His Majesty Sultan Qaboos bin Said

Leading the way in todays digital era..

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Annual Report 2018

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ahlibank

As a leading retail bank within the Sultanate of Oman, we are dedicated to offering our loyal customers an opportunity to enhance their lives and pursue their dreams, while also striving to become an employer of choice for the bright Omani graduates and employees. We constantly aim to reach new heights in success and profitability for our stakeholders and community. This Annual Report is a testimony to our achievements in 2018, it is a celebration of our team's dedication and our valued customers' belief in us as a financial partner. The year ahead is a year of embracing the digital transformation of Ahli Bank and the banking sector of Oman. The goals that

we have set will enhance the way financial transactions are done and will influence our customers' lives in the best way possible. We dedicate our continued efforts to the belief of our people and or our country, under the wisdom and leadership of His Majesty, the Sultan. The journey of an digital banking promise begins with embracing a digital transformation.

A new era in digital banking with our smart ATM's and digital banking services.

Sustainable Results

An overview

FIVE YEAR SUMMARY

RO ' Million	December 2018	December 2017	December 2016	December 2015	December 2014
Net profit	**28.8**	26.7	29.6	27.7	25.1
Total assets	**2,290.4**	2,014.6	1,899.7	1,898.3	1,644.8
Loans & advances and financings, net	**1,870.7**	1,634.5	1,522.1	1,518.1	1,388.9
Total Deposits	**1,661.6**	1,450.9	1,271.0	1,300.8	1,076.2
Total liabilities	**1,931.4**	1,709.8	1,656.7	1,671.0	1,445.3
Shareholders' equity	**359.0**	304.8	242.9	227.3	199.5
Return on average assets (ROAA)	**1.3%**	1.4%	1.6%	1.6%	1.7%
Return on average equity (ROAE)	**11.3%**	10.7%	12.6%	13.0%	13.1%
Cost to income ratio	**37.4%**	35.3%	35.9%	36.3%	34.3%
Capital adequacy ratio	**17.5%**	16.7%	15.0%	14.5%	14.0%
Net interest margin	**2.2%**	1.9%	2.2%	2.4%	2.5%
Earnings per share (baizas)	**19.2**	18.7	20.7	19.5	17.6
Total Number of Branches	**22**	20	20	20	19
- Conventional	**14**	13	13	13	12
- Islamic	**8**	7	7	7	7
ATM's	**33**	30	30	30	25
Number of staff	**598**	542	538	505	445

Net Profit
RO '000's

2014	25,127
2015	27,727
2016	29,552
2017	26,667
2018	**28,786**

Total Assets
RO '000's

2014	1,644,811
2015	1,898,265
2016	1,899,654
2017	2,014,582
2018	**2,290,390**

Total Loans, NET
RO '000's

2014	1,388,871
2015	1,518,052
2016	1,522,106
2017	1,634,458
2018	**1,870,677**

Shareholder's Equity
RO '000's

2014	199,530
2015	227,283
2016	242,948
2017	254,827
2018	**254,980**

2018 AT A GLANCE

The Bank's total assets grew 13.7% to RO 2,290.4 million; customers' deposits increased by 14.5% to reach RO 1,661.6 million; and total loans and financing grew by 14.5% to reach RO 1,870.7 million. Total Equity increased to RO 359.0 million from RO 304.8 million last year and return on shareholders' equity reached 11.3%.

Board of Directors

Hamdan Ali Nasser Al Hinai

Anwar Hilal Hamdoon Al Jabri

Sanjeev Baijal

Keith Gale

Mustafa Shafqat Anwar

Khalid Ali Saif Al Yahmadi

Abdul Hameed Ahmed Mohamed Al Bulushi

Rajeev Gogia

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 Defense; Chairman, Oman Power and Water Procurement Co. SAOC; Director, Oman Trading Company.

2. Anwar Hilal Hamdoon Al Jabri,
First Deputy Chairman

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA; Chief Executive Officer of Jabreen Capital; Previous experience as Investment Director of Oman Investment Fund (A Sovereign Wealth Fund) and CEO of OIF's subsidiary National Pioneer Investment & Development Company. Having more than 18 years of industry experience and various leadership positions.

3. Sanjeev Baijal
Second Deputy Chairman

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

4. 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; 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.

5. 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.

6. Khalid Ali Saif Al Yahmadi
Director

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; Chief Investment Officer 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.

7. Abdul Hameed Ahmed Mohamed Al Bulushi
Director

Hold High Diploma in Development, United Kingdom; Bachelor degree in Law, Egypt; Legal Expert in Civil Service Employees Pension Fund. Director, Oman Hospitality Company and Director, Al Nama Poultry Company. Having more than 27 years of experience in Ministry of Civil Service & Civil Service Employees Pension Fund in different senior positions.

8. Rajeev Gogia
Director

Member of the Institute of Chartered Accountant, India and Bachelor in Commerce, India; Group Head of Strategic Development: Strategic Development, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank Egypt SAE, Egypt; Al Hilal Life B.S.C.(c); Al Hilal Takaful B.S.C. (c), Bahrain; Kuwait & Middle East Financial Investment Co.; Previous experience as Senior Division Head – Strategic Development, National Bank of Dubai, UAE; Vice President (Consulting & Business Development), Polaris Software Lab Ltd., UAE; Executive Consultant, KPMG, UAE.

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 2018.

	31-Dec-18	31-Dec-17	Growth %
	RO Million		
Total assets	**2,290.4**	2,014.6	13.7%
Loans & advances and financing, net	**1,870.7**	1,634.5	14.5%
Customers' deposits	**1,661.6**	1,450.9	14.5%
Equity	**358.9**	304.8	17.7%
Operating income	**62.1**	56.2	10.5%
Operating expenses	**23.3**	20.6	13.1%
Profit for the year	**28.8**	26.7	7.9%

ECONOMIC OUTLOOK

The year 2018 continued to be a challenging year for the world and the region, in terms of prolonged economic retrenchment.

According to International Monetary Fund (IMF), the global growth rate is projected to rise to 3.7% in 2018 and 2019. However, the global growth continues to be surrounded by a number of challenges, particularly trade tensions between major economies, uncertainty regarding monetary policy in advanced countries, high level of global indebtedness, and mounting geopolitical risks. Oil prices have experienced great volatility during 2018, reached as high as US$ 89/barrel in September 2018, but then fell back to nearly US $ 50/barrel in December 2018. This is due to several factors including market fundamentals (demand & supply) and geopolitical risks.

