 Capital			280,830
6	Tier 2 Capital			31,849
7	<b>Total Regulatory Capital</b>			<b>312,679</b>
7.1	Capital requirement for credit risk (including CCB)			217,275
7.2	Capital requirement for market risk (including CCB)			17,365
7.3	Capital requirement for operational risk (including CCB)			13,455
8	<b>Total required capital (including CCB)</b>			
9	Tier 1 Ratio			<b>15.00%</b>
10	Total Capital Ratio			<b>16.70%</b>

#### ii) Capital adequacy

As on 31 December 2017

Sl. No	Details	Simple Approach
1	Tier I Capital (after supervisory deductions)	280,830
2	Tier II capital (after supervisory deductions and up to eligible limits)	31,849
3	Risk weighted assets – banking book	1,639,809
4	Risk weighted assets – operational risk	101,544
5	<b>Total Risk Weighted Assets – Banking Book + Operational Risk</b>	<b>1,741,353</b>
6	<b>Minimum required capital to support RWAs of banking book and operational risk (including CCB)</b>	<b>230,730</b>
	i) Minimum required Tier I Capital for banking book and operational risk (including CCB)	198,881
	ii) Tier II Capital required for banking book and operational risk	31,849
7	Tier I capital available for supporting trading book	96,200
8	Tier II capital available for supporting trading book	-
9	<b>Risk Weighted Assets – trading book</b>	<b>131,055</b>
10	Total capital required to support trading book	17,365
11	Minimum Tier I capital required for supporting trading book	4,949
12	<b>Total Regulatory Capital</b>	<b>312,679</b>
13	<b>Total Risk Weighted Assets – Whole bank</b>	<b>1,872,408</b>
14	<b>BIS Capital Adequacy Ratio</b>	<b>16.70%</b>

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 4. RISK EXPOSURE AND ASSESSMENT

#### Risk Management Principles

The Bank has a separate Risk Management Department (RMD) which oversees the risk management functions across business functions. The key risks comprise of credit risk, Market risk, Liquidity risk, Operational risk, Reputation risk and Business Continuity risk. The Risk Management Department closely monitors the Bank's core risk areas and reports directly 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.

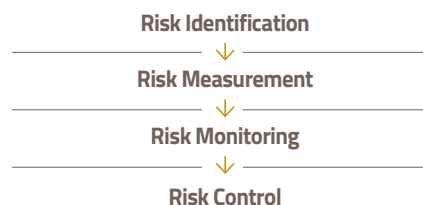
Having identified the risks, the RMD formulate policies and procedures taking into account regulatory requirements and best international practices, so as to monitor and control the risks within pre-determined acceptable limits.

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

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 4. RISK EXPOSURE AND ASSESSMENT (continued)

#### 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            | 21. Operational Risk Policy & Procedure      |
| 2. Personal Account Dealing Policy         | 22. Fraud Risk Management Policy             |
| 3. New Product Committee and Procedures    | 23. Liquidity and Funding Policy             |
| 4. Voice Recording Policy                  | 24. Trading Book Policy                      |
| 5. Compliance Policy                       | 25. Risk Management-Approach & Framework     |
| 6. Communications Policy                   | 26. Social and Environment Management System |
| 7. Corporate Governance Policy             | 27. Security and Safety Policy and Plan      |
| 8. Corporate Social Responsibility Policy  | 28. Asset Management Policy                  |
| 9. Dividend Policy                         | 29. Brokerage Policy                         |
| 10. Expenses Policy                        | 30. FATCA Policy                             |
| 11. Capital Management Policy              | 31. Customer Complaints Redressal Policy     |
| 12. Disclosure Policy                      | 32. Profit Distribution Policy               |
| 13. Board Remuneration Policy              | 33. Charity Policy                           |
| 14. Financial Institutions Policy          | 34. Zakah Policy                             |
| 15. Human Resources Policy                 | 35. Cost Sharing Policy                      |
| 16. Outsourcing Policy                     | 36. Segregation of Funds Policy              |
| 17. Code of Business Conduct               | 37. Social Media Policy                      |
| 18. Information Security Management Policy | 38. Shari'a Governance Manual                |
| 19. Business Continuity Management         | 39. Third Party Risk Management Policy       |
| 20. Credit and Investment Policy           |  |

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

The bank has exposure to the following risks:

### 5. CREDIT RISK

#### Qualitative Disclosure

Credit risk arises from the potential financial loss resulting from customers / counterparties failing to honor the terms of their contracts. It also includes the risk of loss in portfolio value as a result of migration from lower risk to higher risk categories. The Bank evaluates both settlement and pre-settlement credit risk at the customer level, across all products of the Bank.

Credit risk is the most significant risk incurred by the Bank, and proactive management is critical to the Bank's long-term success.

The Bank has a comprehensive due diligence system for approving credit facilities, and well-defined policies on controlling credit risk at the counter-party, group, economic sector, and country levels.

All corporate, bank and sovereign credit requires independent credit risk review to be approved by 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 ensuring the allocation of capital for the total credit risk to be assumed by the Bank; and measuring the actual use of capital at portfolio level.

With regard to credit culture, Risk Management ensures that the appropriate policies, guidelines, processes and procedures exist to cover all business areas of credit risk. It also ensures the consistent application of credit standards through a diligent Credit Review function and post approval review of loans through a Loan Review Mechanism (LRM) function and the periodic review and updating of credit policies, guidelines and procedures.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

The Bank also has a robust system of borrowers' risk ratings that assesses the risk of corporate borrowers and monitors ratings changes periodically.

#### Structure and policies of credit risk management

The credit risk management policies are governed through Credit Risk Management Committee, Executive Risk Committee of the Board and the Board of Directors. The following is the structure of credit risk approval:



The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board 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 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).

The Credit Risk Management Committee (CRMC) oversees, adherence to the limits, exceptions and makes recommendations to the Board in respect of policy related matters pertaining to credit risk management.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

#### 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. The bank is moving towards the IFRS 9 accounting norms from 01 January 2018 and is complying with the regulatory requirements in this regard.

#### Quantitative Disclosure

#### i) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure: (RO '000)

Sl. No.	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
1	Overdrafts	47,502	33,088	55,526	39,477
2	Personal Loans	641,357	646,030	637,385	645,328
3	Loans and against Trust receipts	58,779	34,208	66,512	51,046
4	Other Loans	835,725	814,455	881,141	790,309
5	Bills Purchased/ Discounted	18,450	15,085	17,993	18,906
	<b>Total</b>	<b>1,601,813</b>	<b>1,542,866</b>	<b>1,658,557</b>	<b>1,545,066</b>

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

Sl. No.	Type of Credit Exposure	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	Total
2	Personal Loans	637,385	-	-	-	-	-	637,385
3	Loans Against Trust Receipts	66,512	-	-	-	-	-	66,512
4	Other Loans	854,005	13,717	3,920	2,097	4,829	2,573	881,141
5	Bills Purchased/Discounted	17,993	-	-	-	-	-	17,993
6	Any Other	-	-	-	-	-	-	-
	<b>Total</b>	<b>1,631,421</b>	<b>13,717</b>	<b>3,920</b>	<b>2,097</b>	<b>4,829</b>	<b>2,573</b>	<b>1,658,557</b>

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

Sl. No.	Economic Sector	Overdrafts	Loans	Bills purchased/ discounts	Others	Total	Off Balance Sheet Exposure
2	Mining & Quarrying	1,172	85,260	-	-	86,432	1,191
3	Construction	20,526	308,880	12,384	-	341,790	84,688
4	Manufacturing	5,220	87,054	2,846	-	95,120	18,437
5	Transport & Communication	557	76,133	-	-	76,690	1,587
6	Electricity, gas & Water	5,665	41,815	-	-	47,480	4,940
7	Financial Institutions	-	55,597	-	-	55,597	-
8	Services	8,855	101,571	335	-	110,761	5,225
9	Personal Loans	1,172	636,213	-	-	637,385	-
11	Non- Resident Lending	-	27,136	-	-	27,136	-
12	All Others	1,785	38,503	65	-	40,353	32,212
13	<b>Total</b>	<b>55,526</b>	<b>1,585,038</b>	<b>17,993</b>	<b>-</b>	<b>1,658,557</b>	<b>279,789</b>

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

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

Sl. No.	Time Band	Overdraft	Loans	Bills purchased/ discounted	Others	Total	Off Balance Sheet Exposure
1	Upto 1Month	2,776	91,051	8,044	-	101,871	70,383
2	1-3 Months	2,776	147,547	8,529	-	158,852	21,321
3	3-6 Months	2,776	39,178	1,270	-	43,224	17,397
4	6-9 Months	2,776	29,496	150	-	32,422	7,584
5	9-12 Months	2,776	41,708	-	-	44,484	22,555
6	1-3 Years	13,882	183,010	-	-	196,892	18,457
7	3-5 Years	13,882	152,119	-	-	166,001	121,969
8	Over 5 Years	13,882	900,929	-	-	914,811	123
9	<b>Total</b>	<b>55,526</b>	<b>1,585,038</b>	<b>17,993</b>	<b>-</b>	<b>1,658,557</b>	<b>279,789</b>

#### v) Major industry or counterparty type : (RO'000)

Sl. No.	Economic Sector	Gross Loans	Of Which NPLs	General Provisions Held/ Reserve*	Specific Provisions Held	Reserve Interest	Provisions/ reserve made during the Year	Advances written off, net during the year
1	Import Trade	57,343	29	573	10	1	(320)	-
2	Export Trade	-	-	-	-	-	-	-
3	Wholesale & Retail Trade	82,470	129	823	29	15	161	-
4	Mining & Quarrying	86,432	-	864	-	-	209	-
5	Construction	341,790	1,968	3,398	644	72	356	-
6	Manufacturing	95,120	-	951	-	-	135	-
7	Electricity, gas & Water	47,480	-	475	-	-	101	-
8	Transport & communication	76,690	4,059	726	1,043	80	1,026	-
9	Financial Institutions	55,597	-	556	-	-	109	-
10	Services	110,761	1,341	1,094	743	275	(45)	135
11	Personal Loans	637,385	11,792	10,174	6,703	717	1,919	1,892
12	Non Resident Lending	27,136	-	271	-	-	(77)	-
13	All Others	40,353	-	405	-	-	33	-
14	<b>Total</b>	<b>1,658,557</b>	<b>19,318</b>	<b>20,310</b>	<b>9,172</b>	<b>1,160</b>	<b>3,607</b>	<b>2,027</b>

\*- The bank has set aside an amount of RO 6.543 million as a non- distributable loan loss reserve towards the CBO nonspecific position requirements as at 31 December 2017.

The bank has set aside an amount of RO 0.228 million as a non- distributable special reserve on restructured loans based on CBO circular as at 31 December 2017.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

vi) Amount of impaired loans broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area: (RO'000)

Sl. No.	Countries	Gross Loans	Of Which NPLs	General Provisions Held/ Reserve	Specific Provisions Held	Reserve Interest	Provisions/ reserve made during the Year	Advances written off, net during the year
1	Oman	1,631,421	15,398	20,078	8,210	1,091	3,723	2,027
2	Other GCC Countries	13,717	-	137	-	-	(59)	-
3	OECD Countries	3,920	3,920	0	962	69	-	-
4	India	2,097	-	21	-	-	(9)	-
5	Pakistan	4,829	-	48	-	-	(2)	-
6	Others	2,573	-	26	-	-	(46)	-
7	<b>Total</b>	<b>1,658,557</b>	<b>19,318</b>	<b>20,310</b>	<b>9,172</b>	<b>1,160</b>	<b>3,607</b>	<b>2,027</b>

vii) Movement of gross loans (RO '000)

Sl. No.	Details	Performing Loans		Non-Performing Loans			Total
		Standard	Special mention	Sub-Standard	Doubtful	Loss	
1	Opening Balance	1,516,055	11,862	1,731	2,958	12,460	<b>1,545,066</b>
2	Mitigation/ Changes (+/-)	(111,290)	103,841	5,405	1,398	646	-
3	New Loans	257,954	-	-	-	-	<b>257,954</b>
4	Recovery of Loans	(138,463)	(706)	(463)	(63)	(2,195)	<b>(141,890)</b>
5	Loans Written Off	(14)	-	-	-	(2,559)	<b>(2,573)</b>
6	Closing Balance	1,524,242	114,997	6,673	4,293	8,352	<b>1,658,557</b>
7	Provisions Held	20,310	73	1,639	1,613	5,847	<b>29,482</b>
8	Reserve Interest	-	-	116	143	901	<b>1,160</b>

#### Credit risk- Disclosures for portfolios subject to the standardized approach.

As part of the standardized approach, the bank follows the simplified approach for credit risk capital charge calculation. Accordingly, keeping in view the CBO guidelines, the bank has used the financial collaterals such as cash, acceptable bank guarantees and shares listed on the MSM main index as part of the Credit risk mitigation for arriving at the capital adequacy.

#### Credit Risk Mitigation: Disclosures for standardized approaches

##### Qualitative disclosure

Credit risk mitigation (CRM) encompasses collateral management and credit guarantee arrangements. The policies and processes for on- and off-balance sheet netting (and the extent to which the Bank makes use of them); policies and processes for collateral valuation and management; and a description of the main types of collateral taken are described below.

In respect of real estate collateral, two valuations are obtained if the value of collateral exceeds a particular level: the lowest valuation is used. The Bank also has a mandatory requirement to obtain an insurance policy on real estate collateral (other than land) where the policy is assigned in the Bank's favor. Real estate collateral is valued on regular intervals 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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The 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 2017 towards loan and advances not impaired amounted to RO 1,336.665 million.

#### Quantitative disclosure

As per Basel & CBO guidelines the bank stands in possession of the following eligible collateral:

1) Cash 2) Shares 3) Sovereign Guarantee.

Exposure covered by cash collateral – RO 145.281 million after application of haircut (0%) exposure stands at RO Nil.

Exposure covered by Shares collateral – RO 64.840 Million; after application of haircut (50%) exposure stands at RO. 32.420 Million.

Exposure covered by Sovereign Guarantee RO 10 Million; after application of haircut (0%) exposure stands at RO Nil.

#### Counterparty Credit Risk

Counterparty Credit Risk is the risk that the customer or trading counterparty of the Bank, usually an OTC derivative contract, may fail to fulfill its obligation which may result in replacement or termination of transaction at a loss to the Bank.

Bank has implemented Current Exposure Method (CEM) for the measurement of Risk Weighted Assets under CCR. Exposure under CEM method is defined as sum of Potential Future Exposure (PFE) and Current Credit Exposure (CCE). The PFE is the estimate of amount of exposure that may occur over a one year time horizon while CCE is the sum of positive MTM (Mark to Market) values. Bank has total exposure (CEM) of OMR on account of OTC derivatives (FX forwards, Interest Rate Swaps etc) and RWA of RO 1.441 million as on 31 December 2017.

### 6. MARKET RISK IN TRADING BOOK

#### Qualitative disclosure

Substantially all of the Bank's businesses are subject to the risk that market prices and rates will move and result in profits or losses for the Bank. Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. Market risk has been categorized into interest rate risk, equity position risk and foreign exchange risk.

The Bank has a robust Market Risk Management framework which comprises of risk identification, setting up of limits, monitoring, reporting, escalation matrix and resolution. The policy and procedure ensures that all limits are within risk appetite of the Bank and approved by the Board.

Details of various market risks are as below:

#### Interest Rate Risk Principles and Framework

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

#### Interest Rate Risk in Trading Book

Interest rate risk in the trading book 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.

#### Equity Position Risk

Equity position risk occurs due to change in market value of the Bank's equity portfolio due to change in general market or security specific conditions. The ALCO monitors all equity investment on periodic basis. The Market Risk and Mid Office is responsible to ensure appropriate risk limits are in place and reports the same to appropriate authorities.

#### Foreign Exchange Risk

Foreign exchange risk is the risk that the foreign currency positions taken by the Bank may be adversely affected due to volatility in foreign exchange rates. Foreign exchange risk management is ensured through regular measurement and monitoring of open foreign exchange positions. Treasury takes every possible measure to cover open positions created by customer transactions.

Instruments used to mitigate this risk are foreign exchange spot, forwards, deposits, etc. These instruments help to insulate the Bank against losses that may arise due to significant movements in foreign exchange rates. All foreign exchange exposures are centrally managed by the Bank's Treasury and are daily marked to market. Limits have been assigned with respect to overnight open exposures, stop loss and authorized currencies to monitor and control foreign exchange exposures.

The Bank treats its entire Foreign Exchange Exposure under Basel II Standardized method for capital calculation. The Net open position in all foreign currencies stands at RO 63.115 million (RO 62.375 million open position is in effectively pegged currencies) as on 31 December 2017.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 6. MARKET RISK IN TRADING BOOK (continued)

#### Quantitative Disclosure

##### Capital Charge

The Capital Charge for market risk exposures is measured based on Standardized approach in accordance with the guidelines issued by CBO under Circular BM1009. The Bank has implemented standardized duration based approach to arrive at capital requirement for bonds and debt securities. The capital charge for foreign exchange is computed based on three month higher of daily average of sum of net long or short positions held by the Bank. Further, Bank does not hold any trading position in Equity or commodities.

Table showing capital charge for Interest Rate, Equity and FX risk as on 31 December 2017 is shown below:

Type of Risk	Capital Charge (RO '000)
Interest Rate Risk	5,080
Equity Position Risk	-
Foreign Exchange Risk	5,404

##### 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. The details of investments are provided in Note 8 of the financial statements.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 6. MARKET RISK IN TRADING BOOK (continued)

#### 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.

#### Interest Rate Risk in Banking Book (IRRBB)

The Bank monitors its interest rate risk in the banking book through performing repricing gap analysis of interest rate sensitive assets and liabilities. Under repricing gap analysis, the Bank distributes interest rate sensitive assets and liabilities into time bands according to their maturity (if fixed rate) or time remaining to their next repricing (if floating rate). The size of the gap for a given time period – that is assets minus liabilities that reprice or mature within that time band – gives an indication of the Bank's repricing risk exposure. The Bank evaluates the effect of a parallel shift in yield curve on its economic value by applying a proxy for modified duration multiplied by the assumed parallel change in interest rates to the gap under each time band.

The nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement, are given below.

Interest rate risk is limited for Retail Banking book as they are re-priced with any change in the CBO's interest rate and for Corporate customer re-priced in line with the market conditions.

Deposits are re-priced based on their final maturity, or if linked to a floating rate index, on the re-pricing date. Deposits that are insensitive to interest rate movements are categorized separately. The earnings at risk are calculated based on interest rate re-pricing gaps. The Bank is confident of sourcing the cheaper source of funds by way of customers' deposits. ALCO along with the risk management department identifies interest rate risk and these are monitored and reported periodically. Rate sensitive exposures are quantified using re-pricing gaps.

#### Quantitative Disclosure

Disclosure pertaining to sensitivity analysis of interest rate risk are provided in note 32.3.2 of financial statements.

### 7. LIQUIDITY RISK

#### Qualitative Disclosure

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

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

- The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.
- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- As per the 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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 7. LIQUIDITY RISK (continued)

#### 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

Disclosure pertaining to lending ratio as at 31 December 2017 are provided in note 32.2.2 of financial statements.

#### 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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 7. LIQUIDITY RISK (continued)

#### 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

#### Quantitative disclosure

Disclosure pertaining to the maturity profile of assets and liabilities as at 31 December 2017 are provided in note 32.2.2 of financial statements.

### 8. OPERATIONAL RISK

#### Operational Risk Framework

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

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

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks. The bank has an Operational Risk Management Framework elucidating the processes involved in the operational risk management. There is an Operational Risk Committee that is the owner of this Framework and holds responsibility.

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

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

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

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

#### 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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 8. OPERATIONAL RISK (continued)

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.

**The bank has a separate Fraud Risk Management Policy and a Fraud Risk Management Framework in place.**

#### 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 Risk

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 2017, the bank has carried out a comprehensive BCP test including a volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board. The Bank has in place a crisis management team, and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the bank.

#### Concentration Risk

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

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

#### 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 non-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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 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 (2016: 7 members) of the management committee.

The below table provides details of key management compensation:

	2017 RO '000	2016 RO '000
Salaries and allowances	1,073	1,131
End of service benefits	33	36
<b>Total</b>	<b>1,106</b>	<b>1,167</b>

### 10. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2017.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 11. BASEL III CAPITAL DISCLOSURE

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

#### 11.1 The 3 step approach to reconciliation

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114.

#### Step 1: Balance sheet under Regulatory scope of consolidation

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

Year ended 31 December 2017	Published financial statements	Under regulatory scope of consolidation
<b>Assets</b>		
Cash and balances with Central Bank of Oman	116,628	116,628
Certificates of deposit	-	-
Due from banks	16,569	16,569
Loans and advances	1,634,458	1,634,458
Investments in securities	216,741	216,741
Loans and advances to banks	-	-
Property and equipment	16,703	16,703
Deferred tax assets	-	-
Other assets	13,483	13,483
<b>Total assets</b>	<b>2,014,582</b>	<b>2,014,582</b>
<b>Liabilities</b>		
Due to banks	133,565	133,565
Customer deposits	1,450,851	1,450,851
Borrowings	57,750	57,750
Deferred tax liabilities	312	312
Other liabilities	42,277	42,277
Subordinated bonds	25,000	25,000
<b>Total liabilities</b>	<b>1,709,755</b>	<b>1,709,755</b>
<b>Shareholders' Equity</b>		
Paid-up share capital	142,504	142,504
Share premium	-	-
Legal reserve	25,651	25,651
General loan loss reserve	6,543	6,543
Retained earnings	66,423	66,423
Special reserve	228	228
Cumulative changes in fair value of investments	(122)	(122)
Subordinated debt reserve	13,600	13,600
<b>Total shareholders' equity</b>	<b>254,827</b>	<b>254,827</b>
Tier 1 Perpetual subordinated bonds	50,000	50,000
<b>Total equity</b>	<b>304,827</b>	<b>304,827</b>
<b>Total liability and shareholders' funds</b>	<b>2,014,582</b>	<b>2,014,582</b>

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 11. BASEL III CAPITAL DISCLOSURE (continued)

#### 11.1 The 3 step approach to reconciliation (continued)

Step 2: Expansion of Balance sheet under Regulatory scope of consolidation

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

For the year ended 31 December 2017	2017 financial Statement	Under Regulatory scope of consolidation	Reference
<b>Assets</b>			
Cash and balances with CBO	<b>116,628</b>	<b>116,628</b>	
Balance with banks and money at call & short notice	<b>16,569</b>	<b>16,569</b>	
Investments, of which:	<b>216,741</b>	<b>216,741</b>	
Available for Sale	82,252	82,252	
Held for Trading	134,489	134,489	
Loans and advances – Net, of which:	<b>1,634,458</b>	<b>1,634,458</b>	
- Loans and advances to domestic banks	-	-	
- Loans and advances to non-resident banks	-	-	
- Loans and advances to domestic customers	-	1,322,115	
- Loans and advances to non-resident for operations abroad	-	27,136	
- Loans and advances to SMEs	-	59,277	
- Financing from Islamic banking window	-	250,029	
- Provision against Loans and Advances, of which:	-	<b>(24,099)</b>	
- Specific provision and Reserve interest & profit	-	(10,332)	
- General provision, of which	-	<b>(13,767)</b>	
- amount eligible for T2	-	<b>(13,767)</b>	a
- amount ineligible for T2	-	-	
Fixed assets	<b>16,703</b>	<b>16,703</b>	
- Intangibles (CET1 adjustment)		2,694	
- Other fixed asset		14,009	
Other assets	<b>13,483</b>	<b>13,483</b>	
<b>Total Assets</b>	<b>2,014,582</b>	<b>2,014,582</b>	
<b>Capital &amp; Liabilities</b>			
Paid-up Capital, of which:	<b>142,504</b>	<b>142,504</b>	
- Amount eligible for CET1	-	142,504	b
Reserves & Surplus; of which	<b>162,323</b>	<b>162,323</b>	
- Amount eligible for CET1 (Legal reserve)	25,651	25,651	c
- Amount eligible for CET1 (Subordinated debt reserve)	13,600	13,600	d
- Amount eligible for CET1 (Retained earnings)	66,423	66,423	e
- Amount eligible for CET1 (Special Reserve)	228	228	
- Amount eligible for AT1	50,000	50,000	
- Amount eligible for T2 (General loan loss reserve)	6,543	6,543	f
- Amount eligible for T2 (Investments Fair value gains)	(122)	139	g
- AFS investments fair value loss (CET1 adjustment)	-	(632)	h
- AFS investments fair value gain unutilized	-	371	
<b>Total Capital</b>	<b>304,827</b>	<b>304,827</b>	