As compared to the last three years (2015-2017), the performance of Oman's 2018 fiscal budget improved. The growth was supported by an increase in hydrocarbon activities, notably gas activities. In Addition, non-hydrocarbon activities has registered an increase, largely due to improved activities in manufacturing sector and mining industry. According to international institutions, oil prices are projected to average between US$ 60-65/barrel in 2019, while the Oman's Budgeted price for 2019 stands at US$ 58/barrel. It is expected that the growth of GDP will continue to improve over 2019, to at least 3% in real terms, supported by the growth of oil and non-hydrocarbon activities.

Despite all the challenges, the Banking sector in Oman has continued to show growth in assets and positive returns. ahlibank has continued its positive growth through solid capitalization; stable funding and low levels of non-performing loans, due to its prudent risk management approach.

FINANCIAL PERFORMANCE

During 2018 ahlibank commemorated its 10th anniversary with continued and sustainable growth to create long-term value for our stakeholders. The Bank's total assets grew by 13.7% to RO 2,290.4 million; customers' deposits increased by 14.5% to reach RO 1,661.6 million; and total loans and financing grew by 14.5% to reach RO 1,870.7 million. Total Equity increased to RO 358.9 million from RO 304.8 million last year and return on shareholders' equity reached 11.3%. The Bank's total operating income increased by 10.5% to reach RO 62.1 million. As a results of planned business expansions operating expenses increased by 13.1%. The Bank's profit after tax increased by 7.9% to reach RO 28.8 million.

In December 2018, the Bank completed its second Basel III Compliant Perpetual Subordinated bonds (Additional Tier 1 Capital Instruments) issue of RO 54 million, resulting in increasing the Bank's Capital Adequacy Ratio to 17.5% by end of 2018. This increase in capital will support loans book growth in 2019. Corporate and SME lending increased by RO 216.1 million, in line with the Bank's risk management strategies, and further growth is expected to continue in the coming years.

"The bank has embarked on a significant change programme that addresses the core of our business - to leverage technology in ways of direct benefit to our customers"

RETAIL GROWTH

The Bank increased its retail banking presence by opening a new Islamic branch in Sinaw during July 2018. Also the Bank opened its conventional banking branch at Suwaiq recently and Buraimi branch is expected to start operating from February 2019. The Bank is in the process of further expanding its branch footprint, while continuing to invest in alternate channels and innovative new products.

During the year, the MyHassad prize scheme rewarded more number of customers, increasing both the number of winners & prizes. There were special draws on National Day and Omani Women's Day MyHassad also embarked on a new journey with a new brand identity and has been rebranded as "Wafra". In 2019, the Bank will introduce two "Salary for Life" grand prizes, one in mid-year and the other at the end of the year.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) continues to be an important part of ahlibank's strategy. As an integral part of that responsibility, ahlibank continues to support the community and participate in the development of society.

During the year, ahlibank has extended its support to the children of social security families. Marking the first day of Eid with an impactful and meaningful beginning for the festive holiday, the Bank team celebrated Eid-ul-Fitr jointly with patients of Khoula Hospital and the resident of the Child Care Centre located in Al Khoudh. The team visited the houses at the Childcare Centre exchanging Eid greetings and presenting special Eid gifts and hampers.

During Holy month of Ramadhan, the Bank also supported 'Fak Kurba' initiatives and in October, the Bank organized a Breast Cancer Walkathon to raise much-needed funds.

LOOKING AHEAD

As we progress into the first quarter of a new financial year, our focus will remain on prudent growth by integrating our diversified business model with a focused strategy to provide unparalleled services, leading to sustainable growth. We will maintain our fundamental strengths in cost discipline and prudent risk assessment, while further diversifying revenue streams.

Of particular note is our commitment to digital technologies. We have embarked on a significant change programme that addresses the core of our business – to leverage technology in ways of direct benefit to our customers. The Bank has committed to invest in significant digital solutions including upgraded internet and mobile banking platforms; an advanced ATM network; and full-scale enterprise solutions offering our corporate customers fully integrated and cross-platform financial solutions.

ACKNOWLEDGEMENTS

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 and, above all, to our clients for their loyalty and trust in our efforts.

Hamdan Ali Nasser Al Hinai
Chairman

Dated: 28 January 2019

Online banking anywhere, anytime

With Ahli Bank's wide range of online banking options, customers no longer need to go to the bank to complete their financial transaction. Be it bill payments, transfers or account updates.

Whether you are in the comfort of your home, watching your favorite series, business lounge of a busy airport waiting for your flight or a beach resort at the other end of the world. You can log in to your Ahli account and manage your account on your mobile device or laptop. This is convenience, in the palm of your hand.


INDUSTRIAL
453 537 687 795 831 862 972
76%
DOWNLOAD PROGRESS
68%
48%
English
ahlibank
CUSTOMER
PAYMENT
PRODUCT
MANAGEMENT
MONEY
CORPORATE
SUCCESS
ENTERPRISE
COLLABORATION
PARTNER
OFFICE
SERVICE
EXCELLENCE
INDUSTRIAL
20%
30%
40%
50%
60%
70%
ENTERPRISE
COLLABORATION

Digital banking with a human touch

While embracing the digital transformation and introducing new advanced technologies that will redefine the way people interact with banks and make their financial transactions, we strongly believe that what differentiates us from other banks in Oman and the region is our focus on the essence of customer service, people.

Our digital advancement is a tool that will make life easier for our customers and employees alike, giving everyone an opportunity for greater human interaction while digital processes are completed seamlessly in the background.

Management Discussion and Analysis

ECONOMIC REVIEW

The year 2018 continued to be a challenging year for the world and the region, in terms of prolonged economic retrenchment.

Oman's fiscal Budget 2019 deficit is reduced by 7% as compared to 2018 and is projected to be at RO 2.8 billion, which is RO 200 million lower than the 2018 budget and RO 100m lower than the 2018 actual deficit. Oil and gas revenues are expected to increase by 10% compared to the 2018 budget contributing 74% of total government revenues to RO 7.4 billion. Considering the recovery of oil prices in international market during 2018, the 2019 budget is based on an average oil price of US$58/barrel, which is 16% higher than the 2018 budgeted oil prices of US $50/barrel. Non-oil and gas revenues are projected to be at RO2.7 billion, reflecting a 2% decline compared to 2018's budgeted revenue. Expenditure for the year has been budgeted at RO 12.9 billion, reflecting an increase of 3% compared with the budgeted spending in 2018.

In 2019 budget statement, the government has signified the importance of the private sector for providing finance and investing in Tanfeedh projects and initiatives. The government plans to continue with policies focused on economic diversification by enhancing private sector participation. At the same time the focus will be on improvement of the investment climate, promote public private partnership and offer support to the small and medium enterprises by assigning a share of government projects to such entities.It is expected that the growth of Gross Domestic Product (GDP) will continue to improve over 2019, to at least 3% in real terms.

FINANCIAL SECTOR

Amid the prevailing operating conditions and a growing credit portfolio, asset quality of the banking sector remained sound and banks posted decent profits during 2018. Total credit extended by banks in Oman registered a growth of 6.5% in 2018 compared to 2017. Total deposits registered growth of 7.8% in 2018 as compared to 5.6% in 2017.

Due to volatile oil prices, emerging markets turmoil, regional geopolitical developments and US Fed rate hike, 2018 was one of the toughest years for Muscat Securities Market (MSM) and benchmark MSM 30 Index closed at 4,323.74 points at year end 2018. Despite the worst annual decline in many years, market capitalization increased by 1.3% to RO 18.2 billion mainly due to listings of new companies, rights issues and government and corporate bonds.

Bank's Performance

Despite the challenging economic and financial situation driven by highly volatile oil prices in 2018, the bank's total operating income reached RO 62 million, an increase of 10.6% compared to 2017. The bank achieved a return of shareholders' equity of 11.3% and net profit after tax of RO 28.8 million. Due to continuous prudent risk management practices by the bank, the ratio of non-performing loans stood at 1.7% in 2018, although total loans and financing increased by 14.9% in 2018.

Capital and Reserves

Capital and Reserves of the Bank as of 31 December 2018 stood at RO 359 million compared to RO 304.8 million as at 31 December 2017. The bank has completed the issue of Basel III compliant Perpetual Subordinated Bonds (Additional Tier 1 Capital Instruments) through private placement basis for RO 54 million in Dec 2018. The bank maintained sufficient capital buffers and remained highly capitalized, the capital adequacy ratio of the bank stood at 17.5% comfortably above the regulatory requirement of 12.875% (including capital conversion buffer).

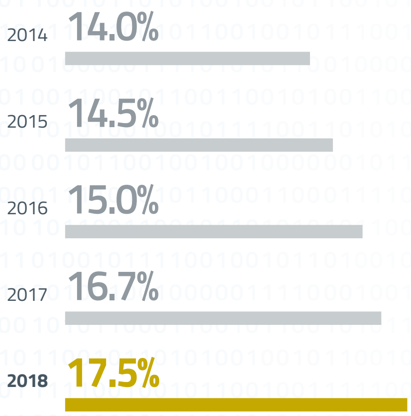
Loans and Financing

The increase in gross loans and financing during 2018 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 gross loan and financing increased by RO 246.538 million to RO 1.905 billion as at 31 December 2018 from RO 1.658 billion as at 31 December 2017. The focus in 2018 having been to maintain high asset quality with a low Non Performing Loans to Gross Loans ratio of 1.7%; comparably the lowest amongst peers in the industry.

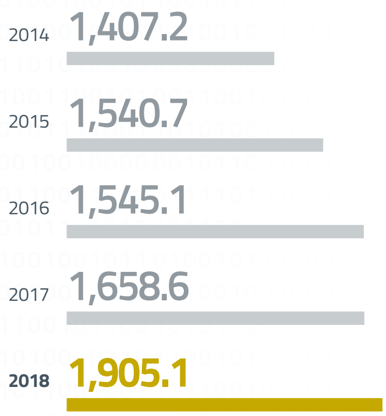
Customer Deposits

Customer deposits of RO 1.661 billion at year-end 2018 reflected an increase of 14.5% compared to 2017. The bank maintains its strategy to focus on expanding a lower cost funding base, through product innovation and retail branches expansion.

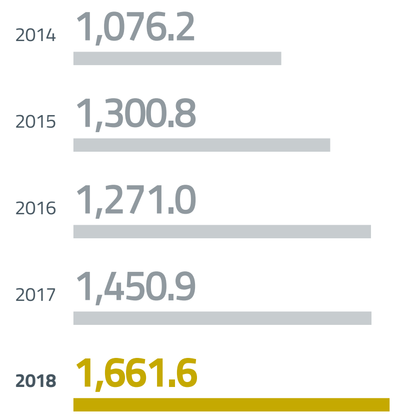
Capital Adequacy Ratio
Percent



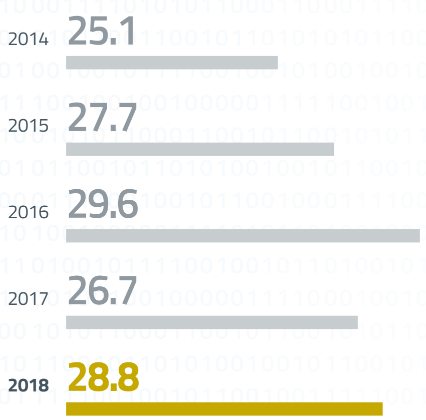
Gross Loans & Advances and Financing
RO' Million



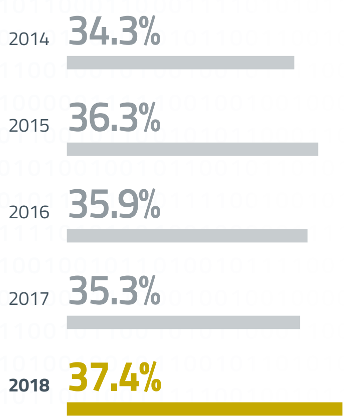
Customer Deposits
RO' Million



Profit after Tax
RO' Million



Cost-to-Income Ratio
Percent



Profitability

Net profit after tax increased by 7.9% to RO 28.8 million as compared to 2017 mainly on account of improved interest margins combined with cost efficiency initiatives. The bank maintained the cost to income ratio at 37.4%, the best amongst peers in the industry.

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.