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 11. BASEL III CAPITAL DISCLOSURE (continued)

#### 11.1 The 3 step approach to reconciliation (continued)

For the year ended 31 December 2017	2017 financial Statement	Under Regulatory scope of consolidation	Reference
Deposits from banks	133,565	133,565	
Customer deposits, of which	1,450,851	1,450,851	
- Deposits for customers	-	1,227,947	
- Deposits of Islamic Banking window	-	222,904	
Borrowings, of which:	57,750	57,750	
- From banks	57,750	57,750	
Borrowings in form of bonds, Debentures & sukuku, of which	25,000	25,000	
- Amount eligible for T2	-	11,400	i
- Amount ineligible for T2	-	13,600	
Other liabilities & provisions	42,589	42,589	
<b>TOTAL</b>	<b>2,014,582</b>	<b>2,014,582</b>	

#### Step 3: Step Reconciliation of Regulatory Capital:

##### Common Equity Tier 1 capital: instruments and reserves (R0' 000)

For the year ended 31 December 2017	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1 Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	149,629*	b
2 Retained earnings	45,048*	e
3 Accumulated other comprehensive income (and other reserves)	39,479	c+d
4 <b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>234,156</b>	
5 Prudential valuation adjustments	(3,326)	h
6 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
7 <b>Total regulatory adjustments to Common equity Tier 1</b>	<b>(3,326)</b>	
8 <b>Common Equity Tier 1 capital (CET1)</b>	<b>230,830</b>	
<b>Additional Tier 1 capital: instruments</b>		
9 Additional Tier 1 capital (AT1)	50,000	
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>280,830</b>	
<b>Tier 2 capital: instruments and provisions</b>		
9 Directly issued qualifying Tier 2 instruments plus related stock surplus	11,400	i
10 Provisions	20,310	a+f
11 Fair value reserve of AFS investments	139	g
<b>Tier 2 capital before regulatory adjustments</b>	<b>31,849</b>	
<b>Tier 2 capital: regulatory adjustments</b>	<b>-</b>	
<b>Tier 2 capital (T2)</b>	<b>31,849</b>	
<b>Total capital (TC = T1 + T2)</b>	<b>312,679</b>	

\* The Board of Directors have proposed cash dividend of 10% and stock dividend of 5%, which has been adjusted.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 11. BASEL III CAPITAL DISCLOSURE (continued)

#### 11.2 Main Features of regulatory capital

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

	Common Equity Share Capital	Subordinated debt (Basel III)	Perpetual subordinated bonds (additional Tier 1)
1 <b>Ahli Bank SAOG</b>	NA	NA	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	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4 Transitional Basel III rules	Common Equity Tier 1	Tier II	Additional Tier I
5 Post-transitional Basel III rules	Common Equity Tier 1	Eligible	Eligible
6 Eligible at solo/group/group & solo	Solo	Solo	Solo
7 Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital	Private Placement of Subordinated debt	Rights Issue of Perpetual subordinated bonds
8 Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	RO 142.504 million	RO 11.400 million	RO 50 million
9 Par value of instrument	RO 142.504 million	RO 25.000 million	RO 50 million
10 Accounting classification	Shareholders' Equity	Liability amortised cost	Equity
11 Original date of issuance	Bank started operations in 1997	*Refer to the below table	11-October-2017
12 Perpetual or dated	Perpetual	Dated	Perpetual
13 Original maturity date	No maturity	**Refer to the below table	No maturity
14 Issuer call subject to prior supervisory approval	No	No	Yes
15 Optional call date, contingent call dates and redemption amount	NA	NA	The Bank May, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.
16 Subsequent call dates, if applicable Coupons / dividends	NA	NA	
17 Fixed or floating dividend/coupon	Floating	Fixed	Fixed
18 Coupon rate and any related index	NA	4%-5%	7.50%
19 Existence of a dividend stopper	NA	No	NA
20 Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Fully discretionary
21 Existence of step up or other incentive to redeem	No	No	NA
22 Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	Non-convertible	convertible	Non-convertible
24 If convertible, conversion trigger (s)	NA	Statutory approach	NA
25 If convertible, fully or partially	NA	May convert fully or Partially	NA
26 If convertible, conversion rate	NA	Average price *	NA

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 11. BASEL III CAPITAL DISCLOSURE (continued)

#### 11.2 Main Features of regulatory capital (continued)

		Common Equity Share Capital	Subordinated debt (Basel III)	Perpetual subordinated bonds (additional Tier 1)
27	If convertible, mandatory or optional conversion	NA	Optional	NA
28	If convertible, specify instrument type convertible into	NA	CET 1	NA
29	If convertible, specify issuer of instrument it converts into	NA	Ahli Bank	NA
30	Write-down feature	Yes	Yes	Yes
	<b>Ahli Bank SAOG</b>	<b>Common Equity Share Capital</b>	<b>Subordinated Bonds</b>	<b>Subordinated debt</b>
31	If write-down, write-down trigger(s)	Statutory approach	Statutory approach	Statutory approach
32	If write-down, full or partial	Write down fully	May be written down partially	Full or partial
33	If write-down, permanent or temporary	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Common Equity Share Capital	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/bonds/sukuk of the bank
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	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	1,000	28-Aug-14	29-Aug-19
Subordinated debt 2	1,000	600	30-Sep-14	30-Sep-21
Subordinated debt 3	5,000	3,000	01-Oct-14	02-Oct-21
Subordinated debt 4	5,000	2,000	10-Nov-14	10-Nov-20
Subordinated debt 5	1,000	200	13-Nov-14	16-Nov-19
Subordinated debt 6	2,000	400	17-Nov-14	18-Nov-19
Subordinated debt 7	3,000	2,400	10-Jun-15	13-Jun-22
Subordinated debt 8	3,000	1,800	30-Jun-15	29-Jun-21
<b>Total</b>	<b>25,000</b>	<b>11,400</b>		

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 11. BASEL III CAPITAL DISCLOSURE (continued)

#### 11.3 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
	<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	149,629	-
2	Retained earnings	45,048	-
3	Accumulated other comprehensive income (and other reserves)	39,479	-
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)</i>	-	-
	<i>Public sector capital injections grandfathered until 1 January 2018</i>	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>234,156</b>	
	<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
7	Prudential valuation adjustments	(632)	-
8	Goodwill (net of related tax liability)	-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(2,694)	-
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)	-	-
15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial 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)	-	-
19	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)	-	-
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	-	-
26a	Shortfall in equity capital of majority owned financial entities , which have not been consolidated with the banks	-	-
26b	Investments in equity capital of unconsolidated non-financial entities.....etc.	-	-

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 11. BASEL III CAPITAL DISCLOSURE (continued)

#### 11.3 disclosure template during the transition phase (continued)

	(RO' 000)	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
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	-	-
27 Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
28 <b>Total regulatory adjustments to Common equity Tier 1</b>	<b>(3,326)</b>	
29 <b>Common Equity Tier 1 capital (CET1)</b>	<b>230,830</b>	
<b>Additional Tier 1 capital: instruments</b>		
30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	50,000	-
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 <b>Additional Tier 1 capital before regulatory adjustments</b>	<b>50,000</b>	-
<b>Additional Tier 1 capital before regulatory adjustments</b>		
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 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)	-	-
40 Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41 National specific regulatory adjustments	-	-
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: .....	-	-
42 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43 <b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	<b>-</b>
44 <b>Additional Tier 1 capital (AT1)</b>	<b>50,000</b>	
45 <b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>280,830</b>	
<b>Tier 2 capital: instruments and provisions</b>		
46 Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
OF WHICH: ...	-	-
47 <i>Directly issued capital instruments subject to phase out from Tier 2</i>	11,400	-
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 (provision and fair value reserve)	20,449	-

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 11. BASEL III CAPITAL DISCLOSURE (continued)

#### 11.3 disclosure template during the transition phase (continued)

	(RO' 000)	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>31,849</b>
<b>Tier 2 capital: regulatory adjustments</b>		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	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)	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	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: ...	-
57	<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>
58	<b>Tier 2 capital (T2)</b>	<b>31,849</b>
59	<b>Total capital (TC = T1 + T2)</b>	<b>312,679</b>
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	1,872,408
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
	OF WHICH: ...	-
60	<b>60 Total risk weighted assets</b>	<b>1,872,408</b>
60a	<i>Of which: Credit risk weighted assets</i>	<b>1,639,809</b>
60b	<i>Of which: Market risk weighted assets</i>	<b>131,055</b>
60c	<i>Of which: Operational risk weighted assets</i>	<b>101,544</b>
<b>Capital Ratios</b>		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.33%
62	Tier 1 (as a percentage of risk weighted assets)	15.00%
63	Total capital (as a percentage of risk weighted assets)	16.70%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	8.250%
65	of which: capital conservation buffer requirement	1.250%
66	of which: bank specific countercyclical buffer requirement	-
67	of which: G-SIB buffer requirement	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted	5.46%
<b>National minima (if different from Basel 3)</b>		
<b>Tier 2 capital: instruments and provisions</b>		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	8.250%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	10.250%
71	National total capital minimum ratio (if different from Basel 3 minimum)	13.250%

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 11. BASEL III CAPITAL DISCLOSURE (continued)

#### 11.3 disclosure template during the transition phase (continued)

	(RO' 000)	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	8,491	-
73	-	-
74	-	-
75	-	-
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	20,310	-
77	20,498	-
78	-	-
79	-	-
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		
80	-	-
81	-	-
82	-	-
83	-	-
84	-	-
85	-	-

### 12. BASEL III LIQUIDITY DISCLOSURE

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

#### LIQUIDITY COVERAGE RATIO (LCR)

##### Common Disclosure Template

	Total Unweighted Value (average)	(RO '000) Total Weighted Value (average)
<b>High Quality Liquid Assets</b>		
1	-	239,641
<b>Cash Outflows</b>		
2	146,160	11,550
3	57,352	2,670
4	88,808	8,880
5	372,090	195,661
6	1,047	262
7	288,734	113,091
8	82,309	82,309
9	-	16,679
10	-	-

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 12. BASEL III LIQUIDITY DISCLOSURE

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

#### LIQUIDITY COVERAGE RATIO (LCR)

##### Common Disclosure Template

		(RO '000) Total Unweighted Value (average)	(RO '000) Total Weighted Value (average)
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	78,988	21,030
15	Other contingent funding obligations	185,065	105,115
16	<b>TOTAL CASH OUTFLOWS</b>	-	350,036
<b>Cash Inflows</b>			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	169,999	84,999
19	Other cash inflows	192,929	166,180
20	<b>TOTAL CASH INFLOWS</b>	362,928	251,179
			<b>Total Adjusted Value</b>
21	<b>TOTAL HQLA</b>		239,641
22	<b>TOTAL NET CASH OUTFLOWS</b>		98,857
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		242.41%

#### LEVERAGE RATIO (LR)

##### Common Disclosure Template

The below Leverage Ratio disclosure is prepared in accordance with the requirements of the CBO letter BSD/2017/BKUP/Leverage/564 – Implementation of Basel III Leverage Ratio issued on 27 August 2017.

**Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure**

(Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

		(All amounts in OMR'000)	
	Item	Current Quarter	Previous Quarter
1	Total consolidated assets as per published financial statements	2,014,582	2,001,363
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments	3,553	4,864
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	52,784	80,878
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	78,275	81,710
7	Other adjustments		
8	<b>Leverage ratio exposure</b>	2,149,194	2,168,815

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 12. BASEL III LIQUIDITY (continued)

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

(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

		(All amounts in OMR'000)	
	Item	Current Quarter	Previous Quarter
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,014,582	2,001,363
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)</b>	<b>2,014,582</b>	<b>2,001,363</b>
<b>Derivative Exposures</b>			
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	1,238	1,172
5	Add-on amounts for PFE associated with all derivatives transactions	2,315	3,692
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	Total derivative exposures (sum of lines 4 to 10)	<b>3,553</b>	<b>4,864</b>
<b>Securities financing transaction exposures</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	51,199	80,850
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets	1,585	28
15	Agent transaction exposures		
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	<b>52,784</b>	<b>80,878</b>
<b>Other Off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	279,789	283,889
18	(Adjustments for conversion to credit equivalent amounts)	(201,514)	(202,179)
19	<b>Off-balance sheet items (sum of lines 17 and 18)</b>	<b>78,275</b>	<b>81,710</b>
<b>Capital and total exposures</b>			
20	Tier 1 capital	280,830	241,218
21	<b>Total exposures (sum of lines 3, 11, 16 and 19)</b>	<b>2,149,194</b>	<b>2,168,815</b>
<b>Leverage Ratio</b>			
22	<b>Basel III leverage ratio (%)</b>	13.1	11.1

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. The Bank's disclosure on leverage was prepared as per CBO circular on leverage ratio, issued on August 27, 2017,

For Ahli Bank SAOG



**Hamdan Ali Nasser Al Hinai**

Chairman

Date: 22 January 2018

# Financial Statements of the Bank

For the year ended 31 December 2017



KPMG  
4th Floor, HSBC Bank Building  
MBD  
P.O. Box 641  
P.C. 112  
Sultanate of Oman  
Tel +968 24709181  
Fax +968 24700839

## **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) set out on pages 74 to 126, which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### **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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with 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.

#### **Impairment of loans & advances and financing**

Refer to note 3.4a, 4.1, 7 and 32.1

Impairment of loans and advances and financing is a highly subjective area due to the level of judgement applied by the management in determining the extent of impairment allowance. Due to the significance of loans & advances and financing and the related estimation uncertainty, this is considered a key audit matter.



Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment.

The Bank's collective impairment allowance is derived from estimates including the Bank's historical default ratio and the loss emergence period (i.e., the time lapse between the occurrences of the event causing eventual default to the actual charge-off) for corporate loans in particular.

Specific impairment allowances are estimated by management once objective evidence of impairment becomes apparent. Management exercises judgement in determining the quantum of loss based on a range of factors such as the valuation of collateral for secured lending and the viability of future cash flows of corporate loan customers. In addition, the management focus on individually significant exposures that either continued to be, have become, or are at risk of being, individually impaired.

#### *Our response*

Our audit procedures included the assessment of selected controls over the approval, recording and monitoring processes of loans and advances and financing and selected controls over specific and collective impairment provisioning including automated controls over calculation of days past due. As part of the control testing procedures, we assessed whether those selected controls were designed, implemented and operated effectively throughout the year.

In addition to testing selected controls we performed, amongst others, the following procedures:

- For a selection of loans and advances and financing considered the appropriateness of the Bank's conclusion as to whether an impairment event has taken place;
- For a selection of loans and advances and financing where management has identified an impairment event has occurred, considered the appropriateness of estimated impairment provisions recorded by the Bank;
- For the collective impairment provisions established by the Bank: considered the appropriateness of the design of the models used to estimate them, as well as, the reasonableness of underlying key assumptions by performing recalculation of collective impairment provisions; and
- On a sample basis, checked the accuracy of historical data input to the models by reference to the underlying accounting records.

We also considered the adequacy of the Bank's disclosures in relation to impairment of loans and advances and financing.

#### **Other Matter**

The financial statements of the Bank as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on 27 February 2017.

#### **Other Information**

Management is responsible for the other information. The other information comprises the below information included in the annual report, but does not include the financial statements and our auditors' report thereon:

- Chairman's report
- Management Discussion and Analysis Report
- Financial statements of Al Hilal Islamic Banking Services
- Corporate Governance Report
- 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 express any form of assurance conclusion thereon.

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

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditors' 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 auditors' 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 the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

We report that the financial statements of the Bank as at and for the year ended 31 December 2017, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 1974, as amended.

**Paul Callaghan**  
8 March 2018

# Statement of Financial Position

As at 31 December 2017

2016 US\$ '000	2017 US\$ '000		Note	2017 RO '000	2016 RO '000
<b>ASSETS</b>					
364,528	<b>302,930</b>	Cash and balances with Central Bank of Oman	5	<b>116,628</b>	140,343
79,927	<b>43,036</b>	Due from banks	6	<b>16,569</b>	30,772
3,953,524	<b>4,245,345</b>	Loans & advances and financing, net	7	<b>1,634,458</b>	1,522,106
458,812	<b>562,964</b>	Investment securities	8	<b>216,741</b>	176,643
43,844	<b>43,384</b>	Property and equipment	9	<b>16,703</b>	16,880
33,533	<b>35,021</b>	Other assets	11	<b>13,483</b>	12,910
<u>4,934,168</u>	<u><b>5,232,680</b></u>	<b>TOTAL ASSETS</b>		<u><b>2,014,582</b></u>	<u>1,899,654</u>
<b>LIABILITIES</b>					
603,319	<b>346,922</b>	Due to banks	12	<b>133,565</b>	232,278
3,301,367	<b>3,768,444</b>	Customers' deposits	13	<b>1,450,851</b>	1,271,026
130,000	<b>150,000</b>	Borrowed funds	14	<b>57,750</b>	50,050
265	<b>810</b>	Deferred tax liability	10	<b>312</b>	102
99,351	<b>109,811</b>	Other liabilities	15	<b>42,277</b>	38,250
168,831	<b>64,935</b>	Subordinated liabilities	16	<b>25,000</b>	65,000
<u>4,303,133</u>	<u><b>4,440,922</b></u>	<b>TOTAL LIABILITIES</b>		<u><b>1,709,755</b></u>	<u>1,656,706</u>
<b>EQUITY</b>					
370,140	<b>370,140</b>	Share capital	17	<b>142,504</b>	142,504
59,699	<b>66,626</b>	Legal reserve	18	<b>25,651</b>	22,984
16,995	<b>16,995</b>	General loan loss reserve	7	<b>6,543</b>	6,543
115,691	<b>35,325</b>	Subordinated debt reserve	16	<b>13,600</b>	44,541
-	<b>592</b>	Special reserve	7	<b>228</b>	-
1,081	<b>(317)</b>	Fair value reserve		<b>(122)</b>	416
67,429	<b>172,527</b>	Retained earnings		<b>66,423</b>	25,960
<u>631,035</u>	<u><b>661,888</b></u>	<b>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK</b>		<u><b>254,827</b></u>	<u>242,948</u>
-	<b>129,870</b>	Tier 1 Perpetual subordinated bonds	20	<b>50,000</b>	-
<u>631,035</u>	<u><b>791,758</b></u>	<b>TOTAL EQUITY</b>		<u><b>304,827</b></u>	<u>242,948</u>
<u>4,934,168</u>	<u><b>5,232,680</b></u>	<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>2,014,582</b></u>	<u>1,899,654</u>
44.3	<b>46.4</b>	Net assets value per share (US cents / baizas)	21	<b>178.8</b>	170.5
<u>555,382</u>	<u><b>803,087</b></u>	Contingent liabilities and commitments	22	<u><b>309,189</b></u>	<u>213,822</u>

The financial statements and notes 1 to 34 were approved by the Board of Directors on 22 January 2018 and signed on their behalf by:



**Hamdan Ali Nasser Al Hinai**  
Chairman



**Lloyd Maddock**  
Chief Executive Officer

The notes and other explanatory information form an integral part of these financial statements.  
Report of the independent Auditors - page 70.

## Statement of Comprehensive Income

For the year ended 31 December 2017

2016 US\$ '000	2017 US\$ '000		Note	2017 RO '000	2016 RO '000
175,766	<b>200,052</b>	Interest income	23	<b>77,020</b>	67,670
(77,851)	<b>(101,322)</b>	Interest expense	24	<b>(39,009)</b>	(29,973)
97,915	<b>98,730</b>	<b>NET INTEREST INCOME</b>		<b>38,011</b>	37,697
29,771	<b>34,042</b>	Income from Islamic financing and investments		<b>13,106</b>	11,462
(11,499)	<b>(16,930)</b>	"Unrestricted investment account holders' share of profit and profit expense"		<b>(6,518)</b>	(4,427)
18,272	<b>17,112</b>	<b>"NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS"</b>		<b>6,588</b>	7,035
116,187	<b>115,842</b>	<b>NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTMENTS"</b>		<b>44,599</b>	44,732
22,961	<b>26,909</b>	Other operating income	25	<b>10,360</b>	8,840
139,148	<b>142,751</b>	<b>OPERATING INCOME</b>		<b>54,959</b>	53,572
(7,631)	<b>(16,644)</b>	Impairment for credit losses	7	<b>(6,408)</b>	(2,938)
7,236	<b>7,368</b>	Recoveries from impairment for credit losses	7	<b>2,837</b>	2,786
(1,496)	<b>(1,478)</b>	Impairment on available for sale investments		<b>(569)</b>	(576)
137,257	<b>131,997</b>	<b>NET OPERATING INCOME</b>		<b>50,819</b>	52,844
(31,584)	<b>(33,410)</b>	Staff expenses	26	<b>(12,863)</b>	(12,160)
(3,360)	<b>(3,449)</b>	Depreciation	9	<b>(1,328)</b>	(1,294)
(14,966)	<b>(13,584)</b>	Other operating expenses	27	<b>(5,230)</b>	(5,762)
(49,910)	<b>(50,443)</b>	<b>OPERATING EXPENSES</b>		<b>(19,421)</b>	(19,216)
87,347	<b>81,554</b>	<b>PROFIT BEFORE TAXATION</b>		<b>31,398</b>	33,628
(10,587)	<b>(12,288)</b>	Tax expense	10	<b>(4,731)</b>	(4,076)
76,760	<b>69,266</b>	<b>PROFIT FOR THE YEAR</b>		<b>26,667</b>	29,552
		<b>OTHER COMPREHENSIVE INCOME - NET OF TAX</b>			
		<b>Fair value reserve (available for sale investments) that are or may be reclassified to profit or loss in subsequent periods</b>			
1,590	<b>1,439</b>	- Net amount transferred to profit or loss		<b>554</b>	612
(647)	<b>(2,836)</b>	- Net changes in fair values		<b>(1,092)</b>	(249)
943	<b>(1,397)</b>	<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(538)</b>	363
77,703	<b>67,869</b>	<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>26,129</b>	29,915
5.4	<b>4.9</b>	Basic and diluted earnings per share (US cents / baizas)	28	<b>18.7</b>	20.7

The notes and other explanatory information form an integral part of these financial statements.  
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## Statement of Changes in Equity

For the year ended 31 December 2017

	Note	Share capital RO '000	Legal reserve RO '000	General loan loss reserve RO '000
<b>At 1 January 2017</b>		<b>142,504</b>	<b>22,984</b>	<b>6,543</b>
<b>Total Comprehensive income for the year:</b>				
Profit for the year		-	-	-
Other comprehensive income, net of tax		-	-	-
Transfer to Special reserve	7	-	-	-
Total comprehensive income		-	-	-
Transfer to legal reserve	18	-	2,667	-
Transfer from subordinated debt reserve*	16	-	-	-
		-	2,667	-
<b>Transactions with owners recognised directly in equity</b>				
Cash dividends paid	19	-	-	-
<b>Total transactions with owners</b>		-	-	-
Proceeds from Tier 1 perpetual subordinated bond	20	-	-	-
<b>At 31 December 2017</b>		<b>142,504</b>	<b>25,651</b>	<b>6,543</b>
<b>At 31 December 2017 (US\$ '000)</b>		<b>370,140</b>	<b>66,626</b>	<b>16,995</b>

	Note	Share capital RO '000	Legal reserve RO '000	General loan loss reserve RO '000
At 1 January 2016		142,504	20,029	6,543
<i>Total Comprehensive income for the year:</i>				
Profit for the year		-	-	-
Other comprehensive income, net of tax		-	-	-
Total comprehensive income		-	-	-
Transfer to legal reserve	18	-	2,955	-
Transfer from subordinated debt reserve	16	-	-	-
		-	2,955	-
<i>Transactions with owners recognised directly in equity</i>				
Cash dividends paid	19	-	-	-
Total transactions with owners		-	-	-
At 31 December 2016		142,504	22,984	6,543
At 31 December 2016 (US\$ '000)		370,140	59,699	16,995

\* Net of release of subordinated debt reserve on maturity of subordinated liabilities

The notes and other explanatory information form an integral part of these financial statements.  
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Attributable to equity holders of Bank							Tier 1 Perpetual subordinated bond RO '000	Total Equity RO '000
Subordinated debt reserve RO '000	Fair value reserve RO '000	Special reserve RO '000	Retained earnings RO '000	Total RO '000				
44,541	416	-	25,960	242,948	-	242,948		
-	-	-	26,667	26,667	-	26,667		
-	(538)	-	-	(538)	-	(538)		
-	-	228	(228)	-	-	-		
-	(538)	228	26,439	26,129	-	26,129		
-	-	-	(2,667)	-	-	-		
(30,941)	-	-	30,941	-	-	-		
(30,941)	-	-	28,274	-	-	-		
-	-	-	(14,250)	(14,250)	-	(14,250)		
-	-	-	(14,250)	(14,250)	-	(14,250)		
-	-	-	-	-	50,000	50,000		
13,600	(122)	228	66,423	254,827	50,000	304,827		
35,325	(317)	592	172,527	661,888	129,870	791,758		
Subordinated debt reserve RO '000	Fair value reserve RO '000	Special reserve RO '000	Retained earnings RO '000	Total RO '000	Tier 1 Perpetual subordinated bond RO '000	Total Equity RO '000		
40,337	53	-	17,817	227,283	-	227,283		
-	-	-	29,552	29,552	-	29,552		
-	363	-	-	363	-	363		
-	363	-	29,552	29,915	-	29,915		
-	-	-	(2,955)	-	-	-		
4,204	-	-	(4,204)	-	-	-		
4,204	-	-	(7,159)	-	-	-		
-	-	-	(14,250)	(14,250)	-	(14,250)		
-	-	-	(14,250)	(14,250)	-	(14,250)		
44,541	416	-	25,960	242,948	-	242,948		
115,691	1,081	-	67,429	631,035	-	631,035		

## Statement of Cash Flows

For the year ended 31 December 2017

2016 US\$ '000	2017 US\$ '000		Note	2017 RO '000	2016 RO '000
		<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
87,347	<b>81,554</b>	Profit for the year before taxation		<b>31,398</b>	33,628
		Adjustments for:			
3,360	<b>3,449</b>	Depreciation	9	<b>1,328</b>	1,294
395	<b>9,275</b>	Loans and financing impairment, net of recoveries	7	<b>3,571</b>	152
1,496	<b>1,478</b>	Impairment on available for sale investments		<b>569</b>	576
304	<b>296</b>	End of service benefits provision	15	<b>114</b>	117
-	<b>21</b>	Loss on sale of property and equipment	8	-	
(138)	<b>(1,439)</b>	Gain on sale of investments	25	<b>(554)</b>	(53)
92,764	<b>94,634</b>	<b>Operating profit before working capital changes</b>		<b>36,434</b>	35,714
(195)	<b>(436)</b>	End of service benefits paid	15	<b>(168)</b>	(75)
(10,925)	<b>(301,099)</b>	Increase in loans & advances and financing		<b>(115,923)</b>	(4,206)
(78,618)	<b>(126,577)</b>	Net investment in held for trading investments		<b>(48,732)</b>	(30,268)
13,734	<b>(1,488)</b>	(Increase) / Decrease in other assets		<b>(573)</b>	5,288
(77,430)	<b>467,078</b>	Increase / (Decrease) in customers' deposits		<b>179,825</b>	(29,811)
(5,826)	<b>9,314</b>	Increase / (Decrease) in other liabilities		<b>3,586</b>	(2,243)
(66,496)	<b>141,426</b>	<b>Cash from / (used in) operations</b>		<b>54,449</b>	(25,601)
(7,361)	<b>(10,459)</b>	Tax paid		<b>(4,026)</b>	(2,834)
(73,857)	<b>130,967</b>	<b>Net cash from / (used in) operating activities</b>		<b>50,423</b>	(28,435)
		<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(14,158)	<b>(59,010)</b>	Increase in investment, net (excluding held for trading investments)		<b>(22,719)</b>	(5,451)
(1,481)	<b>(3,010)</b>	Purchase of property and equipment	9	<b>(1,159)</b>	(570)
(15,639)	<b>(62,020)</b>	<b>Net cash used in investing activities</b>		<b>(23,878)</b>	(6,021)
		<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
5,000	<b>20,000</b>	Increase in borrowed funds	14	<b>7,700</b>	1,925
-	<b>(103,896)</b>	Repayment of subordinated debt	16	<b>(40,000)</b>	-
(37,013)	<b>(37,013)</b>	Dividends paid	19	<b>(14,250)</b>	(14,250)
-	<b>129,870</b>	Proceeds from Tier 1 perpetual subordinated bond		<b>50,000</b>	-
(32,013)	<b>8,961</b>	<b>Net cash from / (used in) financing activities</b>		<b>3,450</b>	(12,325)
(121,509)	<b>77,908</b>	<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>29,995</b>	(46,781)
261,281	<b>139,772</b>	Cash and cash equivalents at 1 January		<b>53,812</b>	100,593
139,772	<b>217,680</b>	<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer following page)</b>		<b>83,807</b>	53,812

## Statement of Cash Flows (continued)

For the year ended 31 December 2017

2016 US\$ '000	2017 US\$ '000		Note	2017 RO '000	2016 RO '000
		<b>CASH AND CASH EQUIVALENTS COMPRISE OF THE FOLLOWING</b>			
363,164	<b>301,566</b>	Cash and balances with Central Bank of Oman	5	<b>116,103</b>	139,818
79,927	<b>43,036</b>	Due from banks	6	<b>16,569</b>	30,772
200,000	<b>120,000</b>	Treasury bills with three months maturity	8	<b>46,200</b>	77,000
(503,319)	<b>(246,922)</b>	Due to banks		<b>(95,065)</b>	(193,778)
139,772	<b>217,680</b>	Cash and cash equivalents		<b>83,807</b>	53,812
		<b>RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES</b>			
		Borrowed funds			
125,000	<b>130,000</b>	Balance at beginning of the year		<b>50,050</b>	48,125
5,000	<b>20,000</b>	Borrowed during the year		<b>7,700</b>	1,925
-	-	Repayments		-	-
130,000	<b>150,000</b>	Balance at end of the year	14	<b>57,750</b>	50,050
		Subordinated liabilities			
168,831	<b>168,831</b>	Balance at beginning of the year		<b>65,000</b>	65,000
-	-	Additions		-	-
-	<b>(103,896)</b>	Repayments		<b>(40,000)</b>	-
168,831	<b>64,935</b>	Balance at end of the year	16	<b>25,000</b>	65,000

The notes and other explanatory information form an integral part of these financial statements.  
Report of the independent Auditors - page 70.

# Notes to the Financial Statements

For the year ended 31 December 2017

## 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 with thirteen conventional and seven Islamic branches. (2016- 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 542 employees as at 31 December 2017 compared to 538 as at 31 December 2016.

## 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 of this bank 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 2017 and relevant for the Bank's operations

"For the year ended 31 December 2017, 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 2017."

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 (continued)

For the year ended 31 December 2017

### 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 2017:

IFRS 16, Leases: effective for annual periods commencing 1 January 2019.

IFRS 16 'Leases', replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, leases were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now required lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. It included an optional exemption for certain short term leases and leases of low value assets. However, this exemption can only be applied by lessees.

The bank is in the process of assessing the potential impact of this standard and related amendments & improvements.

The following standards are expected to have an impact on the bank's financial statements in the period of initial application from January 1, 2018.

#### A. IFRS9 - Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments ("IFRS 9") which addresses impairment, classification & measurement and hedge accounting. As per IASB directive, IFRS 9 is effective for accounting periods beginning from January 1, 2018.

##### i. Governance and project management

The Bank has applied many components of its existing governance framework to ensure that appropriate validations and controls will be in place over new key processes and significant areas of judgment. Adoption of IFRS 9 in 2018 has resulted in revisions to procedures, changes and amendments to internal control documents, applicable credit risk manuals, development of new risk models and associated methodologies and new processes within risk management.

##### ii. Classification and Measurement

The classification and measurement is based on the business model for managing the financial asset and contractual cash flow characteristics associated with it.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair value through other comprehensive income(FVOCI) and Fair value through profit and loss(FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity and available for sale. Generally, debt instruments will be measured at FVTPL unless certain conditions are met that permit FVOCI or amortised cost. Debt instruments that are held with the objective of holding assets in order to collect contractual cash flows are measured at amortised cost. Similarly, debt instruments that are held with the objective of both collecting contractual cash flows and selling financial assets should be measured at FVOCI.

IFRS 9 requires all equity investments should be measured at fair value and changes to be recognised in profit or loss. However, for equity investments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments as FVOCI, with all subsequent changes in fair value being recognised in FVOCI.

IFRS 9 largely retains the existing requirements in IAS 39 for classification of financial liabilities with those instruments held for trading being measured at fair value through profit or loss and others at amortised cost. However, in a key change for those financial liabilities designated as at fair value through profit or loss, IFRS 9 introduces a requirement for most changes in fair value related to an entity's own credit risk to be recorded in other comprehensive income and not in profit or loss.

##### iii. Hedging

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management objectives and strategy with more qualitative approach to assess hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

The bank has entered into interest rate swaps to hedge the variability in cash flows arising from changes in interest rates relating to investments. The types of hedge accounting relationships that the bank currently designates meet the requirements of IFRS 9 and are aligned with bank's risk management strategy and objective.

Based on our assessment, there is no impact from the adoption of new standard on hedge accounting.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 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 (continued)

##### iv. Impairment

IFRS 9 introduces a new expected credit loss (ECL) impairment model for all financial assets and certain off balance sheet commitments and guarantees. The new ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the current approach where the allowance recorded on performing loans is designed to capture only losses that have been incurred whether or not they have been specifically identified. ECL will reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forecasts.

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioral credit models. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

IFRS 9 Impairment model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity.

Stage 2: When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset.

Stage 3: Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

##### Assessment of Significant Increase in Credit Risk

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and the recognition of lifetime expected losses on loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account of many different macro economic factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain criteria such as 30 day past due and watch list status. The assessment of a significant increase in credit risk will require experienced credit judgement.

##### Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. The Bank will use three scenarios that will be probability weighted to determine ECL.

The Bank's ECL allowance methodology, requires the Bank to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

##### Expected Life

When measuring ECL, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms considered in determination of the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

##### Definition of Default and Write-off

Under IFRS 9, the Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

Any loan which is 90 days past due are considered as default. The policy on the write-off of loans remains unchanged.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 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 (continued)

##### iv. Impairment (continued)

###### Transition impact

The Bank will record an adjustment to its opening 1 January, 2018 retained earnings, to reflect the application of the new requirements of Impairment at the adoption date and will not restate comparative periods.

The Bank estimates the IFRS 9 transition amount will reduce shareholders' equity by approximately RO 5.461 million (equivalent to US\$ 14.184 million) and the Tier 1 capital ratio by approximately 414 basis points as at 1 January, 2018. The estimated impact relates primarily to the implementation of the ECL requirements and classification and measurement of assets.

##### B. IFRS 15- Revenue

In May 2014, the IASB issued IFRS 15 Revenue from contracts with customers ("IFRS 15"), which replaces the existing standards for revenue recognition. The new standard establishes a framework for recognition and measurement of revenues generated from contracts with customers, providing a principle based approach for revenue recognition and the introducing the concept of recognising revenue for performance obligations as they are satisfied. Under the new standard revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. The standard introduces a new five step model to recognize revenue as performance obligations in a contract are satisfied. On 12 April, 2016, the IASB issued amendments to IFRS 15 Revenue from Contracts with Customers. The amendments provide additional clarification on the identification of a performance obligation in a contract, determining the principal and agent in an agreement, and determining whether licensing revenues should be recognized at a point in time or over a specific period. The amendments also provide additional practical expedients that can be used on transition to the standard.

The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, and as such will impact the businesses that earn fee and commission revenue. The standard does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Bank's revenue, including interest income, interest expense, trading revenue and securities gains which are covered under IFRS 9 Financial Instruments.

The areas of focus for the Bank's assessment of impact are fees and commission income. The Bank has been working to identify and review the customer contracts within the scope of the new standard. While the assessment is not complete, the timing of the Bank's revenue recognition of fees and commissions within the scope of this standard is not expected to materially change. The classification of certain contract costs (whether presented gross or offset against non-interest income) continues to be evaluated and the final interpretation may impact the presentation of certain contract costs. The Bank is also evaluating the additional disclosures that may be relevant and required.

### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### 3.3 Financial assets and 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 'impairment for credit losses'. 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Financial assets and liabilities (continued)

##### 3.3.1 Classification (continued)

###### (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.

##### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Financial assets and liabilities (continued)

##### 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.

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Please refer to note 30 for fair value hierarchy valuation techniques.

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

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

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

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

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

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

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.6 Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date at predetermined price are recognised in the statement of financial position and are measured in accordance with accounting policies for financial assets. The counterparty liability for amounts received under these agreements is included in 'due to banks'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement using the effective interest rate method.

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

#### 3.7 Due from banks

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

#### 3.8 Borrowed funds

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

#### 3.9 Deposits and subordinated liabilities

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

#### 3.10 Capitalisation of interest

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

#### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### 3.24 Perpetual Subordinated Bond

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

### 4 CRITICAL ACCOUNTING ESTIMATES AND 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

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
18,587	<b>18,275</b>	Cash	<b>7,036</b>	7,156
1,299	<b>1,299</b>	Capital deposit with Central Bank of Oman	<b>500</b>	500
65	<b>65</b>	ATM deposit with Central Bank of Oman	<b>25</b>	25
344,577	<b>283,291</b>	Clearing account and placement with Central Bank of Oman	<b>109,067</b>	132,662
<u>364,528</u>	<u><b>302,930</b></u>		<u><b>116,628</b></u>	<u>140,343</u>

The Capital and ATM deposits with the Central Bank of Oman are mandatory deposits and cannot be withdrawn without its approval and accordingly are not available for use in day to day operations of the Bank. Clearing account and placement with Central Bank of Oman includes a cash reserve balance of 5% on customer deposits maintained in accordance with CBO regulations.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 6 DUE FROM BANKS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
61,000	<b>20,000</b>	Placements	<b>7,700</b>	23,485
18,927	<b>23,036</b>	Nostro account balances	<b>8,869</b>	7,287
79,927	<b>43,036</b>		<b>16,569</b>	30,772

### 7 LOANS & ADVANCES AND FINANCING, NET

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Conventional Banking</b>		
2,071,570	<b>2,325,631</b>	Corporate lending	<b>895,368</b>	797,554
1,349,450	<b>1,332,883</b>	Retail lending	<b>513,160</b>	519,538
3,421,020	<b>3,658,514</b>	Loans & advances, gross	<b>1,408,528</b>	1,317,092
		<b>Islamic Banking</b>		
264,935	<b>326,764</b>	Corporate financing	<b>125,804</b>	102,000
327,205	<b>322,662</b>	Retail financing	<b>124,225</b>	125,974
592,140	<b>649,426</b>	Financing, gross	<b>250,029</b>	227,974
4,013,160	<b>4,307,940</b>	<b>Loans &amp; advances and financing, gross</b>	<b>1,658,557</b>	1,545,066
(33,387)	<b>(35,758)</b>	Loan and financing impairment on portfolio basis	<b>(13,767)</b>	(12,854)
(26,249)	<b>(26,837)</b>	"Loan and financing impairment on specific basis (including reserve interest and profit)	<b>(10,332)</b>	(10,106)
3,953,524	<b>4,245,345</b>		<b>1,634,458</b>	1,522,106

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

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
1,676,655	<b>1,655,545</b>	Personal loans	<b>637,385</b>	645,512
759,112	<b>887,766</b>	Construction	<b>341,790</b>	292,258
403,987	<b>363,151</b>	Wholesale and retail trade	<b>139,813</b>	155,535
184,810	<b>287,691</b>	Services	<b>110,761</b>	71,152
212,057	<b>247,065</b>	Manufacturing	<b>95,120</b>	81,642
170,187	<b>224,499</b>	Mining and quarrying	<b>86,432</b>	65,522
115,990	<b>199,195</b>	Transport and communication	<b>76,690</b>	44,656
206,361	<b>144,408</b>	Financial institutions	<b>55,597</b>	79,449
97,127	<b>123,325</b>	Electricity, gas and water	<b>47,480</b>	37,394
90,356	<b>70,483</b>	Non-resident lending	<b>27,136</b>	34,787
96,518	<b>104,812</b>	Other	<b>40,353</b>	37,159
4,013,160	<b>4,307,940</b>		<b>1,658,557</b>	1,545,066

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 7 LOANS & ADVANCES AND FINANCING, NET (continued)

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

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
<b>Impairment provision on portfolio basis</b>				
34,127	<b>33,387</b>	Balance at beginning of the year	<b>12,854</b>	13,139
(740)	<b>2,371</b>	Provided / (Reversal) during the year	<b>913</b>	(285)
<u>33,387</u>	<u><b>35,758</b></u>	Balance at the end of the year	<u><b>13,767</b></u>	<u>12,854</u>
<b>Impairment provision on specific basis</b>				
<i>Impairment provision</i>				
21,461	<b>22,057</b>	Balance at beginning of the year	<b>8,491</b>	8,262
8,351	<b>14,273</b>	Provided during the year	<b>5,495</b>	3,215
(7,236)	<b>(7,275)</b>	Recoveries during the year	<b>(2,801)</b>	(2,786)
(519)	<b>(5,228)</b>	Write offs during the year	<b>(2,013)</b>	(200)
<u>22,057</u>	<u><b>23,827</b></u>	Balance at the end of the year	<u><b>9,172</b></u>	<u>8,491</u>
<b>Reserve interest and profit</b>				
3,146	<b>4,192</b>	Balance at beginning of the year	<b>1,615</b>	1,212
2,132	<b>2,407</b>	Reserved during the year	<b>927</b>	821
(917)	<b>(2,171)</b>	Released during the year	<b>(836)</b>	(353)
(169)	<b>(1,418)</b>	Write offs during the year	<b>(546)</b>	(65)
4,192	<b>3,010</b>	Balance at the end of the year	<b>1,160</b>	1,615
<u>26,249</u>	<u><b>26,837</b></u>		<u><b>10,332</b></u>	<u>10,106</u>

During the year, an amount of RO 0.036 million equivalent to US\$ 0.093 million (31 December 2016: RO 0.008 million equivalent to US\$ 0.020 million) of loans & advances and financing is directly recovered / written off in the statement of comprehensive income.

Total loan & financing impairment provision above includes impairment provision for off-balance sheet exposures as well. Interest and profit is reserved for all non-performing loans & advances and financing where recovery is considered doubtful. As at 31 December 2017, 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 19.318 million equivalent to US\$ 50.177 million (31 December 2016: RO 17.149 million equivalent to US\$ 44.543 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 2017 amounts to RO 9.148 million equivalent to US\$ 23.761 million (31 December 2016: RO 6.924 million equivalent to US\$ 17.985 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. Similarly based on the requirements of the CBO's circular referenced BM 977, the bank is required to create a provision on certain loans appropriated to a special reserve account. Accordingly, the bank set aside an amount of RO 0.228 million equivalent to US\$ 0.591 million as a non distributable special reserve in its statement of changes in equity in the current year.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 8 INVESTMENT SECURITIES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
221,306	<b>349,322</b>	Held for trading investments	<b>134,489</b>	85,203
237,506	<b>213,642</b>	Available for sale investments	<b>82,252</b>	91,440
458,812	<b>562,964</b>		<b>216,741</b>	176,643

#### a) Held for trading investments comprise:

	Carrying value 2017 RO '000	Cost 2017 RO '000	Carrying value 2016 RO '000	Cost 2016 RO '000
Government Development Bonds - Oman	123,316	123,316	75,203	75,203
Government Sukuks - Oman	11,173	11,173	10,000	10,000
	<b>134,489</b>	<b>134,489</b>	<b>85,203</b>	<b>85,203</b>

	Carrying value 2017 US\$ '000	Cost 2017 US\$ '000	Carrying value 2016 RO '000	Cost 2016 RO '000
Government Development Bonds - Oman	320,301	320,301	195,332	195,332
Government Sukuks - Oman	29,021	29,021	25,974	25,974
	<b>349,322</b>	<b>349,322</b>	<b>221,306</b>	<b>221,306</b>

#### b) Available for sale investments comprise:

	Carrying value 2017 RO '000	Cost 2017 RO '000	Carrying value 2016 RO '000	Cost 2016 RO '000
Government Bonds - Oman	12,782	13,170	7,464	7,698
Government Sukuks - Oman	1,647	1,638	-	-
Quoted securities	21,623	23,122	6,976	7,651
Treasury bills	46,200	46,200	77,000	77,000
	<b>82,252</b>	<b>84,130</b>	<b>91,440</b>	<b>92,349</b>
Impairment - quoted securities	-	(1,556)	-	(1,325)
	<b>82,252</b>	<b>82,574</b>	<b>91,440</b>	<b>91,024</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 8 INVESTMENT SECURITIES (continued)

#### b) Available for sale investments comprise: (continued)

	Carrying value 2017 US\$ '000	Cost 2017 US\$ '000	Carrying value 2016 RO '000	Cost 2016 RO '000
Government Bonds - Oman	33,200	34,208	19,387	19,995
Government Sukuks - Oman	4,278	4,255	-	-
Quoted securities	56,164	60,057	18,119	19,873
Treasury bills	120,000	120,000	200,000	200,000
	<b>213,642</b>	<b>218,520</b>	237,506	239,868
Impairment - quoted securities	-	(4,042)	-	(3,442)
	<b>213,642</b>	<b>214,478</b>	237,506	236,426

In the case of quoted equity securities classified as available for sale, a significant or prolonged decline in the value of security below its cost is also evidence that the assets are impaired. A decline in the value of security below its cost over thirty five percent is considered significant. Further, a decline in value of security below its cost for a continuous period of twelve months is considered prolonged.

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

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>A. Held for trading</b>		
		<b>Quoted Investments-Oman</b>		
195,332	320,301	Government	123,316	75,203
25,974	29,021	Government Sukuks	11,173	10,000
221,306	349,322	Total held for trading	134,489	85,203
		<b>B. Available for sale</b>		
		<b>Quoted Investments-Oman</b>		
4,060	3,673	Banking and investment sector	1,414	1,563
9,608	24,751	Service sector	9,529	3,699
19,387	39,639	Government	15,261	7,464
2,808	2,314	Manufacturing	891	1,081
		<b>Quoted Investments-Foreign</b>		
201,160	138,566	Banking and investment sector	53,348	77,447
304	1,182	Service sector	455	117
-	2,151	Government	828	-
8	956	Manufacturing	368	3
171	410	Construction	158	66
237,506	213,642	<b>Total available for sale</b>	82,252	91,440
458,812	562,964	<b>Total Investments</b>	216,741	176,643

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 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
<b>Cost:</b>								
At 1 January 2017	7,091	5,884	2,196	8,926	145	777	477	25,496
Additions	-	-	97	495	-	29	538	1,159
Transferred	-	-	-	549	-	-	(549)	-
Disposals / scrapped	-	-	(101)	(815)	-	(5)	-	(921)
At 31 December 2017	7,091	5,884	2,192	9,155	145	801	466	25,734
<b>Accumulated depreciation:</b>								
At 1 January 2017	-	726	1,640	5,659	120	471	-	8,616
Depreciation	-	235	238	773	13	69	-	1,328
Disposals / scrapped	-	-	(95)	(814)	-	(4)	-	(913)
At 31 December 2017	-	961	1,783	5,618	133	536	-	9,031
<b>Net book value as at 31 December 2017</b>								
RO '000	7,091	4,923	409	3,537	12	265	466	16,703
US\$ '000	18,418	12,787	1,061	9,186	31	688	1,211	43,384
<b>Cost:</b>								
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)	-
Disposals / scrapped	-	-	-	(4)	-	-	-	(4)
At 31 December 2016	7,091	5,884	2,196	8,926	145	777	477	25,496
<b>Accumulated depreciation:</b>								
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	-	726	1,640	5,659	120	471	-	8,616
<b>Net book value as at 31 December 2016</b>								
RO '000	7,091	5,158	556	3,267	25	306	477	16,880
US\$ '000	18,418	13,397	1,444	8,486	65	795	1,239	43,844

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 10 TAXATION

#### a) Recognised in the statement of comprehensive income

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Current tax</b>		
10,587	<b>11,743</b>	- Current year	<b>4,521</b>	4,076
-	-	- Prior years	-	-
-	<b>545</b>	Deferred tax	<b>210</b>	-
10,587	<b>12,288</b>		<b>4,731</b>	4,076

#### b) Tax liability

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Current tax</b>		
10,587	<b>11,743</b>	- Current year	<b>4,521</b>	4,076
803	<b>935</b>	- Prior years	<b>360</b>	309
11,390	<b>12,678</b>		<b>4,881</b>	4,385

Tax liability is included under Note 15- Other Liabilities.