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;
- Sharia compliant 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 electronic-banking business to business (B2B) platform which is in the process of being upgraded to state of the art system to be launched in year 2019 with cutting edge technology focusing on driving efficiencies to enable the client to focus on their core businesses.

SME Banking

Small and Medium Enterprises (SMEs) are expected to play a key role in Oman's GDP in the future. Government authorities and private companies are working towards promoting and encouraging small and

Management Discussion and Analysis (continued)

medium-sized enterprises (SME). ahlibank recognize the presence of SMEs in our economy and understand their needs for innovative and effective banking solutions. The SME banking division has a team of experienced customer-focused relationship managers with wide sector experience who can offer a wide range of products suitably structured to the needs and profile of each SME. ahlibank 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.

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. In the year 2018, the bank has opened two new branches as part of network expansion plans.

Products and services that are in development for launch in 2019 includes revamp of existing products, replacement of ATM's with fully functional machines (FFM), mobile banking integration etc., 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 stakeholder's 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.
- 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"

ahlibank aims 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. ahlibank is 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.

Services

- Dedicated Private Banking Manager available at all times to meet your banking needs.
- Service centers and lounges to conduct your banking transactions conveniently.
- 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 750 international airports.
- Preferential pricing on Deposits and Loans.
- Special discounted tariffs on bank charges.
- Discounts and offers from selected exclusive merchants.
- Personalized concierge service, free travel insurance, purchase protection and extended warranty.

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.

Cards

ahlibank offer a comprehensive range of credit and debit cards, across various customer segments including Classic, Gold, Platinum, Signature and Infinite 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 travel miles, travel protection insurance, extended warranty on appliances, airport lounge access, purchase protection, concierge services etc.

Personal Loans

ahlibank's personal loan facility branded as "MyLoan", offers ready cash with high loan amounts, easy and suitable repayment options, 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 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.

AlWafra

ahlibank's MyHassad product is rebranded as AlWafra recently. The AlWafra, 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 AlWafra is that customers can simply open an account today and win tomorrow. AlWafra offers one of the unique prizes of RO 250,000 "Salary for Life" paid as RO 1000 monthly for 250 months. In 2019, there will be two draws for "Salary for Life" at half-year and year-end respectively.

MySaver

With My Saver 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. is paid monthly to the account based on daily available balance and free life insurance coverage is bundled with the account for up to RO 50,000.

Bancassurance

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

Alternative Channels

In order to meet the growing demand for efficient ATM and online services, ahlibank continues to enhance customer experience by providing 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 conventional and Islamic branches network across the Sultanate, coupled with host of e-channel services including Internet Banking, Mobile Banking, SMS Banking, 24×7 Call Centre, ATMs, CDMs, Service Centres and Kiosks, the bank remains accessible to customers whenever and wherever they require.

By subscribing to ahlibank's Internet Banking Service, customers can enjoy easy access to services such as viewing transactions of accounts and credit cards, making 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 also has a 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.

TREASURY AND FINANCIAL INSTITUTIONS

Treasury

ahlibank's professional and experienced Treasury team, provides a comprehensive package of services in both treasury and investment products to the corporate, commercial and government institutions. The Treasury prides itself on being one of the most proficient dealing rooms in Oman, providing corporate and individual clients with a wide selection of foreign exchange, money market and derivative products ranging from the traditional to the customized.

Our Treasury and Investment division is able to offer best in class service with unparalleled access to the local market and regional markets. 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

With the globalisation of the world economy, the demand for more efficient financial services has been growing. Financial Institutions (FI) covers global relationships with credit institutions and serves as entry point and first contact for credit institutions with ahlibank. FI manages ahlibank's business with local and foreign banking. ahlibank is recognized for customer knowledge and its prospective relationship is highly qualified for global financial institutions to expand Oman corporate business in various countries. Our bank also provides "nostro service" in major currencies and "vostro service" for Omani Rial Account. In addition, ahlibank is providing interbank clearing with over 100 overseas networks in various countries. Complementing the activities of FI is a "Trade Finance Team" specialized in structuring products and services that meet unique needs of different banks and clients.

FI is highly active in supporting and coordinating ahlibank's relationship with various correspondent banks and provides an array of products and services including trade finance and international payments. FI manages its correspondent credit relationships through dedicated and experienced relationship managers.

Management Discussion and Analysis (continued)

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 Wholesale & Retail Banking in providing various fund based credit facilities such as Export Finance, Bill Discounting, Receivables/Invoice Finance, Loans against Imports and Non-Fund based credit facilities such as 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 experienced, trained and updated with the requisite skill set, latest developments in the local and international markets, the rules governing international trade with a focus on customer service.

ASSET MANAGEMENT

ahlibank managed equity funds and discretionary portfolios, the heightened volatility in global markets and the prolonged low oil prices has pushed MSM to its historical low levels. Our Al Hilal MENA Fund (Sharia compliant) lost 12.9% (FY 2018). In contrast, MSM Sharia Index declined 15.6% while S&P GCC Sharia Index ended up at 5.4% in 2018.

The asset management division is planning to expand its offering to markets beyond the GCC as well as multiple asset classes. Our deep understanding of regional markets combined with investment discipline has enabled us to outperform against respective benchmarks and are confident that our value investing based strategy will reward our clients in 2019.

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 eight dedicated branches located in Wattaya, Bahla, Rustaq, Saham, Salalah, Samail, Al Mawaleh and Sinaw. In addition to the branches, customers are also served through ATMs and CDMs across the Sultanate. With the 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 Sharia compliant 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* - Term deposits under Mudaraba and Wakala modes for customers who want to earn higher 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* - Easy repayment tenors at very affordable profit rate with higher amount limit 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
5. *Credit Cards* - Visa Platinum and Signature, socially responsible Islamic credit cards, bundled with the benefits of global airport lounge access, no annual fee, takaful 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 Committee. The primary goal of risk management is to ensure that the bank's asset and liability profile, its trading positions and its credit and operational activities are not exposed to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, nor concentrated, relative to the bank's capital and financial standing.

The bank manages the risks effectively and efficiently by monitoring and approving all retail and commercial credit applications. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading to identifying the various associated risks. The bank complies with Basel III Norms as well as IFRS9 guidelines issued by Central Bank of Oman. Further, the bank is in the final stages of implementation of IT systems for facilitating the IFRS9 related calculations as well as Basel III norms related liquidity ratios.