#### c) Deferred tax (liability) / asset

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
(265)	<b>(265)</b>	At 1 January	<b>(102)</b>	(102)
-	<b>(545)</b>	Movement during the year	<b>(210)</b>	-
(265)	<b>(810)</b>	At 31 December	<b>(312)</b>	(102)

#### d) Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2017 in accordance with the income tax laws of the Sultanate of Oman at the rate of 15% (31 December 2016: 12% on taxable profits in excess of RO 30,000 equivalent to US \$ 78,000).

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
87,347	<b>81,554</b>	Accounting profit for the year	<b>31,398</b>	33,628
10,472	<b>12,233</b>	Tax charge @ 15% (2016-12%) on accounting profit	<b>4,710</b>	4,032
		<b>Add / (less) tax effects of:</b>		
(130)	<b>(342)</b>	Income not taxable	<b>(132)</b>	(50)
193	<b>236</b>	Non deductible expenses	<b>91</b>	74
73	<b>94</b>	Temporary difference arised due to accelerated depreciation	<b>36</b>	28
(21)	<b>67</b>	Others	<b>26</b>	(8)
10,587	<b>12,288</b>	Tax expense	<b>4,731</b>	4,076

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

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 11 OTHER ASSETS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
18,735	<b>22,252</b>	Acceptances	<b>8,567</b>	7,213
2,447	<b>2,745</b>	Prepayments	<b>1,057</b>	942
1,504	<b>3,977</b>	Interest and profit receivable	<b>1,531</b>	579
10,847	<b>6,047</b>	Others	<b>2,328</b>	4,176
<u>33,533</u>	<u><b>35,021</b></u>		<u><b>13,483</b></u>	<u>12,910</u>

### 12 DUE TO BANKS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
385,501	<b>211,782</b>	Inter-bank deposits	<b>81,536</b>	148,418
17,943	<b>2,156</b>	Vostro account balances	<b>830</b>	6,908
199,875	<b>132,984</b>	Borrowings under repurchase agreements	<b>51,199</b>	76,952
<u>603,319</u>	<u><b>346,922</b></u>		<u><b>133,565</b></u>	<u>232,278</u>

Borrowings from financial institutions under repurchase agreements are secured by collateralisation of US treasury bills and ICICI bonds. Market value of collateralized treasury bills/ ICICI bonds as of 31 December 2017 amounted to RO 57.858 million equivalent to US\$ 137.344 million (31 December 2016: RO 77 million equivalent to US\$ 200 million).

### 13 CUSTOMERS' DEPOSITS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Conventional Banking</b>		
1,956,192	<b>2,124,000</b>	Time deposits	<b>817,740</b>	753,134
712,810	<b>822,256</b>	Demand deposits	<b>316,569</b>	274,432
189,094	<b>243,216</b>	Savings deposits	<b>93,638</b>	72,801
<u>2,858,096</u>	<u><b>3,189,472</b></u>		<u><b>1,227,947</b></u>	<u>1,100,367</u>
		<b>Islamic Banking</b>		
274,171	<b>353,068</b>	Time deposits	<b>135,931</b>	105,556
112,605	<b>110,270</b>	Demand deposits	<b>42,454</b>	43,353
56,495	<b>115,634</b>	Savings deposits	<b>44,519</b>	21,750
<u>443,271</u>	<u><b>578,972</b></u>		<u><b>222,904</b></u>	<u>170,659</u>
<u>3,301,367</u>	<u><b>3,768,444</b></u>		<u><b>1,450,851</b></u>	<u>1,271,026</u>

### 14 BORROWED FUNDS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
130,000	<b>150,000</b>	Financial institutions	<b>57,750</b>	50,050

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 15 OTHER LIABILITIES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
18,735	<b>22,252</b>	Acceptances	<b>8,567</b>	7,213
39,384	<b>51,948</b>	Interest and profit payable	<b>20,000</b>	15,163
8,590	<b>9,460</b>	Accrued expenses	<b>3,642</b>	3,307
4,195	<b>2,554</b>	Staff related liabilities	<b>983</b>	1,615
11,390	<b>12,678</b>	Provision for tax	<b>4,881</b>	4,385
17,057	<b>10,919</b>	Others	<b>4,204</b>	6,567
<u>99,351</u>	<u><b>109,811</b></u>		<u><b>42,277</b></u>	<u>38,250</u>

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

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
787	<b>896</b>	At 1 January	<b>345</b>	303
304	<b>296</b>	Provided during the year	<b>114</b>	117
(195)	<b>(436)</b>	Payments made during the year	<b>(168)</b>	(75)
<u>896</u>	<u><b>756</b></u>	At 31 December	<u><b>291</b></u>	<u>345</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 22,938.342 was transferred to the "Investors' Trust Fund" (31 December 2016: RO 23,442.370).

### 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.

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
90,909	-	Subordinated bonds	-	35,000
77,922	<b>64,935</b>	Subordinated loans	<b>25,000</b>	30,000
<u>168,831</u>	<u><b>64,935</b></u>		<u><b>25,000</b></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. The bank exercised its call option in February 2017. 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. On repayment of subordinated liabilities, the related subordinated debt reserve balance is released to Retained earnings. The maturity profile and interest rate of these liabilities are disclosed in note 32.2.2 and 32.3.2.

### 17 SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares of 100 baizas each (31 December 2016: 2,500,000,000 shares of 100 baizas each) out of which 1,425,036,144 (31 December 2016: 1,425,036,144 shares) are issued and fully paid up. No bonus shares were issued during the year ended 31 December 2017 (31 December 2016: Nil).

Ahli United Bank BSC (AUB) is the only shareholder which owns 10% or more of the Bank's shares. On 31 December 2017 shareholding of AUB was 498,762,642 shares equivalent to 35% (31 December 2016: 498,762,642 shares equivalent to 35%).

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 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 2.667 million equivalent to US\$ 6.927 million (31 December 2016: RO 2.955 million equivalent to US\$ 7.675 million) was transferred to legal reserve.

### 19 DIVIDEND PAID AND PROPOSED

The Board of Directors has recommended 10% cash dividend and 5% stock dividend which is subject to approval of the shareholders at the Annual General Meeting and the regulatory authorities (31 December 2016: 10% cash dividend). The cash dividend proposed for 2016 was approved by the shareholders in annual general meeting and was paid in 2017.

### 20 TIER 1 PERPETUAL SUBORDINATED BONDS

In 2017, the bank has issued Basel III compliant Perpetual subordinated bonds- Additional Tier 1 capital instruments (the "Tier 1 Securities") amounting to RO 50 million.(USD 130 million).

They are redeemable by the bank at its sole discretion on 11 October 2022 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of Central Bank of Oman.

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

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

### 21 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.

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
631,035	<b>661,888</b>	Net assets	<b>254,827</b>	242,948
1,425,036	<b>1,425,036</b>	Issued and paid up shares (in 000's) at 31 December	<b>1,425,036</b>	1,425,036
44.3	<b>46.4</b>	Net asset value per share (cents /baizas)	<b>178.8</b>	170.5

### 22 CONTINGENT LIABILITIES AND COMMITMENTS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
397,818	<b>353,647</b>	Financial guarantees	<b>136,154</b>	153,160
60,205	<b>373,078</b>	Letters of credit	<b>143,635</b>	23,179
89,543	<b>68,548</b>	Loan commitments	<b>26,391</b>	34,474
6,395	<b>6,026</b>	Capital commitments	<b>2,320</b>	2,462
		<b>Lease commitments</b>		
405	<b>275</b>	- not later than one year	<b>106</b>	156
1,016	<b>1,513</b>	- more than one year and upto five years	<b>583</b>	391
555,382	<b>803,087</b>		<b>309,189</b>	213,822

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 23 INTEREST INCOME

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
168,847	<b>184,764</b>	Loans and advances	<b>71,134</b>	65,006
6,574	<b>14,265</b>	Investments	<b>5,492</b>	2,531
345	<b>1,023</b>	Due from banks	<b>394</b>	133
<u>175,766</u>	<u><b>200,052</b></u>		<u><b>77,020</b></u>	<u>67,670</u>

### 24 INTEREST EXPENSE

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
47,491	<b>64,951</b>	Time deposits	<b>25,006</b>	18,284
11,262	<b>21,442</b>	Demand and saving deposits	<b>8,255</b>	4,336
10,823	<b>7,932</b>	Borrowings	<b>3,054</b>	4,167
8,275	<b>6,997</b>	Inter-bank deposits	<b>2,694</b>	3,186
<u>77,851</u>	<u><b>101,322</b></u>		<u><b>39,009</b></u>	<u>29,973</u>

### 25 OTHER OPERATING INCOME

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
17,943	<b>20,452</b>	Fees and commission, net	<b>7,874</b>	6,908
138	<b>1,439</b>	Gain on sale of investments	<b>554</b>	53
3,774	<b>4,179</b>	Foreign exchange gain, net	<b>1,609</b>	1,453
919	<b>839</b>	Dividend income	<b>323</b>	354
187	-	Others	-	72
<u>22,961</u>	<u><b>26,909</b></u>		<u><b>10,360</b></u>	<u>8,840</u>

The fee and commission income shown above is net of fees and commission paid of RO 1.471 million equivalent to US\$ 3.821 million (31 December 2016: RO 0.756 million equivalent to US\$ 1.964 million).

### 26 STAFF EXPENSES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
27,912	<b>29,405</b>	Salaries and allowances	<b>11,321</b>	10,746
1,361	<b>1,421</b>	Other staff costs	<b>547</b>	524
2,008	<b>2,288</b>	Contribution to social insurance schemes	<b>881</b>	773
303	<b>296</b>	Employees end of service benefits	<b>114</b>	117
<u>31,584</u>	<u><b>33,410</b></u>		<u><b>12,863</b></u>	<u>12,160</u>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 27 OTHER OPERATING EXPENSES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
11,173	<b>9,777</b>	Operating and administration costs	<b>3,764</b>	4,302
3,273	<b>3,288</b>	Occupancy costs	<b>1,266</b>	1,260
520	<b>519</b>	Board related expenses	<b>200</b>	200
14,966	<b>13,584</b>		<b>5,230</b>	5,762

### 28 BASIC AND DILUTED EARNINGS PER SHARE

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
76,760	<b>69,266</b>	Profit for the year	<b>26,667</b>	29,552
1,425,036	<b>1,425,036</b>	Weighted average number of outstanding shares during the year (in 000's)	<b>1,425,036</b>	1,425,036
5.4	<b>4.9</b>	Earnings per share (cents /baizas)	<b>18.7</b>	20.7

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.

### 29 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with major shareholders, directors, senior management and their related entities in the ordinary course of business at mutually agreed terms and conditions.

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

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Directors and senior management</b>		
1,958	<b>1,468</b>	Loans & advances and financing, net	<b>565</b>	754
3,104	<b>2,288</b>	Customers' deposits	<b>881</b>	1,195
174	<b>75</b>	Prepaid expenses	<b>29</b>	67
		<b>Major shareholders and others</b>		
1,727	<b>2,153</b>	Due from banks	<b>829</b>	665
1,234	<b>1,216</b>	Investments securities	<b>468</b>	475
		Other assets		
-	<b>174</b>	- Fair value of forward contracts	<b>67</b>	-
160,860	<b>100,816</b>	Due to banks	<b>38,814</b>	61,931
94	<b>23</b>	Customers' deposits	<b>9</b>	36
		Other liabilities		
91	-	- Fair value of foreign exchange forward contracts	-	35
-	-	- Fair value of swaps	-	-
2,213	-	- Accrued expenses	-	852
57,127	<b>39,068</b>	Contingent liabilities and commitments	<b>15,041</b>	21,994

The related maturity profile and interest rate risk is given in note 32.2.2 and 32.3.2 respectively.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 29 RELATED PARTY TRANSACTIONS (continued)

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

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Directors and senior management</b>		
52	<b>62</b>	Interest income	<b>24</b>	20
44	<b>47</b>	Interest expense	<b>18</b>	17
418	<b>421</b>	Board remuneration proposed	<b>162</b>	161
101	<b>99</b>	Board sitting fees	<b>38</b>	39
94	<b>94</b>	Shariah Supervisory Board expenses	<b>36</b>	36
122	<b>122</b>	Other operating expenses	<b>47</b>	47
		<b>Major shareholders and others</b>		
-	-	Interest income	-	-
2,818	<b>4,117</b>	Interest expense	<b>1,585</b>	1,085
5	<b>421</b>	Gain on fair value of interest rate swaps	<b>162</b>	2
148	<b>174</b>	Gain on foreign exchange forward contracts	<b>67</b>	57
2,930	<b>1,696</b>	Other operating expenses	<b>653</b>	1,128

Other Operating expenses includes management fee under a Technical and Management Support Agreement (TMSA) with a major shareholder. In accordance with the agreement, no management fees was included in other operating expenses during the year ended 31 December 2017 (31 December 2016: RO 0.764 million equivalent to US\$ 1.984 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 2016: RO 0.047 million equivalent to US\$ 0.123 million).

The Bank has a committed line of loans from one of the related parties of RO 57.7 million equivalent to US\$ 149.870 million (31 December 2016: RO 38.5 million equivalent to US\$ 100 million).

Compensation of the key management personnel is as follows:

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
2,938	<b>2,787</b>	Salaries and allowances	<b>1,073</b>	1,131
94	<b>86</b>	End of service benefits	<b>33</b>	36
3,032	<b>2,873</b>		<b>1,106</b>	1,167

### 30 ESTIMATION OF FAIR VALUES

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

#### Loans and advances

The fair value of loans & advances and financings receivables is estimated at the present value of future cash flows, discounted at the market value of interest at the reporting date. These financial assets falls under Level 2 category of fair value hierarchy levels.

#### Investments

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

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 30 ESTIMATION OF FAIR VALUES (continued)

#### Current account balances due to and due from banks

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

#### Other financial instruments

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

No fair value adjustment is made with respect to credit related off balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

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

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

	31 December 2017			31 December 2016		
	Level 1 RO '000	Level 2 RO '000	Total RO '000	Level 1 RO '000	Level 2 RO '000	Total RO '000
<b>Financial assets</b>						
Held for trading investments	-	134,489	134,489	-	85,203	85,203
Available for sale investments	36,052	46,200	82,252	14,440	77,000	91,440
<i>Derivative financial instruments</i>						
Interest rate swaps	-	218	218	-	-	-
Forward foreign exchange contracts	1,025	-	1,025	1,093	-	1,093
	<b>37,077</b>	<b>180,907</b>	<b>217,984</b>	<b>15,533</b>	<b>162,203</b>	<b>177,736</b>
<b>Financial liabilities</b>						
<i>Derivative financial instruments</i>						
Interest rate swaps	-	56	56	-	-	-
Forward foreign exchange contracts	836	-	836	1,274	-	1,274
	<b>836</b>	<b>56</b>	<b>892</b>	<b>1,274</b>	<b>-</b>	<b>1,274</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 30 ESTIMATION OF FAIR VALUES (continued)

#### Other financial instruments (continued)

	31 December 2017			31 December 2016		
	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000
<b>Financial assets</b>						
Held for trading investments	-	349,322	349,322	-	221,306	221,306
Available for sale investments	93,642	120,000	213,642	37,506	200,000	237,506
<i>Derivative financial instruments</i>						
Interest rate swaps	-	566	566	-	-	-
Forward foreign exchange contracts	2,662	-	2,662	2,839	-	2,839
	<b>96,304</b>	<b>469,888</b>	<b>566,192</b>	<b>40,345</b>	<b>421,306</b>	<b>461,651</b>
<b>Financial liabilities</b>						
<i>Derivative financial instruments</i>						
Interest rate swaps	-	145	145	-	-	-
Forward foreign exchange contracts	2,171	-	2,171	3,309	-	3,309
	<b>2,171</b>	<b>145</b>	<b>2,316</b>	<b>3,309</b>	<b>-</b>	<b>3,309</b>

No financial instruments are carried at level 3 fair value as on 31 December 2017 (31 December 2016: nil)

There are no transfers between levels of fair value measurement hierarchy during the years 2017 and 2016.

### 31 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 31 DERIVATIVES (continued)

#### Derivatives held for risk management purposes (continued)

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.

At 31 December 2017	Nominal cash flows by term to maturity					
	Assets RO '000	Liabilities RO '000	Nominal cash flows RO '000	Within 3 months RO '000	3 to 12 months RO '000	Over 1 year RO '000
<b>Derivatives for hedging:</b>						
Interest rate swaps	218	56	162	(9)	(37)	208
<b>Derivatives:</b>						
Forward purchase contracts	-	836	574,538	135,355	439,183	-
Forward sales contracts	1,025	-	591,000	180,869	410,131	-
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
<b>Derivatives for hedging:</b>						
Interest rate swaps	566	145	421	(23)	(96)	540
<b>Derivatives:</b>						
Forward purchase contracts	-	2,171	1,492,306	351,571	1,140,735	-
Forward sales contracts	2,662	-	1,535,065	469,790	1,065,275	-
At 31 December 2016	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
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

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

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 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.

#### 32.1 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).

##### 32.1.1 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 (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.1 Credit Risk (continued)

##### 32.1.1 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 broad 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.

##### 32.1.2 Exposure to credit risk

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

	2017			2016		
	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000
<b>At 31 December 2017</b>						
<b>Carrying amount</b>	<b>1,658,557</b>	<b>16,569</b>	<b>216,741</b>	1,545,066	30,772	176,643
<b>Past due but not impaired</b>						
1-30 days	169,911	-	-	163,440	-	-
31-60 days	17,004	-	-	18,519	-	-
61-89 days	7,634	-	-	3,856	-	-
	<b>194,549</b>	-	-	185,815	-	-
Past due and impaired	17,105	-	-	14,760	-	-
Not past due but impaired	2,213	-	-	2,389	-	-
Neither past due nor impaired	<b>1,444,690</b>	<b>16,569</b>	<b>216,741</b>	1,342,102	30,772	176,643

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.1 Credit Risk (continued)

##### 32.1.2 Exposure to credit risk (continued)

At 31 December 2017	2017			2016		
	Loans & advances and financing, gross US\$ '000	Due from banks US\$ '000	Investment securities US\$ '000	Loans & advances and financing, gross US\$ '000	Due from banks US\$ '000	Investment securities US\$ '000
<b>Carrying amount</b>	<b>4,307,940</b>	<b>43,036</b>	<b>562,964</b>	4,013,160	79,927	458,812
<b>Past due but not impaired</b>						
1-30 days	441,327	-	-	424,519	-	-
31-60 days	44,166	-	-	48,101	-	-
61-89 days	19,829	-	-	10,016	-	-
	<b>505,322</b>	<b>-</b>	<b>-</b>	<b>482,636</b>	<b>-</b>	<b>-</b>
Past due and impaired	44,429	-	-	38,338	-	-
Not past due but impaired	5,748	-	-	6,205	-	-
Neither past due nor impaired	<b>3,752,441</b>	<b>43,036</b>	<b>562,964</b>	<b>3,485,981</b>	<b>79,927</b>	<b>458,812</b>

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 2016 US\$ '000	Gross maximum exposure 2016 US\$ '000	Net maximum exposure 2017 US\$ '000	Gross maximum exposure 2017 US\$ '000		Gross maximum exposure 2017 RO '000	Net maximum exposure 2016 RO '000	Gross maximum exposure 2016 RO '000	Net maximum exposure 2016 RO '000
345,941	345,941	284,655	284,655	Balances with Central Bank of Oman	109,592	109,592	133,187	133,187
79,927	79,927	43,036	43,036	Due from banks	16,569	16,569	30,772	30,772
2,476,516	4,013,160	3,178,031	4,307,940	Loans & advances and financing	1,658,557	1,223,542	1,545,066	1,032,308
458,812	458,812	562,964	562,964	Investment securities	216,741	216,741	176,643	176,643
-	-	566	566	Derivative financial instruments	218	218	-	-
3,361,196	4,897,840	4,069,252	5,199,161		2,001,677	1,566,662	1,885,668	1,372,910
97,358	97,359	76,364	76,362	Commitments	29,400	29,400	37,483	37,483
502,877	458,023	413,740	726,725	Contingent liabilities	279,789	159,290	176,339	166,399
600,235	555,382	490,104	803,087		309,189	188,690	213,822	203,882
3,961,431	5,453,222	4,559,356	6,002,248	Total credit risk exposure	2,310,866	1,755,352	2,099,490	1,576,792

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 (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.1 Credit Risk (continued)

##### 32.1.3 Credit rating analysis

Total 2017 US\$ '000	Non Performing grade 2017 US\$ '000	Special mention grade 2017 US\$ '000	Standard grade 2017 US\$ '000	High Standard grade 2017 US\$ '000		High Standard grade 2017 RO '000	Standard grade 2017 RO '000	Special mention grade 2017 RO '000	Non Performing grade 2017 RO '000	Total 2017 RO '000
284,655	-	-	-	284,655	Balances with Central Bank of Oman	109,592	-	-	-	109,592
19,616	-	-	42	19,574	Due from banks	7,536	16	-	-	7,552
2,652,412	19,549	285,255	699,270	1,648,338	Loans & advances and financing:	634,610	269,219	109,823	7,527	1,021,179
1,655,528	30,626	13,442	1,610,247	1,213	- Corporate lending	467	619,945	5,175	11,791	637,378
349,322	-	-	-	349,322	- Retail lending	134,489	-	-	-	134,489
213,642	-	-	4,187	209,455	Investment securities:	80,640	1,612	-	-	82,252
					- Held for trading investments					
					- Available for sale investments					
Total 2016 US\$ '000	Non Performing grade 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	Non Performing 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
2,341,123	17,018	21,033	477,553	1,825,519	Loans & advances and financing:	702,825	183,858	8,098	6,551	901,332
1,672,037	27,528	9,777	1,634,335	397	- Corporate lending	153	629,219	3,764	10,598	643,734
221,306	-	-	-	221,306	- Retail lending	85,203	-	-	-	85,203
221,057	-	-	-	221,057	Investment securities:	85,107	-	-	-	85,107
					- Held for trading investments					
					- Available for sale investments					

At 31 December 2017 investments securities classified as available for sale amounting to RO Nil (31 December 2016: RO 6.333 million equivalent to US\$ 16.449 million) and due from banks amounting to RO 9.017 million equivalent to US\$ 23.420 million (31 December 2016: RO 10.802 million equivalent to US\$ 28.057 million) are unrated and are not included in the investments and due from banks as disclosed in the notes above.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.1 Credit Risk (continued)

##### 32.1.3 Credit rating analysis (continued)

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
Non performing	Risk rating above 7	Substandard, doubtful and loss

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

##### 32.1.4 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 the respective risk category and upgradation will be done based on CBO guidelines on restructured facilities. As at 31 December 2017 loans & advances and financing which has been restructured based on CBO circular amounted to RO 4.264 million equivalent to US\$ 11.043 million (31 December 2016 : RO 0.893 million equivalent to US\$ 2.319 million). Out of the total restructured loans, the loans and financing that falls under non performing loans amounted to RO 0.493 million (USD 1.282 million) and the remaining amount of RO 3.771 million ( USD 9.792 million) falls under special mention category.

###### **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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.1 Credit Risk (continued)

##### 32.1.4 Impaired loans & advances and financing (continued)

###### *Write off policy* (continued)

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

	2017		2016	
	Gross RO '000	Net RO '000	Gross RO '000	Net RO '000
Loans & advances and financing (refer note 32.1.2)	19,318	8,986	17,149	7,043
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Loans & advances and financing (refer note 32.1.2)	50,177	23,340	44,543	18,294

##### 32.1.5 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 32.1.2.

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 2017 towards loans & advances and financing not impaired amounted to RO 1,336.665 million equivalent to US\$ 3,471.858 million (31 December 2016: RO 1,003.560 million equivalent to US\$ 2,606.649 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.

##### 32.1.6 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.

##### 32.1.7 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 (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.1 Credit Risk (continued)

##### 32.1.7 Concentration Risk (continued)

	2017			2016		
	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000
<b>Concentration by industry</b>						
Corporate	1,021,172	-	20,613	899,554	-	6,813
Personal	637,385	-	-	645,512	-	-
Sovereign	-	-	195,946	-	-	169,667
Banks	-	16,569	182	-	30,772	163
<b>Concentration by location</b>						
Oman	1,631,421	-	162,413	1,510,279	-	99,010
Other GCC countries	13,717	10,180	1,450	19,587	26,688	633
United Kingdom	-	531	-	-	-	-
United States of America	-	5,448	46,200	-	3,362	77,000
Others	13,419	410	6,678	15,200	722	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Concentration by industry</b>						
Corporate	2,652,395	-	53,540	2,336,505	-	17,696
Personal	1,655,545	-	-	1,676,655	-	-
Sovereign	-	-	508,951	-	-	440,693
Banks	-	43,036	473	-	79,927	423
<b>Concentration by location</b>						
Oman	4,237,457	-	421,853	3,922,804	-	257,169
Other GCC countries	35,629	26,441	3,766	50,875	69,320	1,643
United Kingdom	-	1,379	-	-	-	-
United States of America	-	14,151	120,000	-	8,732	200,000
Others	34,854	1,065	17,345	39,481	1,875	-

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 33.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.2 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.

##### 32.2.1 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.

As at 31 December 2017, the bank's ten largest depositors accounted for 56% (31 December 2016: 61%) of its customer deposits with no single maturity representing more than 13% of the customers deposit base.(31 December 2016:12%)

##### 32.2.2 Exposure to liquidity risk

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

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

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2017 was 87.5% (31 December 2016: 87.5%).

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

	2017	2016
	Lending ratio	Lending ratio
Year end	<b>83.93%</b>	82.59%
Maximum for the year	<b>87.40%</b>	87.24%
Minimum for the year	<b>81.38%</b>	82.59%
Average for the year	<b>85.77%</b>	85.66%

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.2 Liquidity Risk (continued)

##### 32.2.2 Exposure to liquidity risk (continued)

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

At 31 December 2017	Upto three or on demand 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
<b>Assets</b>					
Cash and balances with Central Bank of Oman	116,103	-	-	525	116,628
Due from banks	16,569	-	-	-	16,569
Loans & advances and financing, net	257,625	120,045	362,893	893,895	1,634,458
Investment securities	141,658	44,846	11	30,226	216,741
Property and equipment	-	-	-	16,703	16,703
Other assets	13,483	-	-	-	13,483
<b>Total assets</b>	<b>545,438</b>	<b>164,891</b>	<b>362,904</b>	<b>941,349</b>	<b>2,014,582</b>
<b>Liabilities and equity</b>					
Due to banks	90,000	-	43,565	-	133,565
Customers' deposits	299,846	501,936	474,435	174,634	1,450,851
Borrowed funds	-	-	57,750	-	57,750
Taxation	312	-	-	-	312
Other liabilities	18,484	12,637	8,597	2,559	42,277
Subordinated liabilities	-	-	25,000	-	25,000
Shareholders' funds	-	-	-	304,827	304,827
<b>Total liabilities and equity</b>	<b>408,642</b>	<b>514,573</b>	<b>609,347</b>	<b>482,020</b>	<b>2,014,582</b>
<b>Net liquidity gap</b>	<b>136,796</b>	<b>(349,682)</b>	<b>(246,443)</b>	<b>459,329</b>	<b>-</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.2 Liquidity Risk (continued)

##### 32.2.2 Exposure to liquidity risk (continued)

At 31 December 2017	Upto three or on demand 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
<b>Assets</b>					
Cash and balances with Central Bank of Oman	301,566	-	-	1,364	302,930
Due from banks	43,036	-	-	-	43,036
Loans & advances and financing, net	669,156	311,805	942,579	2,321,805	4,245,345
Investment securities	367,943	116,483	29	78,509	562,964
Property and equipment	-	-	-	43,384	43,384
Other assets	35,021	-	-	-	35,021
<b>Total assets</b>	<b>1,416,722</b>	<b>428,288</b>	<b>942,608</b>	<b>2,445,062</b>	<b>5,232,680</b>
<b>Liabilities and equity</b>					
Due to banks	233,766	-	113,156	-	346,922
Customers' deposits	778,821	1,303,730	1,232,299	453,594	3,768,444
Borrowed funds	-	-	150,000	-	150,000
Taxation	810	-	-	-	810
Other liabilities	48,010	32,823	22,330	6,648	109,811
Subordinated liabilities	-	-	64,935	-	64,935
Shareholders' funds	-	-	-	791,758	791,758
<b>Total liabilities and equity</b>	<b>1,061,407</b>	<b>1,336,553</b>	<b>1,582,720</b>	<b>1,252,000</b>	<b>5,232,680</b>
<b>Net liquidity gap</b>	<b>355,315</b>	<b>(908,265)</b>	<b>(640,112)</b>	<b>1,193,062</b>	<b>-</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.2 Liquidity Risk (continued)

##### 32.2.2 Exposure to liquidity risk (continued)

At 31 December 2016	Upto three or on demand RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Total RO '000
Assets					
Cash and balances with Central Bank of Oman	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	-
At 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	-

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.2 Liquidity Risk (continued)

##### 32.2.3 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.

At 31 December 2017	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
Due to banks	90,166	-	45,489	-	135,655
Customers' deposits	300,942	511,106	516,037	200,156	1,528,241
Borrowed funds	-	-	62,558	-	62,558
Subordinated liabilities	-	-	27,598	-	27,598
<b>Total liabilities</b>	<b>391,108</b>	<b>511,106</b>	<b>651,682</b>	<b>200,156</b>	<b>1,754,052</b>
<b>Credit related commitments</b>	<b>18,252</b>	<b>8,139</b>	<b>-</b>	<b>-</b>	<b>26,391</b>

At 31 December 2017	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	234,196	-	118,153	-	352,349
Customers' deposits	781,666	1,327,547	1,340,357	519,886	3,969,456
Borrowed funds	-	-	162,487	-	162,487
Subordinated liabilities	-	-	71,682	-	71,682
<b>Total liabilities</b>	<b>1,015,862</b>	<b>1,327,547</b>	<b>1,692,679</b>	<b>519,886</b>	<b>4,555,974</b>
<b>Credit related commitments</b>	<b>47,408</b>	<b>21,140</b>	<b>-</b>	<b>-</b>	<b>68,548</b>

At 31 December 2016	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
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
<b>Total liabilities</b>	<b>410,647</b>	<b>559,225</b>	<b>437,509</b>	<b>271,724</b>	<b>1,679,105</b>
<b>Credit related commitments</b>	<b>24,100</b>	<b>10,374</b>	<b>-</b>	<b>-</b>	<b>34,474</b>

At 31 December 2016	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
<b>Total liabilities</b>	<b>1,066,617</b>	<b>1,452,531</b>	<b>1,136,386</b>	<b>705,778</b>	<b>4,361,312</b>
<b>Credit related commitments</b>	<b>62,597</b>	<b>26,945</b>	<b>-</b>	<b>-</b>	<b>89,542</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.3 Market Risk

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

##### 32.3.1 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.

##### 32.3.2 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 (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.3 Market Risk (continued)

##### 32.3.2 Exposure to interest rate risk (continued)

At 31 December 2017	Effective annual interest rate RO '000	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
<b>Assets</b>							
Cash and balances with Central Bank of Oman	1.00%	500	-	-	-	116,128	116,628
Due from banks	0.70%	16,569	-	-	-	-	16,569
Loans & advances and financing, net	5.26%	787,700	187,919	270,977	387,862	-	1,634,458
Investment securities	2.80%	46,200	17	45,457	119,267	5,800	216,741
Property and equipment		-	-	-	-	16,703	16,703
Other assets	0.25%	-	-	-	-	13,483	13,483
<b>Total assets</b>		<u>850,969</u>	<u>187,936</u>	<u>316,434</u>	<u>507,129</u>	<u>152,114</u>	<u>2,014,582</u>
<b>Liabilities and equity</b>							
Due to banks	1.47%	90,001	-	43,564	-	-	133,565
Customers' deposits	2.92%	342,028	441,891	493,739	-	173,193	1,450,851
Borrowed funds	2.77%	-	-	57,750	-	-	57,750
Taxation		-	-	-	-	312	312
Other liabilities		5,028	-	-	-	37,249	42,277
Subordinated liabilities	4.86%	-	-	-	-	25,000	25,000
Shareholders' funds		-	-	-	-	304,827	304,827
<b>Total liabilities and equity</b>		<u>437,057</u>	<u>441,891</u>	<u>595,053</u>	<u>-</u>	<u>540,581</u>	<u>2,014,582</u>
<b>Total interest rate sensitivity gap</b>		<u>413,912</u>	<u>(253,955)</u>	<u>(278,619)</u>	<u>507,129</u>	<u>(388,467)</u>	<u>-</u>
<b>Cumulative interest rate sensitivity gap</b>		<u>413,912</u>	<u>159,957</u>	<u>(118,662)</u>	<u>388,467</u>	<u>-</u>	<u>-</u>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.3 Market Risk (continued)

##### 32.3.2 Exposure to interest rate risk (continued)

At 31 December 2017	Effective annual interest rate US\$ '000	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
<b>Assets</b>							
Cash and balances with Central Bank of Oman	1.00%	1,299	-	-	-	301,631	302,930
Due from banks	0.70%	43,036	-	-	-	-	43,036
Loans & advances and financing, net	5.26%	2,045,974	488,101	703,836	1,007,434	-	4,245,345
Investment securities	2.80%	120,000	44	118,070	309,784	15,066	562,964
Property and equipment		-	-	-	-	43,384	43,384
Other assets	0.25%	-	-	-	-	35,021	35,021
<b>Total assets</b>		<u>2,210,309</u>	<u>488,145</u>	<u>821,906</u>	<u>1,317,218</u>	<u>395,102</u>	<u>5,232,680</u>
<b>Liabilities and equity</b>							
Due to banks	1.47%	233,769	-	113,153	-	-	346,922
Customers' deposits	2.92%	888,384	1,147,769	1,282,439	-	449,852	3,768,444
Borrowed funds	2.77%	-	-	150,000	-	-	150,000
Taxation		-	-	-	-	810	810
Other liabilities		13,060	-	-	-	96,751	109,811
Subordinated liabilities	4.86%	-	-	-	-	64,935	64,935
Shareholders' funds*		-	-	-	-	791,758	791,758
<b>Total liabilities and equity</b>		<u>1,135,213</u>	<u>1,147,769</u>	<u>1,545,592</u>	<u>-</u>	<u>1,404,106</u>	<u>5,232,680</u>
<b>Total interest rate sensitivity gap</b>		<u>1,075,096</u>	<u>(659,624)</u>	<u>(723,686)</u>	<u>1,317,218</u>	<u>(1,009,004)</u>	<u>-</u>
<b>Cumulative interest rate sensitivity gap</b>		<u>1,075,096</u>	<u>415,472</u>	<u>(308,214)</u>	<u>1,009,004</u>	<u>-</u>	<u>-</u>

\*- Shareholders funds includes RO 50 million equivalent to USD 129.870 million of Tier 1 Perpetual bonds. (Refer Note 20)

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.3 Market Risk (continued)

##### 32.3.2 Exposure to interest rate risk (continued)

At 31 December 2016	Effective annual interest rate RO '000	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
<i>Assets</i>							
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		-	-	-	-	12,910	12,910
<i>Total assets</i>		<u>852,170</u>	<u>109,624</u>	<u>305,145</u>	<u>456,122</u>	<u>176,593</u>	<u>1,899,654</u>
<i>Liabilities and equity</i>							
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	-	-	197	-	-	33,668	33,865
Subordinated liabilities	5.16%	-	-	-	-	65,000	65,000
Shareholders' funds		-	-	-	-	242,948	242,948
<i>Total liabilities and equity</i>		<u>390,548</u>	<u>505,463</u>	<u>456,497</u>	<u>-</u>	<u>547,146</u>	<u>1,899,654</u>
<i>Total interest rate sensitivity gap</i>		<u>461,622</u>	<u>(395,839)</u>	<u>(151,352)</u>	<u>456,122</u>	<u>(370,553)</u>	<u>-</u>
<i>Cumulative interest rate sensitivity gap</i>		<u>461,622</u>	<u>65,783</u>	<u>(85,569)</u>	<u>370,553</u>	<u>-</u>	<u>-</u>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.3 Market Risk (continued)

##### 32.3.2 Exposure to interest rate risk (continued)

At 31 December 2016	Effective annual interest rate US\$ '000	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
<i>Assets</i>							
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		-	-	-	-	33,533	33,533
<b>Total assets</b>		<b>2,213,430</b>	<b>284,738</b>	<b>792,585</b>	<b>1,184,731</b>	<b>458,684</b>	<b>4,934,168</b>
<i>Liabilities and equity</i>							
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		-	510	-	-	87,451	87,961
Subordinated liabilities	5.16%	-	-	-	-	168,831	168,831
Shareholders' funds		-	-	-	-	631,035	631,035
<b>Total liabilities and equity</b>		<b>1,014,411</b>	<b>1,312,889</b>	<b>1,185,706</b>	<b>-</b>	<b>1,421,162</b>	<b>4,934,168</b>
<b>Total interest rate sensitivity gap</b>		<b>1,199,019</b>	<b>(1,028,151)</b>	<b>(393,121)</b>	<b>1,184,731</b>	<b>(962,478)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>1,199,019</b>	<b>170,868</b>	<b>(222,253)</b>	<b>962,478</b>	<b>-</b>	<b>-</b>

##### 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:

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
8,530	<b>11,898</b>	<b>Impact of +200 bps interest rate increase</b>	<b>4,581</b>	3,284
(8,530)	<b>(11,898)</b>	<b>Impact of -200 bps interest rate decrease</b>	<b>(4,581)</b>	(3,284)

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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.3 Market Risk (continued)

##### 32.3.3 Exposure to Equity Price Risk

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

2016 US\$ '000	2017 US\$ '000	Security as per country	2017 RO '000	2016 RO '000
735	<b>486</b>	MSM - Oman +5% impact	<b>187</b>	283
(735)	<b>(486)</b>	MSM - Oman -5% impact	<b>(187)</b>	(283)
44	<b>151</b>	Other GCC countries +5% impact	<b>58</b>	17
(44)	<b>(151)</b>	Other GCC countries -5% impact	<b>(58)</b>	(17)

##### 32.3.4 Exposure to Currency risk

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

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

2016 US\$ '000	2017 US\$ '000	Security as per country	2017 RO '000	2016 RO '000
81,470	<b>161,249</b>	US Dollar	<b>62,081</b>	31,366
18	<b>153</b>	Euro	<b>59</b>	7
2,548	<b>764</b>	UAE Dirham	<b>294</b>	981
8	<b>65</b>	GBP Sterling	<b>25</b>	3
696	<b>1,704</b>	Others	<b>656</b>	268

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 2017 on net assets is considered negligible.

#### 32.4 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.4 Operational Risk (continued)

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

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

#### 32.5 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 32 FINANCIAL RISK MANAGEMENT (continued)

#### 32.5 Capital Management (continued)

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 13.250 % including capital conservation buffer of 1.250% (31 December 2016: 12.625% including capital conservation buffer of 0.625%). The capital adequacy ratio working is as follows:

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
575,065	<b>599,558</b>	Common Equity Tier 1 (CET1)	<b>230,830</b>	221,400
-	<b>129,870</b>	Additional Tier 1	<b>50,000</b>	-
575,065	<b>729,428</b>	Tier 1	<b>280,830</b>	221,400
104,405	<b>82,725</b>	Tier 2	<b>31,849</b>	40,196
679,470	<b>812,153</b>	<b>Total regulatory capital</b>	<b>312,679</b>	261,596
		<b>Risk weighted assets</b>		
4,059,956	<b>4,259,244</b>	Credit risk	<b>1,639,809</b>	1,563,083
209,010	<b>340,403</b>	Market risk	<b>131,055</b>	80,469
249,670	<b>263,751</b>	Operational risk	<b>101,544</b>	96,123
4,518,636	<b>4,863,398</b>	<b>Total risk weighted assets</b>	<b>1,872,408</b>	1,739,675
		<b>Capital adequacy ratio</b>		
12.73%	<b>12.33%</b>	CET1 capital expressed as a percentage of total risk-weighted assets	<b>12.33%</b>	12.73%
12.73%	<b>15.00%</b>	Total tier I capital expressed as a percentage of total risk-weighted assets	<b>15.00%</b>	12.73%
2.31%	<b>1.70%</b>	Tier II capital expressed as a percentage of total risk-weighted assets	<b>1.70%</b>	2.31%
15.04%	<b>16.70%</b>	Total regulatory capital expressed as a percentage of total risk-weighted assets	<b>16.70%</b>	15.04%

### 33 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. Geographical distribution of major assets are provided in note 32.1.7 and all liabilities are originated in Oman.

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

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 33 SEGMENT INFORMATION (continued)

Segment information is as follows:	2017			2016		
	Retail banking RO '000	Corporate banking, Treasury & Investment RO '000	Total RO '000	Retail banking RO '000	Corporate banking, Treasury & Investment RO '000	Total RO '000
Net interest income	13,043	24,968	38,011	15,492	22,205	37,697
<b>Net income from islamic financing and investments</b>	<b>2,037</b>	<b>4,551</b>	<b>6,588</b>	2,720	4,315	7,035
Net interest income and income from islamic financing and investments	15,080	29,519	44,599	18,212	26,520	44,732
Other operating income	609	9,751	10,360	1,257	7,583	8,840
<b>Net operating income</b>	<b>15,689</b>	<b>39,270</b>	<b>54,959</b>	19,469	34,103	53,572
Loans and financing impairment, net of recoveries	(1,972)	(1,599)	(3,571)	(601)	449	(152)
Impairment for investments	-	(569)	(569)	-	(576)	(576)
Operating expenses	(10,815)	(8,606)	(19,421)	(10,243)	(8,973)	(19,216)
<b>Profit before taxation</b>	<b>2,902</b>	<b>28,496</b>	<b>31,398</b>	8,625	25,003	33,628
Tax expense	(430)	(4,301)	(4,731)	(1,035)	(3,041)	(4,076)
<b>Segment profit for the year</b>	<b>2,472</b>	<b>24,195</b>	<b>26,667</b>	7,590	21,962	29,552
<b>Segment assets</b>	<b>627,349</b>	<b>1,387,233</b>	<b>2,014,582</b>	633,945	1,265,709	1,899,654
<b>Segment liabilities</b>	<b>221,629</b>	<b>1,488,126</b>	<b>1,709,755</b>	181,335	1,475,371	1,656,706
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net interest income	33,878	64,852	98,730	40,239	57,676	97,915
<b>Net income from islamic financing and investments</b>	<b>5,291</b>	<b>11,821</b>	<b>17,112</b>	7,065	11,207	18,272
<b>Net interest income and income from islamic financing and investments</b>	<b>39,169</b>	<b>76,673</b>	<b>115,842</b>	47,304	68,883	116,187
Other operating income	1,582	25,327	26,909	3,265	19,696	22,961
<b>Net operating income</b>	<b>40,751</b>	<b>102,000</b>	<b>142,751</b>	50,569	88,579	139,148
Loans and financing impairment, net of recoveries	(5,122)	(4,154)	(9,276)	(1,561)	1,166	(395)
Impairment for investments	-	(1,478)	(1,478)	-	(1,496)	(1,496)
Operating expenses	(28,091)	(22,352)	(50,443)	(26,605)	(23,305)	(49,910)
<b>Profit before taxation</b>	<b>7,538</b>	<b>74,016</b>	<b>81,554</b>	22,403	64,944	87,347
Tax expense	(1,117)	(11,171)	(12,288)	(2,688)	(7,899)	(10,587)
<b>Segment profit for the year</b>	<b>6,421</b>	<b>62,845</b>	<b>69,266</b>	19,715	57,045	76,760
<b>Segment assets</b>	<b>1,629,478</b>	<b>3,603,202</b>	<b>5,232,680</b>	1,646,610	3,287,558	4,934,168
<b>Segment liabilities</b>	<b>575,660</b>	<b>3,865,262</b>	<b>4,440,922</b>	471,000	3,832,133	4,303,133

### 34 COMPARATIVE FIGURES

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

# Al Hilal Islamic Banking Services

## Financial Statements

For the year ended 31 December 2017

## Shari'a Compliance Report of Shari'a Supervisory Board

In the name of Allah, The Beneficent, The Merciful  
**AL HILAL ISLAMIC BANKING SERVICES, AHLI BANK SAOG**

### SHARI'A SUPERVISORY BOARD REPORT

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 has reviewed the products and the contracts relating to the transactions which were made by the Bank during the period (01.01.2017 to 31.12-2017) ended 2017 to ensure that they comply with rules and principles of Islamic Shari'a and with the Fatawa issued by the Board.

The Bank's management is responsible for ensuring execution and implementation of resolutions of the Shari'a Supervisory Board and to inform the Shari'a Supervisory Board with regard to the operations and the developments, which require issuance of resolutions from the Shari'a Supervisory Board. The Shari'a Supervisory Board is responsible in monitoring implementation of the decisions from Shari'a perspective and to give its opinion based on the Shari'a audit reports of the Bank.

#### **In opinion of the Board:**

- The contracts, transactions and dealings entered into by the Bank during the year ended 2017 are in compliance with Shari'a rules and principles.
- The distribution of profit and charging of losses relating to investment accounts conform to the base that had been approved by the Shari'a Supervisory Board of the Bank in accordance with rules and principles of Islamic Shari'a.
- All earning that has been realized from sources or by means prohibited by rules and principles of Islamic Shari'a have been disposed of by the management of the Bank to charitable causes,
- The calculation of *Zakah* is in compliance with Shari'a rules and principles.