Risk Management Division formulates policies and procedures taking into account of 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, a Board Sub-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 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 and Credit Committee
- Nomination and Remuneration 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.

Internal Audit

The Internal Audit function reviews and provides an independent assurance to the Board of Directors and executive management on the effectiveness of the Bank's internal control, risk management and governance systems and processes. It is an integral part of the control environment of the Bank and provides independent assessment and reviews through the audits based on an annual plan. It shares the findings with the senior management and submits the same to the Audit & Compliance Committee. All issues are followed up for its logical conclusion and timely corrective action.

INFORMATION TECHNOLOGY

Services rendered by Information Technology (IT) department conform to and support all aspects of the bank's strategic plan. IT department's continuous commitment in delivering technology based products and services to customers which yielded positive results.

IT, along with business and support units of the bank works very closely to ensure that ahlibank add value to our customers through delivery of cost-effective services such as successful implementation of POS machines, BPM based account opening for corporate and SME etc.,

Since the IT department realized that the business requires a customer-focused digital experience for achieving success, it will provide advanced digital experiences for customers by aligning the organization, processes and technology to power it. As IT department is technology driven, it is committed to develop and maintain highly effective, reliable and secure IT solutions in line with the business and regulatory requirements.

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 the bank continuously analyses and strengthens its controls to ensure that the customers and their confidential data are protected.

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. IT infrastructure, network and security are continuously upgraded & new devices and software are installed based on the latest applications.

HUMAN RESOURCES

ahlibank believes that its employees are key to success for the organization goals and strategy. In this context, the Human Resource Department plays a central role by aligning individual goals of employees with the goals of the bank. The bank has nurtured a culture i.e., a balance between performance orientation and employee well-being. This balance helped us to sustain higher levels of performance as well as provide an enriching experience for its employees.

The Bank's Human Resource philosophy is to hire the right talent and provide a collaborative work environment to all employees that enables them to perform, develop and grow. The structured investment in Middle Management Development Programs, Leadership Development, Job Rotation and various other programs helps in enhancing the capabilities of the employees and providing career growth opportunities that helps them to contribute more to the growth of the bank. Further, as part of the bank's Social Responsibility initiatives, many programs were conducted with active participation by all employees which enhance the connect among employees as well as strengthen their bond with the bank.

Taking inspiration from His Majesty's vision of enabling & empowering young Omani talent, the Bank has designed & implemented many programs to realise the vision. Apart from exceeding the Omanisation targets, the Bank has inducted Management Trainee's into its workforce through a structured program. Internship programs were conducted for young Omani's to gain first-hand experience of working in an office set-up and make them more employable after they complete their education. At all times, the bank remains committed to His Majesty's vision.

CORPORATE SOCIAL RESPONSIBILITY

During 2018, ahlibank made remarkable progress with its various CSR activities. It brought the smile on children's face on the first day of Eid Al Fitr where the ahlibank team along with Executive Management members visited Khoula Hospital and distributed gifts to the patients and children who are admitted

Management Discussion and Analysis (continued)

there. It has made a remarkable touch on the parents of the sick children who were not able to celebrate at home with their families.

Moreover, ahlibank's voluntary team *"Ahli_cares"* also contributed in helping the children of social security families in Wilayat Murtrah in coordination with the Ministry of Social Development along with Ministry of Education to provide School essentials to children in 19 Schools during "Back to School" campaign by ahlibank and the employees of the bank. The bank was committed to the growth of education and development in Oman.

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

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

ahlibankers also participated to the Breast Cancer Walkathon organised by the Cancer Association and the Beach Clean-up campaign in coordination with Be'a in the last quarter of year 2018.

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

LOOKING FORWARD

Levels of economic activity in Oman are expected to stabilise in 2019, with the increased output from Khazzan gas filed, stronger fixed investment, various government initiatives to strengthen non hydrocarbon revenues and prudent fiscal management to maintain the deficit at a

sustainable level. The 2019 budget aims to allocate sufficient funds to strategic infrastructure projects, which will have a positive impact on financial sector and private sector. 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

Said Abdullah Al Hatmi
Chief Executive Officer

Abdullah Salim Al Jabri
Deputy CEO
Support Services

Bilal Anwar
Deputy CEO
Wholesale Banking

Ghada Abdul Latif Al Balushi
General Manager
Head of Risk Management

Hanaa Al Kharusi
General Manager
Corporate Banking

Balakrishnan Sriram
AGM Head of Finance

Said Al Hamdani
DGM Head of Human Resources

Abdul Majeed Al Hooti
DGM Properties and General Services

Yousuf 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 Salim Al Maamari
AGM Head of Compliance & Legal

Fahad Khalfan Al Shuaili
AGM Head of Internal Audit

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

Taher AlBakhsh Al Balushi
AGM Risk Management

Muneer Ahmed Al Balushi
AGM Head of Retail Distribution

Advanced digital services that support industry and business

For more than a decade, Ahli Bank have supported the highly demanding corporate world. Through an ever expanding portfolio of services such as Letters of Credit, Letters of Guarantee, Trade Finance, Treasury, etc.

With the digital transformation, we are offering all our services with a more streamlined digital approach to offer convenient solutions that push the boundaries of possibility and the potential of growth.

Better offering, catered for you

At Ahli Bank, you are the center of our world. We invest time and go to great lengths to guarantee your satisfaction. Offering you unmatched customer service and customized products that help you grow and pursue your dreams.

Our range of debit and credit cards are specifically crafted for your needs, with the expansion of digital transactions through online banking you can securely manage your account and payments online and enjoy the luxuries of life with peace of mind.

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 2018; Audit Committee and Board minutes of meetings held during the year ended 31 December 2018; 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 2018.
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 2018 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 2018 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 2018 and does not extend to any financial statements or any other reports of the Bank, taken as a whole.

Kenneth MacFarlane
28 JANUARY 2019

Corporate Governance Report

31 December 2018

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.
6. Fairness and equality treatment to shareholders, employees and related parties.

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

CORPORATE GOVERNANCE IMPLEMENTATION INITIATIVES AT AHLI BANK SAOG

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

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

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

Board of Directors

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

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 Defense; Chairman, Oman Power and Water Procurement Co. SAOC; Director, Oman Trading Company.

Anwar Hilal Hamdoon Al Jabri
First Deputy Chairman

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA; Chief Executive Officer of Jabreen Capital; Previous experience as Investment Director of Oman Investment Fund (A Sovereign Wealth Fund) and CEO of OIF's subsidiary National Pioneer Investment & Development Company. Having more than 18 years of industry experience and various leadership positions.