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

### SHARI'A SUPERVISORY BOARD



**Dr. Ahmed Mohiyeldin Ahmed**  
Chairman



**Dr. Mohammed Taher Al-Ibrahim**  
Member



**Dr. Mustain Ali Abdul Hameed**  
Member



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

## Resolutions Issued by SSB during Year 2017

SR.	SSB Meeting	Resolution No.	Subject
1	<b>SSB 17th Meeting on 13-April-2017</b>	2 (SSB-17-2017)	Review of following legal documents: <ul style="list-style-type: none"> <li>▪ Updated Version of Good Murabaha Financing Product's Legal Documents</li> <li>▪ Updated Version of Vehicles Murabaha Financing Product's Legal Documents</li> <li>▪ Updated Version of Real Estate Properties Murabaha Financing Product's Legal Documents</li> <li>▪ Updated Version of Ijara Ending with Transfer of Ownership Product's Legal Documents</li> </ul>
		3 (SSB-17-2017)	Query to return back wrongly collected charity amount to the customer (s)
		4 (SSB-17-2017)	Shari'a Audit Reports of 4th Quarter 2016 <ul style="list-style-type: none"> <li>▪ Shari'a Audit Report of Retail Banking</li> <li>▪ Shari'a Audit Report of SME</li> <li>▪ Shari'a Audit Report of Trade Finance</li> <li>▪ Shari'a Audit Report of Treasury</li> </ul>
		5 (SSB-17-2017)	Addition of Key Elements for Shari'a Review of Al Hilal Islamic Products
		6 (SSB-17-2017)	Addition of Professional Ethics and Conduct of Shari'a Supervisory Board
		2	<b>SSB 18th Meeting on 13-July-2017</b>
3 (SSB – 18– 2017)	Shari'a Audit Reports: <ol style="list-style-type: none"> <li>1- First Quarter 2017               <ul style="list-style-type: none"> <li>▪ Shari'a Audit Report of Corporate Banking</li> <li>▪ Shari'a Audit Report of Retail Banking</li> <li>▪ Shari'a Audit Report of SME</li> <li>▪ Shari'a Audit Report of Trade Finance</li> <li>▪ Shari'a Audit Report of Treasury</li> </ul> </li> <li>2- Corporate Banking Shari'a Audit Report for 4th Quarter 2016</li> </ol>		
4 (SSB – 18– 2017)	Amendment in Profit Sharing Ratio and Weightages		
5 (SSB – 18– 2017)	Amendments in Schedule of Charges		

## Resolutions Issued by SSB during Year 2017 (continued)

SR.	SSB Meeting	Resolution No.	Subject		
3	<b>SSB 19th Meeting on October 15, 2017</b>	2 (SSB – 19 – 2017)	Review and Approval of Tamani Global Development & Investment Co. LLC – TGDI- Palm Mall Legal Documents		
		3 (SSB – 19– 2017)	Risk Policies: <ul style="list-style-type: none"> <li>▪ Credit &amp; Investment Policy</li> <li>▪ Risk Management Approach and Framework</li> <li>▪ Liquidity &amp; Funding Policy</li> <li>▪ Trading Book Policy Statement</li> </ul>		
		4 (SSB – 19– 2017)	Status of Shari'a Audit Reports First Quarter 2017 <ul style="list-style-type: none"> <li>i- Shari'a Audit Report of Corporate Banking</li> <li>ii- Shari'a Audit Report of Retail Banking</li> <li>iii- Shari'a Audit Report of SME</li> <li>iv- Shari'a Audit Report of Trade Finance</li> <li>v- Shari'a Audit Report of Treasury</li> <li>vi- Corporate Banking Shari'a Audit Report for 4th Quarter 2016</li> </ul>		
		5 (SSB – 19– 2017)	Shari'a Audit Reports of Second Quarter 2017 <ul style="list-style-type: none"> <li>i- Shari'a Audit Report of Corporate Banking</li> <li>ii- Shari'a Audit Report of Retail Banking</li> <li>iii- Shari'a Audit Report of SME</li> <li>iv- Shari'a Audit Report of Trade Finance</li> <li>v- Shari'a Audit Report of Treasury</li> <li>vi- Al Hilal MENA Fund</li> </ul>		
		6 (SSB – 19– 2017)	Conventional Insurance of: <ul style="list-style-type: none"> <li>i- SME Leased Asset to Al Hakim National L.L.C-</li> <li>ii- Corporate Leased Asset M/s. Duqm Development Company</li> </ul>		
		7 (SSB – 19– 2017)	BusinessQUIRES Relating to: <ul style="list-style-type: none"> <li>i. Major Maintenance of Al Hilal Islamic Leased Assets</li> <li>ii. Purchase of Assets on Deferred Basis (Delivery of Asset from Supplier is Deferred) from Supplier and then after their Sale to the Customer on Murabaha Basis</li> <li>iii. Replacement of Leased Asset with another Asset</li> </ul>		
		4	<b>SSB 20 Meeting on December 11, 2017</b>	2 (SSB-20-2017)	Approval of Wakala Bil Istithmar Product Paper
				3 (SSB-20-2017)	Approval of Shari'a Audit Plan for Year 2018
4 (SSB-20-2017)	Approval of Shari'a Training Plan for Year 2018				
5 (SSB-20-2017)	Approval of Wallet Product Proposal				
6 (SSB-20-2017).	Status of SSB Opinions' Implementation in Sharia Audit Reports of 2nd Q. 2016 <ul style="list-style-type: none"> <li>▪ Shari'a Audit Report of Corporate Banking</li> <li>▪ Shari'a Audit Report of Retail Banking</li> </ul>				
7 (SSB-20-2017)	Shari'a Audit Reports of 3rd Quarter 2017 <ul style="list-style-type: none"> <li>i- Shari'a Audit Report of Corporate Banking</li> <li>ii- Shari'a Audit Report of SME</li> <li>iii- Shari'a Audit Report of Trade Finance</li> <li>iv- Shari'a Audit Report of Treasury</li> </ul>				
		8 (SSB-20-2017)	Review of Trade Finance Schedule of Charges		



KPMG  
 4th Floor, HSBC Bank Building  
 MBD  
 P.O. Box 641  
 P.C. 112  
 Sultanate of Oman  
 Tel +968 24709181  
 Fax +968 24700839

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AHLI BANK SAOG (THE BANK)**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Al Hilal Islamic Banking Services of Ahli Bank SAOG (Al Hilal), set out on pages 132 to 158 which comprise the statement of financial position as at 31 December 2017, income statement, statement of changes in owners' equity, statement of cash flows and statement of sources and uses of charity fund for the year ended 31 December 2017, and notes, comprising a summary of significant accounting policies and other explanatory information. These financial statements and Bank's undertaking to operate its Islamic Window in accordance with Shari'a rules and principles as determined by the Shari'a Supervisory Board of Al Hilal are the responsibility of 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 the 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 amount 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 statement 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 respect, the financial position of Al Hilal as at 31 December 2017 and of the results of its operations and its cash flows for the year then ended in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of Al Hilal and the Financial Accounting Standards ("FAS") issued by AAOIFI.

### **Other Matter**

The financial statements of Al Hilal as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on 27 February 2017.

**Paul Callaghan**  
 8 March 2018

## Statement of Financial Position

As at 31 December 2017

2016 US\$ '000	2017 US\$ '000		Note	2017 RO '000	2016 RO '000
		<b>ASSETS</b>			
76,964	<b>95,099</b>	Cash and balances with Central Bank of Oman	5	<b>36,613</b>	29,631
395	<b>5,901</b>	Due from banks	6	<b>2,272</b>	152
113,025	<b>121,886</b>	Murabaha receivables	7	<b>46,926</b>	43,515
127,400	<b>157,813</b>	Musharaka receivables	8	<b>60,758</b>	49,049
26,472	<b>38,086</b>	Investment securities	9	<b>14,663</b>	10,192
341,377	<b>358,392</b>	Ijarah assets - Ijarah Muntahia Bittamleek	10	<b>137,981</b>	131,430
3,278	<b>2,673</b>	Property and equipment	11	<b>1,029</b>	1,262
3,889	<b>3,843</b>	Other assets	12	<b>1,480</b>	1,497
692,800	<b>783,693</b>	<b>TOTAL ASSETS</b>		<b>301,722</b>	266,728
		<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY</b>			
150,057	<b>100,281</b>	Due to banks	13	<b>38,608</b>	57,772
356,449	<b>432,758</b>	Wakala deposits	14	<b>166,612</b>	137,233
30,317	<b>30,571</b>	Customers' current accounts		<b>11,770</b>	11,672
12,728	<b>11,309</b>	Other liabilities	15	<b>4,354</b>	4,900
549,551	<b>574,919</b>	<b>TOTAL LIABILITIES</b>		<b>221,344</b>	211,577
56,504	<b>115,642</b>	Equity of investment account holders	16	<b>44,522</b>	21,754
606,055	<b>690,561</b>	<b>TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS</b>		<b>265,866</b>	233,331
64,935	<b>64,935</b>	Share capital	17	<b>25,000</b>	25,000
20	<b>23</b>	Investment fair value reserve		<b>9</b>	8
21,790	<b>28,174</b>	Retained earnings		<b>10,847</b>	8,389
86,745	<b>93,132</b>	<b>TOTAL OWNERS' EQUITY</b>		<b>35,856</b>	33,397
692,800	<b>783,693</b>	<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY</b>		<b>301,722</b>	266,728
1,133	<b>1,340</b>	Contingent liabilities and commitments	19	<b>516</b>	436

The financial statements and notes 1 to 31 were approved by the Board of Directors on 22 January 2018 and signed on their behalf by:



**Hamdan Ali Nasser Al Hinai**  
Chairman



**Lloyd Maddock**  
Chief Executive Officer

The notes 1 to 31 and other explanatory information form an integral part of these financial statements.  
Report of the independent Auditors - page 131.

## Income Statement

For the year ended 31 December 2017

2016 US\$ '000	2017 US\$ '000		Note	2017 RO '000	2016 RO '000
28,810	<b>32,899</b>	Income from financing activities	20	<b>12,666</b>	11,092
961	<b>1,143</b>	Income from investing activities	21	<b>440</b>	370
696	<b>4,325</b>	Other operating income	22	<b>1,665</b>	268
(122)	<b>(753)</b>	Financing impairment on portfolio and specific basis	24	<b>(290)</b>	(47)
(96)	<b>(3)</b>	Impairment on available for sale investments		<b>(1)</b>	(37)
30,249	<b>37,611</b>			<b>14,480</b>	11,646
(1,538)	<b>(4,112)</b>	Return to investment account holders		<b>(1,583)</b>	(592)
1,060	<b>2,034</b>	Islamic Windows' share as Mudarib		<b>783</b>	408
(478)	<b>(2,078)</b>	<b>Return to investment account holders before zakah</b>		<b>(800)</b>	(184)
29,771	<b>35,533</b>	Islamic Window's share in income from financing and investing activities (as Mudarib and Fund owner)		<b>13,680</b>	11,462
252	<b>327</b>	Other operating income from banking services	23	<b>126</b>	97
(2,704)	<b>(3,587)</b>	Profit paid on due to banks		<b>(1,381)</b>	(1,041)
(8,317)	<b>(11,265)</b>	Profit paid on wakala deposits		<b>(4,337)</b>	(3,202)
19,002	<b>21,008</b>	Net operating income		<b>8,088</b>	7,316
(3,047)	<b>(3,174)</b>	Staff expenses	25	<b>(1,222)</b>	(1,173)
(662)	<b>(688)</b>	Depreciation	11	<b>(265)</b>	(255)
(2,195)	<b>(2,031)</b>	Other operating expenses	26	<b>(782)</b>	(845)
(5,904)	<b>(5,893)</b>	<b>Total expenses</b>		<b>(2,269)</b>	(2,273)
13,098	<b>15,115</b>	<b>Profit before taxation</b>		<b>5,819</b>	5,043
(1,584)	<b>(2,236)</b>	<b>Taxation</b>		<b>(861)</b>	(610)
11,514	<b>12,879</b>	<b>Profit for the year</b>		<b>4,958</b>	4,433

The notes 1 to 31 and other explanatory information form an integral part of these financial statements.  
Report of the independent Auditors - page 131.

## Statement of Changes in Owners' Equity

For the year ended 31 December 2017

	Note	Share capital RO '000	Investment fair value reserve RO '000	Retained earnings RO '000	Total RO '000
<b>At 1 January 2017</b>		25,000	8	8,389	33,397
Profit for the year		-	-	4,958	4,958
Cumulative changes in fair value		-	1	-	1
Cash Dividend paid	18	-	-	(2,500)	(2,500)
<b>At 31 December 2017</b>		<b>25,000</b>	<b>9</b>	<b>10,847</b>	<b>35,856</b>
<b>At 31 December 2017 (US\$ '000)</b>		<b>64,935</b>	<b>23</b>	<b>28,174</b>	<b>93,132</b>

	Note	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		-	-	(2,500)	(2,500)
At 31 December 2016		25,000	8	8,389	33,397
At 31 December 2016 (US\$ '000)		64,935	20	21,790	86,745

The notes 1 to 31 and other explanatory information form an integral part of these financial statements.  
Report of the independent Auditors - page 131.

## Statement of Cash Flows

For the year ended 31 December 2017

2016 US\$ '000	2017 US\$ '000		Note	2017 RO '000	2016 RO '000
		<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
13,098	<b>15,115</b>	Profit for the year		<b>5,819</b>	5,043
		<i>Adjustments for:</i>			
662	<b>688</b>	Depreciation - property and equipment	11	<b>265</b>	255
19,558	<b>88,177</b>	Depreciation - Ijarah Muntahia Bittamleek	10	<b>33,948</b>	7,530
-	<b>(8)</b>	Gain on sale of property and equipment		<b>(3)</b>	-
122	<b>753</b>	Financing impairment, net of recoveries	24	<b>290</b>	47
95	<b>3</b>	Impairment on available for sale investments		<b>1</b>	37
		<b>Operating profit before change in operating assets and liabilities</b>		<b>40,320</b>	12,912
33,535	<b>104,728</b>	Increase in Murabaha receivables		<b>(3,554)</b>	(12,001)
(31,170)	<b>(9,231)</b>	(Increase)/Decrease in Musharaka receivables		<b>(11,817)</b>	4,868
12,644	<b>(30,694)</b>	Investment in securities at fair value through income statement		<b>(1,173)</b>	-
-	<b>(3,047)</b>	Decrease/(Increase) in other assets		<b>17</b>	(382)
(994)	<b>46</b>	Increase in Wakala deposits		<b>29,379</b>	9,619
24,984	<b>76,309</b>	Increase / (Decrease) in customers' current accounts		<b>98</b>	(5,553)
(14,423)	<b>254</b>	(Decrease)/Increase in other liabilities		<b>(797)</b>	1,376
3,576	<b>(2,073)</b>	Increase in equity of investment account holders		<b>22,768</b>	11,950
31,039	<b>59,138</b>	<b>Cash from operations</b>		<b>75,241</b>	22,789
59,191	<b>195,430</b>	Tax paid		<b>(610)</b>	(617)
(1,603)	<b>(1,584)</b>	<b>Net cash from operating activities</b>		<b>74,631</b>	22,172
57,588	<b>193,846</b>				
		<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(26,442)	<b>(105,293)</b>	Investment in Ijarah assets - Ijarah Muntahia Bittamleek		<b>(40,538)</b>	(10,180)
		Increase in investment securities (excluding securities at fair value through income statement)		<b>(3,298)</b>	(3)
(8)	<b>(8,566)</b>	Purchase of property and equipment	11	<b>(62)</b>	(198)
(514)	<b>(161)</b>	Proceeds from Sale of property and equipment		<b>33</b>	11
30	<b>86</b>	<b>Net cash used in investing activities</b>		<b>(43,865)</b>	(10,370)
(26,934)	<b>(113,934)</b>				
		<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
(6,494)	<b>(6,494)</b>	Dividends paid		<b>(2,500)</b>	(2,500)
(6,494)	<b>(6,494)</b>	<b>Net cash used in financing activity</b>		<b>(2,500)</b>	(2,500)
24,160	<b>73,418</b>	<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>28,266</b>	9,302
3,141	<b>27,301</b>	Cash and cash equivalents at 1 January		<b>10,511</b>	1,209
		<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)</b>		<b>38,777</b>	10,511
27,301	<b>100,719</b>				
		<b>CASH AND CASH EQUIVALENT COMPRISES OF THE FOLLOWING:</b>			
76,964	<b>95,099</b>	Cash and current balances with Central Bank of Oman	5	<b>36,613</b>	29,631
395	<b>5,901</b>	Due from banks	6	<b>2,272</b>	152
(50,058)	<b>(281)</b>	Due to banks		<b>(108)</b>	(19,272)
27,301	<b>100,719</b>	Cash and cash equivalents		<b>38,777</b>	10,511

The notes 1 to 31 and other explanatory information form an integral part of these financial statements. Report of the independent Auditors - page 131.

## Statement of Sources and Uses of Charity Fund

For the year ended 31 December 2017

2016 US\$ '000	2017 US\$ '000		Note	2017 RO '000	2016 RO '000
		<b>Sources of charity fund</b>			
11	<b>11</b>	Fund at the beginning of the year		<b>4</b>	4
28	<b>8</b>	Penalties to customer for late payment		<b>3</b>	11
19	<b>5</b>	Contribution from credit card income		<b>2</b>	7
58	<b>24</b>			<b>9</b>	22
		<b>Uses of charity fund</b>			
		<b>Distributed to charity organizations</b>			
17	6	Child care center		<b>2</b>	6
10	5	Association of the welfare of handicapped		<b>2</b>	4
-	5	Oman Association for the Disabled		<b>2</b>	-
-	5	Oman Cancer Association		<b>2</b>	-
10	-	Oman charitable organization		-	4
10	-	Al noor association for blind		-	4
47	21	Total uses of charity fund during the year		<b>8</b>	18
11	<b>3</b>	<b>Undistributed charity fund at the end of the year</b>	15	<b>1</b>	4

The notes 1 to 31 and other explanatory information form an integral part of these financial statements.  
Report of the independent Auditors - page 129.

# Notes to the Financial Statements

For the year ended 31 December 2017

## 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 (31 December 2016: seven branches).

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 2017 (31 December 2016: 60 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. Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable. Complete set of financial statements of the Bank is presented separately.

### 2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for investments classified as 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 2016.

#### 2.5.1 Standard issued but not yet effective

##### FAS 30 – Impairment, credit losses and onerous commitments

AAOIFI has published this standard which intends to define the accounting principles for impairment and credit losses (including expected credit losses) to be in line with ever-changing global best practices, as well as, provisions needed against anticipated losses on onerous commitments. There are also recommendations with regard to the changes and improvements in accounting for reserves and another standard on accounting for reserves i.e. FAS 35 "Risk Reserves" which shall be adopted simultaneously with the same effective date. Both these standards together supersedes the earlier FAS 11 "Provision and Reserves". FAS 30 will be effective from the financial period beginning on or after 1 January 2020. The management is in the process of analyzing the impact of this standard."

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 2 BASIS OF PREPARATION (continued)

#### 2.5 New and amended standards and interpretations (continued)

##### 2.5.1 Standard issued but not yet effective (continued)

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 2017:

**IFRS 9 - Financial instruments:** effective for annual periods commencing 1 January 2018.

Details of implementation and changes in policies & procedures are disclosed in notes to consolidated financial statements. The Bank will record an adjustment to its opening 1 January, 2018 retained earnings, to reflect the application of the new requirements of Impairment at the adoption date and will not restate comparative periods. The Bank estimates the IFRS 9 transition amount will increase shareholders' equity by approximately RO 0.203 million as at 1 January, 2018. The estimated impact relates primarily to the implementation of the expected credit loss requirements.

### 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 and amortized cost & equity type instrument carried at fair value through equity and 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 (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.6 Investments (continued)

##### 3.6.2 Equity/debt type instruments at fair value through equity

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 these instruments are not reversed through the statement of income.

##### 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.

#### 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 then 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

##### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.15 Provisions

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

#### 3.16 Identification and measurement of impairment assets

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

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

#### 3.17 Taxation

Taxation is 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.

#### 3.19 De-recognition of financial assets and liabilities

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

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

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

#### 3.20 Employee terminal benefits

##### 3.20.1 Terminal benefits

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

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

##### 3.20.2 Short term benefits

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

#### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

### 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
3,414	<b>2,465</b>	Cash	<b>949</b>	1,314
73,550	<b>92,634</b>	Clearing account with Central Bank of Oman	<b>35,664</b>	28,317
76,964	<b>95,099</b>		<b>36,613</b>	29,631

### 6 DUE FROM BANKS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
-	-	Wakala placements	-	-
395	<b>5,901</b>	Nostro account balances	<b>2,272</b>	152
395	<b>5,901</b>		<b>2,272</b>	152

### 7 MURABAHA RECEIVABLES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
51,494	<b>47,140</b>	Vehicles	<b>18,149</b>	19,825
80,145	<b>87,577</b>	Personal financing	<b>33,717</b>	30,856
3,997	<b>10,257</b>	Corporate	<b>3,949</b>	1,539
135,636	<b>144,974</b>	Gross receivables	<b>55,815</b>	52,220
(20,310)	<b>(20,416)</b>	Deferred profits	<b>(7,860)</b>	(7,819)
115,326	<b>124,558</b>		<b>47,955</b>	44,401
(2,267)	<b>(2,390)</b>	Impairment on portfolio basis	<b>(920)</b>	(873)
(34)	<b>(282)</b>	Impairment on specific basis	<b>(109)</b>	(13)
113,025	<b>121,886</b>		<b>46,926</b>	43,515

Murabaha receivables are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

### 8 MUSHARAKA RECEIVABLES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
128,657	<b>159,351</b>	Musharaka receivables	<b>61,350</b>	49,533
(1,257)	<b>(1,538)</b>	Impairment on portfolio basis	<b>(592)</b>	(484)
127,400	<b>157,813</b>		<b>60,758</b>	49,049

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

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 9 INVESTMENT SECURITIES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Debt type instrument at fair value through income statement</b>		
25,974	<b>29,021</b>	Sukuks	<b>11,173</b>	10,000
		<b>Debt type instrument at fair value through equity</b>		
-	<b>8,590</b>	Sukuks	<b>3,307</b>	-
		<b>Equity type instrument at fair value through equity</b>		
498	<b>475</b>	Unlisted Islamic open end mutual fund	<b>183</b>	192
<u>26,472</u>	<u><b>38,086</b></u>		<u><b>14,663</b></u>	<u>10,192</u>

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

### 10 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
393,424	<b>498,717</b>	Cost	<b>192,006</b>	151,468
(48,340)	<b>(136,517)</b>	Accumulated depreciation	<b>(52,559)</b>	(18,611)
345,084	<b>362,200</b>	Book value	<b>139,447</b>	132,857
(3,595)	<b>(3,699)</b>	Impairment on portfolio basis	<b>(1,424)</b>	(1,384)
(112)	<b>(109)</b>	Impairment on specific basis	<b>(42)</b>	(43)
<u>341,377</u>	<u><b>358,392</b></u>	Net book value	<u><b>137,981</b></u>	<u>131,430</u>

Ijarah assets are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

### 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
<b>Cost:</b>						
At 1 January 2017	477	452	1,251	86	2	2,268
Additions	-	-	49	-	13	62
Transferred from the Bank	-	-	13	-	(13)	-
Disposals / scrapped	-	(4)	(29)	-	-	(33)
<b>At 31 December 2017</b>	<b>477</b>	<b>448</b>	<b>1,284</b>	<b>86</b>	<b>2</b>	<b>2,297</b>
<b>Accumulated depreciation:</b>						
At 1 January 2017	59	286	604	57	-	1,006
Depreciation	19	90	148	8	-	265
Disposals / scrapped	-	(3)	-	-	-	(3)
<b>At 31 December 2017</b>	<b>78</b>	<b>373</b>	<b>752</b>	<b>65</b>	<b>-</b>	<b>1,268</b>
<b>Net book value as at</b>						
<b>At 31 December 2017</b>	<b>399</b>	<b>75</b>	<b>532</b>	<b>21</b>	<b>2</b>	<b>1,029</b>
<b>At 31 December 2017 (US\$ '000)</b>	<b>1,036</b>	<b>195</b>	<b>1,382</b>	<b>55</b>	<b>5</b>	<b>2,673</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 11 PROPERTY AND EQUIPMENT (continued)

	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

### 12 OTHER ASSETS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
2,130	<b>2,184</b>	Profit receivable on financing	<b>841</b>	820
144	<b>229</b>	Profit receivable on sukuk	<b>88</b>	56
941	<b>1,112</b>	Credit card receivable	<b>428</b>	362
484	<b>145</b>	Prepayments	<b>56</b>	186
190	<b>173</b>	Others	<b>67</b>	73
3,889	<b>3,843</b>		<b>1,480</b>	1,497

### 13 DUE TO BANKS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
150,000	<b>100,000</b>	Wakala acceptances	<b>38,500</b>	57,750
57	<b>281</b>	Vostro account balances	<b>108</b>	22
150,057	<b>100,281</b>		<b>38,608</b>	57,772

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 14 WAKALA DEPOSITS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
275,055	<b>339,478</b>	Financial institutions	<b>130,699</b>	105,896
81,394	<b>93,280</b>	Others	<b>35,913</b>	31,337
<u>356,449</u>	<u><b>432,758</b></u>		<u><b>166,612</b></u>	<u>137,233</u>

### 15 OTHER LIABILITIES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
7,340	<b>6,564</b>	Profit payable	<b>2,527</b>	2,826
3,371	<b>3,384</b>	Accrued expenses and payable	<b>1,303</b>	1,298
660	-	Unearned fee income	-	254
11	<b>3</b>	Charity payable	<b>1</b>	4
1,346	<b>1,358</b>	Others	<b>523</b>	518
<u>12,728</u>	<u><b>11,309</b></u>		<u><b>4,354</b></u>	<u>4,900</u>

### 16 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
56,504	<b>115,642</b>	By type: Saving accounts	<b>44,522</b>	21,754
<u>56,504</u>	<u><b>115,642</b></u>		<u><b>44,522</b></u>	<u>21,754</u>

The average profit rate for the investment account holders during the year was 2.37% (2016 : 1.27%). Profit sharing ratio of mudarib as at 31 December 2017 was 40% (2016: 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.

### 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 nil dividend for the year 2017 (31 December 2016: 10% cash dividend). The cash dividend proposed for 2016 was approved by the shareholders in annual general meeting and was paid in 2017.

### 19 CONTINGENT LIABILITIES AND COMMITMENTS

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
1,036	<b>1,291</b>	Guarantees	<b>497</b>	399
97	<b>49</b>	Letter of credits	<b>19</b>	37
<u>1,133</u>	<u><b>1,340</b></u>		<u><b>516</b></u>	<u>436</u>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 20 INCOME FROM FINANCING ACTIVITIES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
6,638	<b>7,317</b>	Musharaka	<b>2,817</b>	2,556
16,704	<b>18,722</b>	Rental income on ijarah assets	<b>7,208</b>	6,431
5,468	<b>6,860</b>	Murabaha	<b>2,641</b>	2,105
<u>28,810</u>	<u><b>32,899</b></u>		<u><b>12,666</b></u>	<u>11,092</u>

### 21 INCOME FROM INVESTING ACTIVITIES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
909	<b>1,125</b>	Income from investments	<b>433</b>	350
52	<b>18</b>	Income from wakala placements	<b>7</b>	20
<u>961</u>	<u><b>1,143</b></u>		<u><b>440</b></u>	<u>370</u>

### 22 OTHER OPERATING INCOME

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
696	<b>4,325</b>	Fee and commission, net	<b>1,665</b>	268
-	-	Others	-	-
<u>696</u>	<u><b>4,325</b></u>		<u><b>1,665</b></u>	<u>268</u>

### 23 OTHER OPERATING INCOME FROM BANKING SERVICES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
252	<b>327</b>	Other operating income	<b>126</b>	97

### 24 PROVISION FOR FINANCING IMPAIRMENT AND RESERVE PROFIT

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

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Impairment provision on portfolio basis</b>		
7,028	<b>7,119</b>	Balance at the beginning of the year	<b>2,741</b>	2,706
91	<b>506</b>	Provided during the year	<b>195</b>	35
<u>7,119</u>	<u><b>7,625</b></u>	<b>Balance at the end of the year</b>	<u><b>2,936</b></u>	<u>2,741</u>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 24 PROVISION FOR FINANCING IMPAIRMENT AND RESERVE PROFIT (continued)

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Impairment provision on specific basis</b>		
114	<b>145</b>	Balance at the beginning of the year	<b>56</b>	44
36	<b>294</b>	Provided during the year	<b>113</b>	14
(5)	<b>(47)</b>	Recoveries during the year	<b>(18)</b>	(2)
145	<b>392</b>	<b>Balance at the end of the year</b>	<b>151</b>	56

#### RESERVE PROFIT

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
5	<b>10</b>	<b>Balance at beginning of the year</b>	<b>4</b>	2
18	<b>34</b>	Reserved during the year	<b>13</b>	7
(13)	<b>(10)</b>	Recoveries during the year	<b>(4)</b>	(5)
10	<b>34</b>	<b>Balance at the end of the year</b>	<b>13</b>	4

### 25 STAFF EXPENSES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
1,688	<b>1,681</b>	Salaries and wages	<b>647</b>	650
1,359	<b>1,493</b>	Allowances	<b>575</b>	523
3,047	<b>3,174</b>		<b>1,222</b>	1,173

### 26 OTHER OPERATING EXPENSES

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
1,423	<b>1,233</b>	Operating and administration costs	<b>475</b>	548
655	<b>644</b>	Occupancy costs	<b>248</b>	252
23	<b>60</b>	Advertisement costs	<b>23</b>	9
94	<b>94</b>	Shariah Supervisory Board related expenses	<b>36</b>	36
2,195	<b>2,031</b>		<b>782</b>	845

### 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 (continued)

For the year ended 31 December 2017

### 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:

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Directors, Shariah Supervisory Board and senior management</b>		
88	60	Financing assets	23	34
16	205	Customers' deposits	79	6
175	51	Prepaid rent	20	67
		<b>Major shareholders and others</b>		
44	5	Nostro account balances	2	17
499	475	Investment securities	183	192
150,000	100,052	Due to banks - Wakala acceptances	38,520	57,750

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

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
		<b>Directors, Shariah Supervisory Board and senior management</b>		
5	5	Profit earned	2	2
94	94	Shariah Supervisory Board related expenses	36	36
176	123	Other operating expenses	47	68
		<b>Major shareholders and others</b>		
2,566	4,117	Profit paid on due to banks	1,585	988
-	16	Profit received on due from banks	6	-
242	-	Other operating expenses	-	93

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 2016: RO 0.047 million equivalent to US\$ 0.123 million).

### 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 2017 is RO 3.490 million equivalent to US\$ 9.065 million (31 December 2016: RO 0.192 million equivalent to US\$ 0.499 million) with cost amounts to RO 3.519 million equivalent to US\$ 9.140 million (31 December 2016: 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

#### 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:

	2017 Level 1 RO '000	2017 Level 2 RO '000	2017 Total RO '000	2016 Level 1 RO '000	2016 Level 2 RO '000	2016 Total RO '000
<b>Financial assets</b>						
Investment - debt type instrument at fair value through income statement	-	11,173	11,173	-	10,000	10,000
Investment - debt type instruments at fair value through equity	3,307	-	3,307	-	-	-
Investment - equity type instrument at fair value through equity	183	-	183	192	-	192
	<b>3,490</b>	<b>11,173</b>	<b>14,663</b>	192	10,000	10,192
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Financial assets</b>						
Investment - debt type instrument at fair value through income statement	-	29,021	29,021	-	25,974	25,974
Investment - debt type instruments at fair value through equity	8,590	-	8,590	-	-	-
Investment - equity type instrument at fair value through equity	475	-	475	498	-	498
	<b>9,065</b>	<b>29,021</b>	<b>38,086</b>	498	25,974	26,472

No financial instruments are carried at level 2 and level 3 fair values as on 31 December 2017 (31 December 2016: Nil)

### 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

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 30 RISK MANAGEMENT (continued)

#### 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 2017, financing amounting to RO 0.333 million equivalent to US\$ 0.865 million (31 December 2016: RO 0.217 million equivalent to US\$ 0.564 million) has been impaired. The collateral held against impaired financing is RO 0.287 million equivalent to US\$ 0.745 million (31 December 2016: RO 0.221 million equivalent to US\$ 0.574 million). Profit amounting to RO 0.013 million equivalent to US\$ 0.034 million (31 December 2016 : RO 0.004 million equivalent to US\$ 0.011 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.

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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 30 RISK MANAGEMENT (continued)

#### 30.2 Liquidity Risk (continued)

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.

31 December 2017	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	Mor than five years RO '000	Total RO '000
<b>Assets</b>					
Cash and balances with Central Bank of Oman	36,613	-	-	-	36,613
Due from banks	2,272	-	-	-	2,272
Financing assets	6,104	12,027	55,338	172,196	245,665
Investment securities	7,632	3,724	-	3,307	14,663
Property and equipment	-	-	-	1,029	1,029
Other assets	609	871	-	-	1,480
<b>Total assets</b>	53,230	16,622	55,338	176,532	301,722
<b>Liabilities, equity of investment account holders and owners' equity</b>					
Due to banks	108	-	38,500	-	38,608
Customers' deposits	51,041	76,101	61,762	34,000	222,904
Other liabilities	1,163	2,057	866	268	4,354
Shareholder's fund	-	-	-	35,856	35,856
<b>Total liabilities, equity of investment account holders and owners' equity</b>	52,312	78,158	101,128	70,124	301,722
<b>Net liquidity gap</b>	918	(61,536)	(45,790)	106,408	-
<b>31 December 2017</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Assets</b>					
Cash and balances with Central Bank of Oman	95,099	-	-	-	95,099
Due from banks	5,901	-	-	-	5,901
Financing assets	15,855	31,239	143,735	447,262	638,091
Investment securities	19,823	9,673	-	8,590	38,086
Property and equipment	-	-	-	2,673	2,673
Other assets	1,582	2,261	-	-	3,843
<b>Total assets</b>	138,260	43,173	143,735	458,525	783,693
<b>Liabilities, equity of investment account holders and owners' equity</b>					
Due to banks	281	-	100,000	-	100,281
Customers' deposits	132,574	197,665	160,421	88,311	578,971
Other liabilities	3,021	5,343	2,249	696	11,309
Shareholder's fund	-	-	-	93,132	93,132
<b>Total liabilities, equity of investment account holders and owners' equity</b>	135,876	203,008	262,670	182,139	783,693
<b>Net liquidity gap</b>	2,384	(159,835)	(118,935)	276,386	-

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 30 RISK MANAGEMENT (continued)

#### 30.2 Liquidity Risk (continued)

	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	Mor than five years RO '000	Total RO '000
31 December 2016					
<b>Assets</b>					
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
<b>Total assets</b>	<b>41,584</b>	<b>12,193</b>	<b>42,210</b>	<b>170,741</b>	<b>266,728</b>
<b>Liabilities, equity of investment account holders and owners' equity</b>					
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
<b>Total liabilities, equity of investment account holders and owners' equity</b>	<b>54,406</b>	<b>64,552</b>	<b>82,665</b>	<b>65,105</b>	<b>266,728</b>
<b>Net liquidity gap</b>	<b>(12,822)</b>	<b>(52,359)</b>	<b>(40,455)</b>	<b>105,636</b>	<b>-</b>
31 December 2016	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Assets</b>					
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
<b>Total assets</b>	<b>108,011</b>	<b>31,670</b>	<b>109,636</b>	<b>443,483</b>	<b>692,800</b>
<b>Liabilities, equity of investment account holders and owners' equity</b>					
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
<b>Total liabilities, equity of investment account holders and owners' equity</b>	<b>141,314</b>	<b>167,668</b>	<b>214,715</b>	<b>169,103</b>	<b>692,800</b>
<b>Net liquidity gap</b>	<b>(33,303)</b>	<b>(135,998)</b>	<b>(105,079)</b>	<b>274,380</b>	<b>-</b>

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 30 RISK MANAGEMENT (continued)

#### 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;

	2017 RO '000	2017 US\$ '000	2016 RO '000	2016 US\$ '000
<b>Net profit earned</b>	<b>6,588</b>	<b>17,112</b>	7,035	18,272
<b>Impact of +200 bps profit rate increase</b>	<b>399</b>	<b>1,036</b>	301	782
<b>Impact of -200 bps profit rate decrease</b>	<b>(399)</b>	<b>(1,036)</b>	(301)	(782)

##### 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:

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
7,378	<b>12,456</b>	US Dollar	<b>4,795</b>	1,594
6	<b>120</b>	Euro	<b>46</b>	3
66	<b>15</b>	UAE Dirham	<b>6</b>	30
8	<b>29</b>	GBP Sterling	<b>11</b>	3
291	<b>32</b>	Others	<b>12</b>	13

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 2017 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 30 RISK MANAGEMENT (continued)

#### 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.

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.

	2017				
	Murabaha, gross RO '000	Musharaka, gross RO '000	Ijarah Muntahia Bittamleek RO '000	Due from banks RO '000	Investment securities RO '000
<b>Concentration by industry</b>					
Sovereign	-	-	-	-	13,648
Corporate	3,896	60,426	60,470	-	1,015
Personal	44,059	924	78,977	-	-
Banks	-	-	-	2,272	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	35,449
Corporate	10,119	156,951	157,065	-	2,637
Personal	114,439	2,400	205,135	-	-
Banks	-	-	-	5,901	-



## Notes to the Financial Statements (continued)

For the year ended 31 December 2017

### 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
<i>Concentration by location</i>					
Oman	44,401	49,533	130,030	-	10,192
Other GCC countries	-	-	2,827	50	-
Unites States of America	-	-	-	-	-
OECD countries	-	-	-	-	-
Others	-	-	-	102	-
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Oman	115,326	128,657	337,740	-	26,472
Other GCC countries	-	-	7,344	130	-
Unites States of America	-	-	-	-	-
OECD countries	-	-	-	-	-
Others	-	-	-	265	-

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 2017 is 12% (31 December 2016: 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 (continued)

For the year ended 31 December 2017

### 30 RISK MANAGEMENT (continued)

#### 30.6 Capital Management (continued)

2016 US\$ '000	2017 US\$ '000		2017 RO '000	2016 RO '000
75,210	<b>91,816</b>	Common Equity Tier 1 (CET1)	<b>35,349</b>	28,956
-	-	Additional Tier 1	-	-
75,210	<b>91,816</b>	Tier 1	<b>35,349</b>	28,956
6,004	<b>6,730</b>	Tier 2	<b>2,591</b>	2,311
81,214	<b>98,546</b>	<b>Total regulatory capital</b>	<b>37,940</b>	31,267
		<b>Risk weighted assets</b>		
479,675	<b>537,662</b>	Credit risk	<b>207,000</b>	184,675
14,444	<b>10,205</b>	Market risk	<b>3,929</b>	5,561
24,512	<b>33,956</b>	Operational risk	<b>13,073</b>	9,437
518,631	<b>581,823</b>	<b>Total risk weighted assets</b>	<b>224,002</b>	199,673
		<b>Capital adequacy ratio</b>		
14.50%	<b>15.78%</b>	CET1 capital expressed as a percentage of total risk weighted assets	<b>15.78%</b>	14.50%
14.50%	<b>15.78%</b>	Total tier I capital expressed as a percentage of total risk weighted assets	<b>15.78%</b>	14.50%
1.16%	<b>1.31%</b>	Tier II capital expressed as a percentage of total risk weighted assets	<b>1.31%</b>	1.16%
15.66%	<b>16.94%</b>	Total regulatory capital expressed as a percentage of total risk weighted assets	<b>16.94%</b>	15.66%

### 31 SOCIAL RESPONSIBILITY

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

# Al Hilal Islamic Banking Services

## Basel II Pillar III and Basel III Report

31 December 2017



KPMG  
 4th Floor, HSBC Bank Building  
 MBD  
 P.O. Box 641  
 P.C. 112  
 Sultanate of Oman  
 Tel +968 24709181  
 Fax +968 24700839

## **INDEPENDENT AUDITORS' REPORT ON FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF AL HILAL ISLAMIC BANKING - WINDOW OF AHLI BANK SAOG ("AL HILAL") 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 Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman ("CBO") under Circular No. IB 1 dated 18 December 2012 ("the Procedures") with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures ("the disclosures") of Al Hilal Islamic Banking - Window of Ahli Bank SAOG ("Al Hilal") set out on pages 161 to 190 as at and for the year ended 31 December 2017. The disclosures were prepared by the Management in accordance with requirements of IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012, were performed solely to assist you in evaluating Al Hilal's compliance with the disclosure requirements set out in CBO's Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013.

We report our findings as follows:

Based solely on performance of the procedures, we found no exceptions.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than Central Bank of Oman; and we accept no liability or responsibility to any third party. This report relates only to the Al Hilal's Disclosures and does not extend to the financial statements of Al Hilal taken as a whole or to any other reports of Al Hilal.

**Paul Callaghan**  
 8 March 2018

# Basel II Pillar III and Basel III Report

31 December 2017

## 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 OF APPLICATION

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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 3. CAPITAL STRUCTURE

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		Fitch Rating	
Financial strength rating;	<b>BBB</b>	Viability rating	<b>bb+</b>
Foreign currency Long Term Rating;	<b>BBB+</b>	Long term foreign currency and local currency IDRs;	<b>BB+</b>
Foreign currency Short term;	<b>A2</b>	Short term foreign currency and local currency IDRs;	<b>B</b>
Support rating;	<b>3</b>	Support rating;	<b>3</b>
Outlook;	<b>Stable</b>	Outlook;	<b>Negative</b>

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:

Sl. No	Elements of Capital	Amount (RO'000)
1	Paid up capital	25,000
2	Legal reserves	-
3	Subordinated loan reserve	-
4	Retained earnings*	10,847
	<b>Total Gross Tier I Capital</b>	<b>35,847</b>
	<b>Deduction</b>	
5	Cumulative unrealized losses recognized directly in equity	(498)
	<b>Additional Tier I Capital</b>	<b>-</b>
6	Tier 1 Perpetual Bond	-
	<b>Tier I capital after all deductions</b>	<b>35,349</b>
	<b>Tier II Capital</b>	
7	Revaluation reserves / cumulative fair value gains or losses on available for sale instruments	4
8	General provisions on financing	2,587
9	Subordinated debt	-
	<b>Total Tier II Capital</b>	<b>2,591</b>
	<b>Total Regulatory Capital</b>	<b>37,940</b>

\* As per IBRF, Retained earnings includes only brought forward profits from the previous financial year.

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 profit 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.

#### 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, Shariah non-compliance risk, etc.) for the entire bank, and has completed the ICAAP exercise for years 2017-2020.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 3. CAPITAL STRUCTURE (continued)

#### i. Capital Adequacy Disclosures (RO '000)

As on 31 December 2017

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	304,822	301,722	206,660
2	Off-balance sheet items	516	516	340
3	<b>Total</b>	<b>305,338</b>	<b>302,238</b>	<b>207,000</b>
4	Tier 1 Capital			35,349
5	Tier 2 Capital			2,591
6	<b>Total Regulatory Capital</b>			<b>37,940</b>
6.1	Capital requirement for credit risk			24,840
6.2	Capital requirement for market risk			471
6.3	Capital requirement for operational risk			1,569
7	<b>Total required capital</b>			<b>26,880</b>
8	Tier 1 Ratio			15.78%
9	Total Capital Ratio			16.94%

#### ii. Computation of Capital Adequacy Ratio (RO '000)

As on 31 December 2017

Sl. No	Details	Simple Approach
1	Tier I Capital (after supervisory deductions)	35,349
2	Tier II capital (after supervisory deductions and up to eligible limits)	2,591
3	Risk weighted assets – banking book	207,000
4	Risk weighted assets – operational risk	13,073
5	<b>Total Risk Weighted Assets – Banking Book + Operational Risk</b>	<b>220,073</b>
6	<b>Minimum required capital to support RWAs of banking book and operational risk</b>	<b>26,409</b>
	i) Minimum required Tier I Capital for banking book and operational risk	23,818
	ii) Tier II Capital required for banking book and operational risk	2,591
7	Tier I capital available for supporting trading book	11,531
8	Tier II capital available for supporting trading book	-
9	Risk Weighted Assets – trading book	3,929
10	Total capital required to support trading book	471
11	Minimum Tier I capital required for supporting trading book	134
12	<b>Total Regulatory Capital</b>	<b>37,940</b>
13	<b>Total Risk Weighted Assets – Whole bank</b>	<b>224,002</b>
14	<b>BIS Capital Adequacy Ratio</b>	<b>16.94%</b>

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 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.

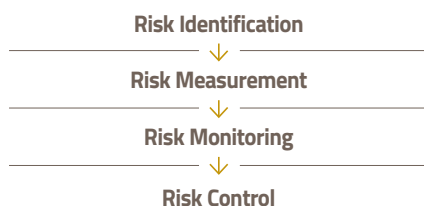
The key to this approach is the creation of a responsive organization structure around each of these risk categories with appropriate delegated authority to deliver in line with the business objectives approved by the Board of Directors.

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, profit 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

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 4. RISK MANAGEMENT OF THE BANK (continued)

#### 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            | 21. Operational Risk Policy & Procedure      |
| 2. Personal Account Dealing Policy         | 22. Fraud Risk Management Policy             |
| 3. New Product Committee and Procedures    | 23. Liquidity and Funding Policy             |
| 4. Voice Recording Policy                  | 24. Trading Book Policy                      |
| 5. Compliance Policy                       | 25. Risk Management-Approach & Framework     |
| 6. Communications Policy                   | 26. Social and Environment Management System |
| 7. Corporate Governance Policy             | 27. Security and Safety Policy and Plan      |
| 8. Corporate Social Responsibility Policy  | 28. Asset Management Policy                  |
| 9. Dividend Policy                         | 29. Brokerage Policy                         |
| 10. Expenses Policy                        | 30. FATCA Policy                             |
| 11. Capital Management Policy              | 31. Customer Complaints Redressal Policy     |
| 12. Disclosure Policy                      | 32. Profit Distribution Policy               |
| 13. Board Remuneration Policy              | 33. Charity Policy                           |
| 14. Financial Institutions Policy          | 34. Zakah Policy                             |
| 15. Human Resources Policy                 | 35. Cost Sharing Policy                      |
| 16. Outsourcing Policy                     | 36. Segregation of Funds Policy              |
| 17. Code of Business Conduct               | 37. Social Media Policy                      |
| 18. Information Security Management Policy | 38. Shari'a Governance Manual                |
| 19. Business Continuity Management         | 39. Third Party Risk Management Policy       |
| 20. Credit and Investment Policy           |  |

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

### 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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

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.

#### Structure and policies of credit risk management

The credit risk management policies are governed through Credit Risk Management Committee, Executive Risk Committee of the Board and the Board of Directors. The following is the structure of credit risk approval:-



The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board 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 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).

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

#### 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.

#### Quantitative Disclosure:

#### i) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure as at 31 December 2017:

Sl. No.	Type of Credit Exposure	Average Gross Exposure			Total Gross Exposure as at		
		31-Dec-17	31-Dec-16	% of total financing	31-Dec-17	31-Dec-16	% of total financing
1	Musharaka	50,759	47,561	22%	61,350	49,533	25%
2	Ijarah	135,994	128,046	58%	139,447	132,857	56%
3	Murabaha	47,697	42,184	20%	47,955	44,401	19%
	<b>Total</b>	<b>234,450</b>	<b>217,791</b>	<b>100%</b>	<b>248,752</b>	<b>226,791</b>	<b>100%</b>

#### ii) Credit exposure by risk weighted assets:

Type of Credit Exposure	Gross Balance	Net Balance	Risk Weighted Assets
Musharaka	61,350	60,758	58,749
Ijarah	139,447	137,981	112,120
Murabaha	47,955	46,926	32,298
<b>Total</b>	<b>248,752</b>	<b>245,665</b>	<b>203,167</b>

#### iii) Credit exposure by business unit:

Credit exposure	Business Unit	Net Balance	Risk Weighted Assets
Musharaka	SME	5,494	4,121
	Corporate	54,349	54,023
	Retail	915	605
Murabaha	Corporate	3,857	3,834
	Retail	43,069	28,464
Ijarah	SME	4,957	3,718
	Corporate	54,929	56,789
	Retail	78,095	51,613
<b>Total</b>		<b>245,665</b>	<b>203,167</b>

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

#### iv) Geographic distribution of exposures by major types of credit exposure as at 31 December 2017:

Sl. No.	Type of Credit Exposure	Oman	Other GCC Countries	OECD Countries	India	Pakistan	Others	Total
1	Musharaka	61,350	-	-	-	-	-	61,350
2	Murabaha	47,955	-	-	-	-	-	47,955
3	Ijarah	137,752	1,695	-	-	-	-	139,447
	<b>Total</b>	<b>247,057</b>	<b>1,695</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>248,752</b>

#### v) Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2017:

SL No.	Economic Sector	Musharaka	Murabaha	Ijarah	Others	Total	Off Balance Sheet Exposure
1	Import Trade	6,163	3,766	163	-	10,092	-
2	Export Trade	-	-	-	-	-	-
3	Wholesale & Retail Trade	1,807	27	3,901	-	5,735	508
4	Mining & Quarrying	-	-	-	-	-	-
5	Construction	42,011	103	43,748	-	85,862	8
6	Manufacturing	2,136	-	3,400	-	5,536	-
7	Transport & Communication	163	-	354	-	517	-
8	Electricity, gas & Water	-	-	-	-	-	-
9	Financial Institutions	-	-	-	-	-	-
10	Services	3,882	-	1,500	-	5,382	-
11	Personal financings	924	44,059	78,978	-	123,961	-
12	Agriculture and Allied Activities	-	-	-	-	-	-
13	Government	-	-	-	-	-	-
14	Non- Resident Lending	-	-	1,695	-	1,695	-
15	All Others	4,264	-	5,708	-	9,972	-
	<b>Total</b>	<b>61,350</b>	<b>47,955</b>	<b>139,447</b>	<b>-</b>	<b>248,752</b>	<b>516</b>

#### vi) Residual contractual maturity as at 31 December 2017 of the whole portfolio, broken down by major types of credit exposure.