Sanjeev Baijal
Second Deputy Chairman

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

Khalid Ali Saif Al Yahmadi
Director

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; Chief Investment Officer 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.

Abdul Hameed Ahmed Mohamed Al Bulushi
Director

Hold High Diploma in Development, United Kingdom; Bachelor degree in Law, Egypt; Legal Expert in Civil Service Employees Pension Fund. Director, Oman Hospitality Company and Director, Al Nama Poultry Company. Having more than 27 years of experience in Ministry of Civil Service & Civil Service Employees Pension Fund in different senior positions.

Rajeev Gogia
Director

Member of the Institute of Chartered Accountant, India and Bachelor in Commerce, India; Group Head of Strategic Development: Strategic Development, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank Egypt SAE, Egypt; Al Hilal Life B.S.C.(c); Al Hilal Takaful B.S.C. (c), Bahrain; Kuwait & Middle East Financial Investment Co.; Previous experience as Senior Division Head – Strategic Development, National Bank of Dubai, UAE; Vice President (Consulting & Business Development), Polaris Software Lab Ltd., UAE; Executive Consultant, KPMG, UAE.

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 2018

Sl. No.	Board Meeting
1.	22 January 2018
2.	27 March 2018
3.	25 April 2018
4.	25 July 2018
5.	2 September 2018
6.	28 October 2018
7.	6 December 2018

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
Anwar Hilal Hamdoon Al Jabri*	First Deputy Chairman	Independent	7	ECC, NRC	Yes
Sanjeev Baijal*	Second Deputy Chairman	Non-Independent	6	ACC	Yes
Keith Henry Gale	Director	Non-Independent	7	ECC, ERC, NRC	Yes
Mustafa Shafqat Anwar	Director	Non-Independent	7	ERC	Yes
Khalid Ali Saif Al Yahmadi	Director	Independent	5	ACC, ERC	No
Abdul Hameed Ahmed Mohamed Al Bulushi***	Director	Independent/ Representing Civil Service Employees Pension Fund	5	ACC	N/A
Rajeev Gogia****	Director	Non-Independent/ Representing Ahli United Bank	1	ECC	N/A
Rashad Khamis Hamed Al Battashi***	Director	Independent/ Representing Civil Service Employees Pension Fund	2	ACC	Yes
Adel Mohamed Abdelshafe El-Labban****	First Deputy Chairman	Non-Independent/ Representing Ahli United Bank	2	ECC, NRC	No

* Re-election of First & Second Deputy Chairman approved by the Board on 28th October 2018.

** Re-composition of Board Committees approved by the Board on 28th October 2018.

*** Civil Service Employees Pension Fund changed its representative on 27th March 2018.

**** Ahli United Bank changed its representative on 26th August 2018.

\# 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 & Compliance Committee

B Executive & Credit Committee

C Executive Risk Committee

D Nomination & Remuneration Committee

A. Audit and Compliance Committee

The role of the Audit and Compliance Committee includes:

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

Composition of Audit and Compliance Committee and Details of Meetings held and Attendance Record of Members during the year 2018:

Composition of Audit and Compliance Committee		Meetings Dates			
Director's Name	**Position**	**22-Jan-18**	**25-Apr-18**	**25-Jul-18**	**28-Oct-18**
Abdul Hameed Ahmed Mohamed Al Bulushi*	Chairman	N/A	Yes	Yes	Yes
Sanjeev Baijal	Member	Yes	Yes	Yes	Yes
Khalid Ali Saif Al Yahmadi	Member	Yes	Yes	Yes	Yes
Rashad Khamis Hamed Al Battashi*	Chairman	Yes	N/A	N/A	N/A
Attendance	-	3	3	3	3

* Civil Service Employees Pension Fund changed its representative on 27th March 2018.

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 2018:

Composition of Executive and Credit Committee		Meetings Dates			
Director's Name	**Position**	**22 Feb 2018**	**22 May 2018**	**27 Sep 2018**	**19 Dec 2018**
Anwar Hilal Al Jabri*	Chairman	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Rajeev Gogia**	Member	N/A	N/A	N/A	No
Adel Mohamed Abdelshafe El-Labban**	Chairman	Yes	Yes	N/A	N/A
Attendance		3	3	2	2

* Re-composition of Board Committees approved by the Board on 28th October 2018.

** Ahli United Bank changed its representative on 26th August 2018.

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 2018:

Composition of Executive Risk Committee		Meetings Dates			
Director's Name	**Position**	**22 Feb 2018**	**22 May 2018**	**27 Sep 2018**	**19 Dec 2018**
Keith Henry Gale	Chairman	Yes	Yes	Yes	Yes
Mustafa Shafqat Anwar	Member	Yes	Yes	Yes	Yes
Khalid Ali Saif Al Yahmadi*	Member	N/A	N/A	N/A	Yes
Anwar Hilal Hamdoon Al Jabri*	Member	Yes	Yes	Yes	N/A
Attendance		**3**	**3**	**3**	**3**

* Recomposition of Board Committees approved by the Board on 28th October 2018.

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 2018:

Composition of Nomination and Remuneration Committee		Meetings Dates	
Director's Name	**Position**	**27 Mar 2018**	**6 Dec 2018**
Hamdan Ali Nasser Al Hinai	Chairman	Yes	Yes
Anwar Hilal Hamdoon Al Jabri*	Member	N/A	Yes
Keith Henry Gale	Member	Yes	Yes
Adel Mohamed Abdelshafe El-Labban*	Member	No	N/A
Attendance		**2**	**3**

* Re-composition of Board Committees approved by the Board on 28th October 2018.