SL No.	Time Band	Musharaka	Murabaha	Ijarah	Others	Total	Off Balance Sheet Exposure
1	Up to 1 month	687	2,414	805	-	3,906	-
2	1-3 Months	1,230	1,790	1,765	-	4,785	29
3	3-6 Months	901	3,168	2,058	-	6,127	-
4	6-9 Months	1,796	1,780	2,521	-	6,097	115
5	9-12 Months	1,408	2,601	3,349	-	7,358	285
6	1-3 Years	15,077	13,974	18,959	-	48,010	81
7	3-5 Years	11,874	10,871	19,284	-	42,029	-
8	Over 5 Years	28,377	11,357	90,706	-	130,440	6
	<b>Total</b>	<b>61,350</b>	<b>47,955</b>	<b>139,447</b>	<b>-</b>	<b>248,752</b>	<b>516</b>

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

vii) Total Financing broken down by major industry or counterparty type as at 31 December 2017.

SI. No.	Economic Sector	Gross financings	Of Which NPLs	General Provisions Held	Specific Provisions Held	Reserve profit	Provisions made during the Year	Financings written off during the year
1	Import Trade	10,092	-	101	-	-	(21)	-
2	Export Trade	-	-	-	-	-	-	-
3	Wholesale & Retail Trade	15,708	-	157	-	-	96	-
4	Mining & Quarrying	-	-	-	-	-	-	-
5	Construction	85,862	-	859	-	-	134	-
6	Manufacturing	5,536	-	55	-	-	(11)	-
7	Transport & Communication	517	-	5	-	-	-	-
8	Electricity, gas & Water	-	-	-	-	-	-	-
9	Financial Institutions	-	-	-	-	-	-	-
10	Services	5,382	-	54	-	-	48	-
11	Personal financings	123,960	333	1,688	151	13	55	-
12	Agriculture and Allied Activities	-	-	-	-	-	-	-
13	Government	-	-	-	-	-	-	-
14	Non- Resident Lending	1,695	-	17	-	-	(11)	-
15	All Others	-	-	-	-	-	-	-
	<b>Total</b>	<b>248,752</b>	<b>333</b>	<b>2,936</b>	<b>151</b>	<b>13</b>	<b>290</b>	<b>-</b>

viii) Amount of impaired Financing as at 31 December 2017, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

SI. No.	Countries	Gross financings	Of Which NPLs	General Provisions Held	Specific Provisions Held	Reserve profit	Provisions made during the Year	Financings written off during the year
1	Oman	247,057	333	2,919	151	13	301	-
2	Other GCC Countries	1,695	-	17	-	-	(11)	-
3	OECD Countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
	<b>Total</b>	<b>248,752</b>	<b>333</b>	<b>2,936</b>	<b>151</b>	<b>13</b>	<b>290</b>	<b>-</b>

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

#### ix) Movement of gross Financing during the year

Sl. No.	Details	Performing Loans		Non-Performing financings			Total
		Standard	Special mention	Sub-Standard	Doubtful	Loss	
1	Opening Balance	226,016	558	22	195	-	226,791
2	Mitigation/ Changes (+/-)	(25,403)	25,241	114	(113)	161	-
3	New financings	36,587	-	-	-	-	36,587
4	Recovery of financings	(14,436)	(144)	(46)	-	-	(14,626)
5	Financing Written Off	-	-	-	-	-	-
6	<b>Closing Balance</b>	<b>222,764</b>	<b>25,655</b>	<b>90</b>	<b>82</b>	<b>161</b>	<b>248,752</b>
7	Provisions Held	2,936	-	23	21	107	3,087
8	Reserve profit	-	-	1	1	11	13
	<b>Total</b>	<b>219,828</b>	<b>25,655</b>	<b>66</b>	<b>60</b>	<b>43</b>	<b>245,652</b>

#### Credit Risk Mitigation: Disclosures for standardized approaches

##### Qualitative disclosure

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

- Financing receivables;
- Ijara assets – Ijarah Muntahia Bittamleek; and
- Equity & debt – type instruments;

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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 5. CREDIT RISK (continued)

#### Credit Risk Mitigation: Disclosures for standardized approaches (continued)

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.

As per Basel and CBO guidelines the bank stands in possession of the following eligible collateral for the : 1) Cash Exposure covered by Cash collateral stands at RO 2.2 Million; after application of haircut (0%) to the collateral the exposure stands at RO NIL.

### 6. MARKET RISK

#### Qualitative disclosure

Substantially all of the Bank's businesses are subject to the risk that market prices and rates will move and result in profits or losses for the Bank.

#### Market Risk 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 recognized this as equity type instruments carried at fair value through equity. The fair value of investments as of 31 December 2017 is RO 0.18 mn with cost amounts to RO 0.22mn.

#### 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 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.

Market Value of bonds in held for trading portfolio stands at OMR 11.17 mn as on 31 December 2017.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 6. MARKET RISK (continued)

An analysis of Impact of profit rate risk has been disclose in note 30.3.1 to financial statements. Profit bearing assets (net of provision) and liabilities according to repricing bucket are as follows:

Particular	Effective profit rate RO'000	within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	More than 5 years RO'000	Non-sensitive to profit rate RO'000	Total RO'000
<b>ASSETS</b>							
Financing Assets	5.6%	8,763	20,426	90,039	126,437		245,665
Due from banks		2,272	-	-	-	-	2,272
Investments	3.7%	-	-	11,173	3,307	183	14,663
Property and equipment		-	-	-	-	1,029	1,029
Other assets		-	-	-	-	1,480	1,480
Total profit bearing assets		<b>11,535</b>	<b>20,426</b>	<b>101,212</b>	<b>129,744</b>	<b>38,805</b>	<b>301,722</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>							
Due to banks under Wakala	3.8%	108	-	38,500	-	-	38,608
Equity of investment accountholders and other liabilities	2.7%	77,349	64,647	61,044	-	24,218	227,258
Shareholders fund		-	-	-	-	35,856	35,856
Total		<b>77,457</b>	<b>64,647</b>	<b>99,544</b>	<b>-</b>	<b>60,074</b>	<b>301,722</b>
Net gap		(65,922)	(44,221)	1,668	129,744	(21,269)	-
Cumulative net gap		(65,922)	(110,143)	(108,475)	21,269	-	-

#### 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.

The Bank treats its entire Foreign Exchange Exposure under Basel II Standardized method for capital calculation. The Net open position in all foreign currencies stands at OMR 4.87 mn ( OMR 4.80 mn position is in effectively pegged currencies) as on 31 December 2017.

#### Capital Charge

The Capital Charge for market risk exposures is measured based on Standardized approach in accordance with the guidelines issued by CBO under Circular BM1009. The Bank has implemented standardized duration based approach to arrive at capital requirement for bonds and debt securities. The capital charge for foreign exchange is computed based on three month higher of daily average of sum of net long or short positions held by the Bank. Further, Bank does not hold any trading position in Equity or commodities.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 6. MARKET RISK (continued)

#### Capital Charge (continued)

Table showing capital charge for profit Rate, Equity and foreign exchange risk as on 31 December 2017 is shown below:

Type of Risk	Capital Charge (RO '000)
Profit Rate Risk	224
Equity Position Risk	-
Foreign Exchange Risk	90

#### 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.

#### 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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 6. MARKET RISK (continued)

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. As December 2017, Bank's total available for sale investment stood at OMR 3.49 mn.

#### 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.

### 7. 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

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 7. LIQUIDITY RISK (continued)

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

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

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2017 was 87.5%.

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

	2017 Lending ratio
Year end	83.40
Maximum for the year	87.50
Minimum for the year	78.76
Average for the year	85.57

#### 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. 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 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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 7. LIQUIDITY RISK (continued)

#### 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.

### 8. OPERATIONAL RISK

#### Operational Risk Framework

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

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

Operational risk is 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:

- Fraud Risk
- 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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 8. OPERATIONAL RISK (continued)

#### Control and Mitigation of Operational Risk (continued)

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

During the year 2017, the bank has carried out a comprehensive BCP test including a volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board. The Bank has in place a crisis management team, and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the bank.

### 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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 10. INVESTMENT ACCOUNT HOLDERS (continued)

During the year ended December 2017 there were no appropriations made towards Profit equalisation and Investment risk reserve. Net profit is allocated to the pool participants based on weighted average balance. Participation fraction, weights of profit sharing ratios are pre-decided by the management of the bank and are initiated to the investors. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

#### **Mudaraba fee**

Mudaraba fee will be deducted from allocated profit as per the pre-agreed ratio as approved by SSB which will be advised to customers through website or by posting in branches. Bank can create reserves as allowed by Sharia and CBO for smoothing of returns to investors and risk management purposes. Two types of reserves allowed are Profit Equalization reserve (PER) and Investment Risk reserve (IRR).

#### **Profit Equalisation Reserve (PER)**

PER comprises amounts appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of IAH portion and a shareholders portion. Window is not maintaining any reserves. The basis for computing the amounts to be appropriated are applied in accordance with SSB directions.

#### **Investment Risk Reserve (IRR)**

This reserve is created out of the depositors' share of profit out of the Net Profit from the Common Pool. Purpose of the reserve is to offset the effect of future losses. The available balance in the reserve account shall be invested in the Common Pool and the profit earned by investing such balance will be added to the reserve account. The basis for computing the amounts to be appropriated are applied in accordance with SSB directions.

This is to secure suitable and competitive return to the depositors in case there are certain extra ordinary circumstances, depressing the return, which were anticipated by the depositors. The disposition of the reserve amount will take place with the prior approval of the SSB. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the depositors with the approval of SSB

#### **Transfer to or from Profit Equalization reserve (PER)**

Percentage to be approved by Bank management subject to internal sharia approval that should be appropriated by Bank out of the total common pool profit as per the policy of the bank before any distribution takes place, in order to ensure certain level of cushion for the Investment portfolio. Any provisions that are required against the Islamic financing assets or investments will be provided in the books as per the Bank's policy which will be in adherence to the central bank revised provisioning policy. The balance of the PER shall also be maintained as a current account.

#### **Transfer to or from (IRR)**

In case the rate of return to the depositors in a certain profit distribution period is substantially higher than the market rates, Bank's management may decide to deduct, after taking permission from the SSB, a portion of depositors' share of profit and transfer the same to the IRR.

In case the rate of return to the depositors in a certain profit distribution period is lower than the market, Bank's management may decide to compensate the depositors by transferring the required amount from the said reserve account to increase depositors' return.

Assignment of a portion of shareholders' profit to depositors

If required, the Bank may decide to allocate some portion from their own profit to a specific deposit category(s). This could be either due to increase in the rate of profit announced by other Islamic Financial Institutions / competitors or to encourage a specific category of depositors.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 10. INVESTMENT ACCOUNT HOLDERS (continued)

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

Type		As on 31 December 2017 Amount
1	Saving accounts	44,522
2	Term accounts	-
<b>Total</b>		<b>44,522</b>

#### II. Equity of Investment Accountholders – Ratios

RO in '000	2017	2016	2015
<b>Ratios and Returns</b>			
ROA (Net income before IA's distribution / total assets)	<b>1.9%</b>	1.7%	1.6%
ROE (Net income after IA's distribution / Shareholders equity)	<b>13.8%</b>	13.3%	12.8%
<b>PSR - Average Profit Paid</b>			
Profit sharing ratio (Mudarib : Investment Accountholders)	<b>40:60</b>	70:30	70:30
Average Profit paid to investment accountholders	<b>2.37%</b>	1.27%	0.86%
<b>Average Profit distributed per type of IAH</b>			
Savings (RO 100 – RO 999.999)	<b>0.26%</b>	0.22%	0.22%
Savings (RO 1,000 – RO 9,999.999)	<b>0.42%</b>	0.33%	0.33%
Savings (above RO 10,000)	<b>0.58%</b>	0.55%	0.55%
Call accounts	<b>0.30%</b>	0.33%	0.33%
Al Nama Smart Saving (RO 100 – RO 2,499.99)	<b>0.58%</b>	0.22%	0.22%
Al Nama Smart Saving (RO 2,500 – RO 49,999.99)	<b>2.08%</b>	1.32%	1.32%
Al Nama Smart Saving (RO 50,000 – RO 499,999.99)	<b>2.64%</b>	1.54%	1.54%
Al Nama Smart Saving (500,000 - 999,999.999)	<b>3.19%</b>	1.76%	1.71%
Al Nama (Above 1,000,000)	<b>3.55%</b>	-	-
Time deposits (below RO 25,000)	-	-	0.51%

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 10. INVESTMENT ACCOUNT HOLDERS (continued)

#### III. Assets allocation and distribution of profit (RO '000)

RO in '000	2017	2016	2015
<b>Average Assets Allocated</b>	<b>75,784</b>	<b>62,114</b>	<b>53,420</b>
<b>Total profits</b>	<b>5,196</b>	<b>4,577</b>	<b>3,914</b>
Profits to Shareholders	<b>3,616</b>	3,938	3,692
Profits to IAH	<b>1,580</b>	639	222
<b>Mudarib Share</b>	<b>783</b>	<b>447</b>	<b>140</b>

The calculation and distribution of profit was based on average balances.

There was no appropriation made towards Profit Equalization Reserve 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 2017 (except the investment in Al Hilal MENA Fund as mentioned in 6 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 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. During the year ended 2017, no income has been credited to charity account being prohibited by Sharia. Sources and use of charity by fund has been disclosed in statement of sources and uses of charity fund in Financial Statements.

### 15. COMPENSATION POLICY AND REMUNERATION OF SHARIA SUPERVISORY BOARD (SSB)

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

Following remuneration of Sharia Board has been approved by the general assembly;

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

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

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

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

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 16. GENERAL DISCLOSURES

#### TRAININGS

The Sharia Audit and Compliance Department (SACD) prepared a comprehensive training material on Al Hilal Islamic Banking Services Products and their Sharia Principles.

In both Arabic and English by including essential features of Islamic banking, Sharia structures, process flows, list of legal documentation and Sharia principles underlying to each product. The training material was made in line with Sharia Supervisory Board (SSB) Fatawa, Islamic banking guidelines issued by CBO and AAOIFI Sharia Standards. The training was made as mandatory for all the staff of Al Hilal Islamic Banking Services and Ahli Bank which was followed by the test.

The online training was launched by HR. The purpose was to ensure that information relating Sharia rules and principles for Islamic banking products is shared with all stakeholders so all the participants know about Sharia structure of each product of Al Hilal Islamic, Sharia process flow and legal documentation of financing products.

The online program was based on a presentation (in Arabic and English) with a short quiz at the end to ensure understanding.

Along with the online training for all the staff, the specific trainings were also conducted for SME, Corporate, Risk on the topic Sharia Principles of Al Hilal Islamic Banking Services SME Products and their Legal Documents. Further, most of branches of Al Hilal were given with the necessary training on Sharia requirements while preparation of legal documents. Additionally, Head of SACD participated in the newly launched Service Ijara product necessary training program for BMs, ABMs and Operations Department explained Services Ijara Product to the participants from Sharia perspective.

For 2018, the Head of SACD logged a timetable of the training to be conducted with the SSB for approval and a copy was sent to the Training and Development Team for tracking. Annual training budget is in place for employees; as part of the bank's overall training and development budget. The continued development, qualification and certification of all Islamic Banking personnel is an ongoing process.

#### COMPLAINTS

Ahli Bank has devised "Code of Ethics and Fair Practices - Customer Complaints Redressal Policy & Procedure" and same is implemented for Al Hilal Islamic Banking Services with regard to professional ethics as well as procedure to resolve customers' queries and complaints. According to the policy, any Islamic Banking related matter is sent to related department of Islamic banking to address and advice and there is proper mechanism in place and a responsible person is identified who collects complains and send the same to the relevant person.

#### AWARENESS

Head – SACD conducted lectures on Islamic Banking Theory and Practice in one of the colleges in Oman during 2017 for the students. The Bank has trained customer services representatives in all the branches and call center who provide appropriate guidance to customers with regard to Islamic Banking. Furthermore, product brochures are available at all the branches. Product feature and related SSB Fatawa are also available on the website for public information.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 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.

##### Step 1: Balance Sheet under Regulatory Scope of Consolidation

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

Year ended 31 December 2017	Published financial statements	Under regulatory scope of consolidation
<b>Assets</b>		
Cash and balances with Central Bank of Oman	36,613	36,613
Certificates of deposit	-	-
Due from banks	2,272	2,272
Loans and advances	245,665	245,665
Investments in securities	14,663	14,663
Loans and advances to banks	-	-
Property and equipment	1,029	1,029
Deferred tax assets	-	-
Other assets	1,480	1,480
<b>Total assets</b>	<b>301,722</b>	<b>301,722</b>
<b>Liabilities</b>		
Due to banks	38,608	38,608
Customer deposits	222,904	222,904
Current and deferred tax liabilities	-	-
Other liabilities	4,354	4,354
Subordinated bonds	-	-
<b>Total liabilities</b>	<b>265,866</b>	<b>265,866</b>
<b>Shareholders' Equity</b>		
Paid-up share capital	25,000	25,000
Share premium	-	-
Legal reserve	-	-
General reserve	-	-
Retained earnings	10,847	10,847
Cumulative changes in fair value of investments	9	9
Subordinated debt reserve	-	-
<b>Total shareholders' equity</b>	<b>35,856</b>	<b>35,856</b>
<b>Total liability and shareholders' funds</b>	<b>301,722</b>	<b>301,722</b>

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 17. BASEL III CAPITAL DISCLOSURE (continued)

#### 17.1 The 3 Step approach to reconciliation (continued)

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

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

Year ended 31 December 2017	Published financial Statements	Under Regulatory scope of consolidation	Reference
<b>Assets</b>			
Cash and balances with CBO	36,613	36,613	
Due from banks	2,272	2,272	
Financings – Net, of which:	245,665	245,665	
- Loans and advances to domestic customers	-	248,752	
- Provision against financings, of which:	-	(3,087)	
- Specific provision and Reserve profit	-	(151)	
- General provisions, of which	-	(2,936)	
- Amount eligible for T2	-	(2,587)	a
- Amount ineligible for T2	-	(349)	
Investments, of which	14,663	14,663	
- At fair value through income statement	11,173	11,173	
- At fair value through equity	3,490	3,490	
Fixed assets	1,029	1,029	
- Intangibles (CET1 adjustment)		496	
- Other fixed Asset		533	
Other assets	1,480	1,480	
<b>Total Assets</b>	<b>301,722</b>	<b>301,722</b>	
<b>Capital &amp; Liabilities</b>			
Paid-up Capital, of which:	25,000	25,000	
- Amount eligible for CET1	-	25,000	b
Reserves & Surplus; of which	10,856	10,856	
- Amount eligible for CET 1 (Retained Earnings)	-	5,889	c
- Amount eligible for T2 (Investments Fair value gains)	9	4	d
- AFS investments fair value loss (CET1 adjustment)	-	(2)	
- AFS investments fair value gain unutilized	-	7	
- Current year unaudited profit not eligible for CET1	-	4,958	
<b>Total Capital</b>	<b>35,856</b>	<b>35,856</b>	
Deposits	222,904	222,904	
Due to banks	38,608	38,608	
Other liabilities & provisions	4,354	4,354	
<b>TOTAL</b>	<b>301,722</b>	<b>301,722</b>	

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 17. BASEL III CAPITAL DISCLOSURE (continued)

#### 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)

For the year ended 31 December 2017		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
			b
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	25,000	
2	Retained earnings	10,847	c
3	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>35,847</b>	
4	<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>(498)</b>	d
5	<b>Common Equity Tier 1 capital (CET1)</b>	<b>35,349</b>	
<b>Additional Tier 1 capital: instruments</b>			
6	Additional Tier 1 capital (AT1)	-	
	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>35,349</b>	
<b>Tier 2 capital: instruments and provisions</b>			
7	Provisions	2,587	a
8	Fair value reserve of AFS investments	4	
	<b>Tier 2 capital before regulatory adjustments</b>	<b>2,591</b>	
	<b>Tier 2 capital: regulatory adjustments</b>	<b>-</b>	
	<b>Tier 2 capital (T2)</b>	<b>2,591</b>	
	<b>Total capital (TC = T1 + T2)</b>	<b>37,940</b>	

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 17. BASEL III CAPITAL DISCLOSURE (continued)

#### 17.2 Main features of Regulatory Capital

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

1	<b>Al Hilal Islamic Banking Services - Ahli Bank SAOG</b>	<b>Common Equity Share Capital</b>
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	25 million
9	Par value of instrument	25 million
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Capital allocated in January 2013
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	<b>Coupons / dividends *</b>	
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.

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 17. BASEL III CAPITAL DISCLOSURE (continued)

#### 17.3 Disclosure Template during the Transition Phase (continued)

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)		(RO' 000)	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	25,000	
2	Retained earnings	10,847	
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	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>35,847</b>	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
7	Prudential valuation adjustments (AFS investments fair value loss)	(2)	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(496)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-	
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage Servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 17. BASEL III CAPITAL DISCLOSURE (continued)

#### 17.3 Disclosure Template during the Transition Phase (continued)

	(RO' 000)	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
26	-	-
		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	<b>(498)</b>	<b>Total regulatory adjustments to Common equity Tier 1</b>
29	<b>35,349</b>	<b>Common Equity Tier 1 capital (CET1)</b>
<b>Additional Tier 1 capital: instruments</b>		
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	-	<b>Additional Tier 1 capital before regulatory adjustments</b>
<b>Additional Tier 1 capital before regulatory adjustments</b>		
37	-	Investments in own Additional Tier 1 instruments
38	-	Reciprocal cross-holdings in Additional Tier 1 instruments
39	-	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)
40	-	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)
41	-	National specific regulatory adjustments
	-	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
	-	OF WHICH: [INSERT NAME OF ADJUSTMENT]
	-	OF WHICH: [INSERT NAME OF ADJUSTMENT]
	-	OF WHICH: [INSERT NAME OF ADJUSTMENT]
42	-	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions
43	-	<b>Total regulatory adjustments to Additional Tier 1 capital</b>
44	-	<b>Additional Tier 1 capital (AT1)</b>
45	<b>35,349</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 17. BASEL III CAPITAL DISCLOSURE (continued)

#### 17.3 Disclosure Template during the Transition Phase (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)	(RO' 000)	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
<b>Tier 2 capital: instruments and provisions</b>		
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 (provision and fair value reserve)	2,591
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>2,591</b>
<b>Tier 2 capital: regulatory adjustments</b>		
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	<b>Total regulatory adjustments to Tier 2 capital</b>	-
58	<b>Tier 2 capital (T2)</b>	2,591
59	<b>Total capital (TC = T1 + T2)</b>	<b>37,940</b>
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	<b>224,002</b>
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	
	OF WHICH: ...	
60	<b>Total risk weighted assets (60a+60b+60c)</b>	<b>224,002</b>
60a	<i>Of which: Credit risk weighted assets</i>	207,000
60b	<i>Of which: Market risk weighted assets</i>	3,929
60c	<i>Of which: Operational risk weighted assets</i>	13,073

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 17. BASEL III CAPITAL DISCLOSURE (continued)

#### 17.3 Disclosure Template during the Transition Phase (continued)

	(RO' 000)	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
<b>Capital Ratios</b>		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.78%
62	Tier 1 (as a percentage of risk weighted assets)	15.78%
63	Total capital (as a percentage of risk weighted assets)	16.94%
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)	4.94%
<b>National minima (if different from Basel III)</b>		
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%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.00%
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Non-significant investments in the capital of other financials	183
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)	-
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	2,587
77	Cap on inclusion of provisions in Tier 2 under standardised approach	2,587
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	-
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

## Basel II Pillar III and Basel III Report (continued)

31 December 2017

### 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)
<b>High Quality Liquid Assets</b>			
1	<b>Total High Quality Liquid Assets (HQLA)</b>	-	43,800
<b>Cash Outflows</b>			
2	Retail deposits and deposits from small business customers, of which:	47,869	3,816
3	Stable deposits	18,402	869
4	Less stable deposits	29,467	2,947
5	Unsecured wholesale funding, of which:	53,333	25,881
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	45,146	17,695
8	Unsecured debt	8,186	8,186
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	1,033	103
15	Other contingent funding obligations	1	-
16	<b>TOTAL CASH OUTFLOWS</b>		29,801
<b>Cash Inflows</b>			
17	Secured lending (e.g. reverse repos)	-	
18	Inflows from fully performing exposures	5,308	2,654
19	Other cash inflows	1,339	1,339
20	<b>TOTAL CASH INFLOWS</b>	6,647	3,993
			<b>Total Adjusted Value</b>
21	<b>TOTAL HQLA</b>		43,800
22	<b>TOTAL NET CASH OUTFLOWS</b>		25,808
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		169.72%

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: 22 January 2018