PROCEDURE FOR STANDING AS A CANDIDATE FOR THE BOARD

Anyone who wishes to stand as a candidate for the Board and is eligible for the same as per the regulations as well as the Articles of Association, is required to submit an application form (as prescribed by the Capital Market Authority) at least 2 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 Taher Al-Ibrahim
Member

Dr. Mohammed Taher is currently working as Assistant professor at Sultan Qaboos University (SQU). Previously, Dr. Taher has held several senior positions in academics and judiciary. He is a former judge and lawyer at High Court. Academically, Dr. Taher 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' students 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 Abdulhamid
Member

Dr. Mustaien worked as Sharia supervisor at AlRajhi bank, and as Sharia senior adviser at Bank albilad, Riyadh, Kingdom of Saudi Arabia, a positions held continuously for approximately twenty years between Summer 1995 and late Spring 2016. He holds PhD in Islamic Economics from Um ul Qura University in Markka, Kingdom of Saudi Arabia. In the course of his respective duties in several Islamic financial institutions in the region, a key part of his job is to ensure compliance with Sharia requirements. In this regard he is well known for his quite detailed knowledge and understanding of Islamic banking. He has been instrumental in clarifying various Islamic based decisions handled down by the banks Sharia scholars in a number of professional institutions and consultancy firms in Saudi Arabia and Sudan and contributed and supervised various Sharia auditing programs.

Composition of SSB and Details of Meetings held and Attendance Records of Members during the year 2018

Composition of Sharia Supervisory Board		Meetings Dates			
Member Name	**Position**	**5 Apr 2018**	**5 Jul 2018**	**4 Oct 2018**	**23 Dec 2018**
Dr. Ahmed Mohiyeldin Ahmed	Chairman	Yes	No	Yes	Yes
Dr. Mohammed Taher Al-Ibrahim	Member	No	Yes	Yes	Yes
Dr. Abdulraouf Abdullah Hamood Al-Tobi	Member	Yes	Yes	Yes	Yes
Dr. Mustaien Ali Abdulhamid	Member	Yes	Yes	Yes	Yes
Attendance		**3**	**3**	**4**	**4**

SSB Remuneration and Sitting Fee expenses

The shareholders' of the Bank in the AGM held on 27 March 2018 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 Taher Al-Ibrahim	Member	6,738	1,155
Dr. Abdulraouf Abdullah Hamood Al-Tobi	Member	6,738	1,540
Dr. Mustaien Ali Abdulhamid	Member	6,738	1,540
Total		**29,839**	**5,390**

MANAGEMENT COMMITTEE MEMBERS OF AHLI BANK

Said Abdullah Mohammed Al Hatmi
Chief Executive Officer

Holds a Bachelor Degree in Finance and a Master Degree in Business Administration. Certified Management Accountant from Institute of Management Accountant, USA and has completed the Oxford's flagship Advanced Management and Leadership Program, Executive Management Programs from HBS and University of Virginia. Has over seventeen years of diverse commercial banking experience in the areas of corporate banking, retail banking, risk management, finance and banking operations. Previously held various senior positions at HSBC Bank Middle East, Oman.

Abdullah Salim Saud Salim Al Jabri
DCEO – Support Services

Having over 20 years of banking experience in conventional and Islamic Banking with ahlibank. Started his career with National Training Institute and then joined Alliance Housing Bank in 1997, where held various positions including Manager Retail Banking and Head of Central Operations. Lead the operations team in centralization of operations after the conversion to full-fledged commercial bank. With the start of Islamic Banking in Oman in 2013, became General Manager of 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
DCEO – Wholesale 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.

Hanaa Mohammed Al Kharusi
General Manager – Corporate Banking

Hold Bachelor degree in Science from Indiana University, USA and has attended Executive Programs at the London Business School, UK and IMD, Switzerland. She is a Graduate member of the prestigious National CEO Program (NCP) sponsored by the Diwan of Royal Court. Having over 18 years of banking experience in leading Omani banks and has successfully led high performing teams in corporate banking, successfully leading major strategic financial transactions and advisory projects in Oman.

Ghada Abdul Latif Al Balushi
General Manager – Chief Risk Officer

Hold Master of Business Administration from University of Hull, UK; Bachelor of Science in Economics from Sultan Qaboos University. Having more than eighteen years of Banking experience in the areas of Corporate Banking and Risk Management Departments. Previously worked in several banks in different positions including National Bank of Oman and Oman Development Bank.

Sriram Balakrishnan
AGM – Chief Financial Officer

Holds Bachelor degree of commerce from University of Madras, India. Chartered Accountant from Institute of Chartered Accountants of India, Completed final examination of Institute of Cost Accountants of India. Post qualification of over 20 years in various industries including significant banking experience.

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 36,000 by Central Bank of Oman over the last three years based on findings of CBO examination report observations;

2018: RO 4,000 – Related to Islamic financing facilities allowed to customers.

2017: RO 28,000 – Non-compliance of personal loans directives, annual report disclosures, outsourcing rules, Electronic Banking System Security directives.

2016: RO 4,000 – Non-reporting of disputed & fraudulent transactions of Debit/credit cards written off.

REMUNERATION MATTERS

An amount of RO 160,300 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for the year 2018.

The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (RO)
Hamdan Ali Nasser Al-Hinai	5,200
Anwar Hilal Hamdoon Al Jabri	6,100
Sanjeev Baijal	4,200
Keith Henry Gale	7,500
Mustafa Shafqat Anwar	4,700
Khalid Ali Saif Al Yahmadi	4,000
Abdul Hameed Ahmed Mohamed Al Bulushi*	4,000
Rajeev Gogia**	500
Adel Mohamed Abdelshafe El-Labban **	2,000
Rashad Khamis Hamed Al Battashi *	1,500
Total	**39,700**

* Civil Service Employees Pension Fund changed its representative on 27th March 2018.

** Ahli United Bank changed its representative on 26th August 2018.

Total remuneration paid to the top executives (top six) of the bank amounted to RO 857,862 during the year 2018 which included salary, benefits, perquisites, bonuses and gratuities.

Incentives and bonuses are based on key performance indicators towards achievements of Bank's long-term strategic objectives.

The duration of the standard service contract for expatriate executives is two years. The notice period for executives ranges from one to three months depending on the executive's contract.

No severance fees are payable to the top executive officers other than compensation for short notice of termination of services.

Corporate Governance Report (continued)

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Ahli Bank SAOG publishes quarterly accounts and the same are uploaded on the Muscat Securities Market (MSM) website. The latest news and information about the Bank is also available on its website, www.ahlibank.om.

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

MARKET PRICE DATA

High / Low share prices in 2018

Table below shows the high / low prices of the Bank's shares in Rial Omani during the months in the year 2018.

Month	High	Low
January 2018	0.174	0.162
February 2018	0.166	0.160
March 2018	0.166	0.150
April 2018	0.163	0.150
May 2018	0.164	0.155
June 2018	0.163	0.163
July 2018	0.163	0.159
August 2018	0.160	0.150
September 2018	0.158	0.150
October 2018	0.158	0.150
November 2018	0.153	0.150
December 2018	0.150	0.145

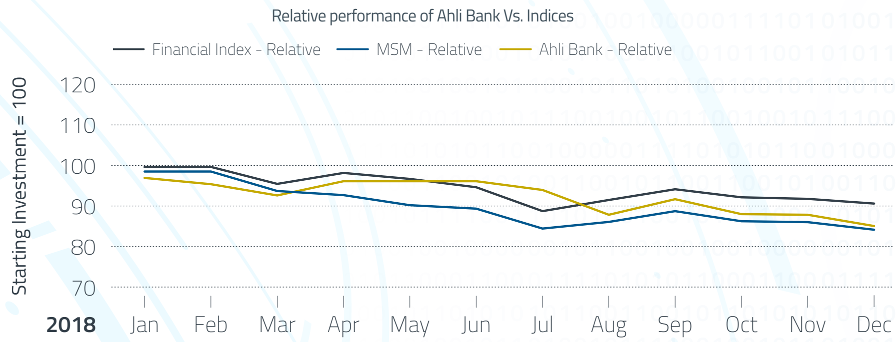
DONATIONS AND CHARITY

The Bank paid a donation/charity of RO 23,839 on various initiatives such as special Ramadhan charity, supporting group weddings and gift vouchers to patients & orphanage center. In addition, the Al Hilal Islamic Banking Services paid RO 5,000 to various charitable organizations from the Charity Fund.

EXTERNAL AUDITOR'S PROFILE – KPMG

The shareholders of the company appointed KPMG as its auditors for 2018. KPMG in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 180 people, amongst whom are five partners, six directors and 30 managers, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 153 countries and territories and have 207,000 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. Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG billed an amount of RO 58,180 towards professional services rendered to the Company for the year 2018 (RO 51,750 for audit and RO 6,430 for tax and other services)

Performance of Ahli Bank SAOG vs MSM and Banking Indices



Bank has outstanding Tier1 perpetual subordinated bonds as follows:

Issue Date	RO	First Recall Option
11 October 2017	50 million	11 October 2022
17 December 2018	54 million	17 December 2023

These bonds are listed in Muscat Securities Market.

Distribution of share ownership among shareholders as of 31 December 2018

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	523,700,774	35.00
Southern Orbit Investments LLC	Oman	148,012,473	9.89
Oman Investment Fund Holding LLC and Oman Investment Fund	Oman	142,207,709	9.50
Civil Service Employees - Pension Fund	Oman	128,021,591	8.56
Ubhar Capital SAOC - Asset Management	Oman	127,727,490	8.54
Ministry of Defense - Pension Fund	Oman	89,211,716	5.96
Others	-	337,406,198	22.55

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 2018.

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

Abdul Hameed Ahmed Al Bulushi
Chairman, Audit and Compliance Committee

Basel II Pillar III and Basel III Report

31 December 2018

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 DISCLOSURES 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 72 of Ahli Bank SAOG (the "Bank") as at and for the year ended 31 December 2018. 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.

Kenneth MacFarlane
10 March 2019

Basel II Pillar III and Basel III Report

31 December 2018

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 the Bank only and is not part of any group either as a member or as top corporate entity in the group.

3. CAPITAL STRUCTURE

The capital base for complying with regulatory purposes differs from accounting capital. The Bank's regulatory capital is classified into two categories- Tier I and Tier II capital.

Tier I capital includes paid up capital, legal reserves, Additional Tier I capital instruments and other disclosed free reserves, including subordinated debt 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 Fair value through other comprehensive income (FVOCI) instruments, Stage 1 & Stage 2 expected credit loss allowance as allowed by CBO 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 2018

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	
Financial strength rating	**BBB-**
Foreign currency Long Term Rating	**BBB-**
Foreign currency Short term	**A3**
Support rating	**3**
Outlook	**Stable**

Fitch Rating	
Viability rating	**bb+**
Long term foreign currency and local currency IDRs	**BB+**
Short term foreign currency and local currency IDRs	**B**
Support rating	**3**
Outlook	**Negative**

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 expected credit loss allowance 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 2018, based on the CBO guidelines is as follows:

Sl. No	Elements of Capital	Amount (RO'000)
	Tier I Capital	
1	Share capital*	157,110
2	Legal reserves	28,530
3	Subordinated debt reserve	18,600
4	Retained earnings*	33,025
	Total Gross Tier I Capital	**237,265**
	Deduction	
5	Intangible assets/ cumulative unrealized losses recognized directly in equity	(11,535)
	Additional Tier I Capital	
6	Tier 1 perpetual subordinated bonds	104,000
	Tier I capital after all deductions	**329,730**
	Tier II Capital	
7	Revaluation reserves / cumulative fair value gains on FVOCI Instruments	1,026
8	Stage 1 & Stage 2 expected credit losses	15,765
9	Subordinated debt	6,400
	Total Tier II Capital	**23,191**
	Total Regulatory Capital	**352,921**

* 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 2018

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's capital adequacy ratio is 17.50% as against the CBO requirement of 12.875% as at 31 December 2018 in accordance with the latest CBO circular dated March 20, 2018. The Bank follows a capital adequacy framework to link the Bank's annual budget projections and the capital required to achieve business objectives. It is determined by the Bank's strategic planning objectives and capital planning framework. Capital requirements are assessed for credit, operational and market, risks. In order to calculate the capital adequacy ratio, the Bank follows the standardized approach forming part of the Pillar 1 requirements of Basel II Norms and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures. In order to equip the requirements of the advanced approaches, the bank has already implemented obligor rating models and the ratings are being tracked regularly.

In order to meet with Pillar 2 requirements of Basel II Norms, the Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing the Bank's capital adequacy in relation to various risks such as interest rate risk, liquidity risk, concentration risk etc., as well as a strategy for maintaining the capital adequacy level. Based on the guidelines issued by Central Bank of Oman, assessment under ICAAP has been completed for the years from 2018-2021.

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 2018

3. CAPITAL STRUCTURE (continued)

Quantitative disclosures

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

As on 31 December 2018

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	2,330,769	2,237,331	1,751,197
2	Off-balance sheet items	118,605	101,762	97,559
3	Derivatives	4,839	4,839	2,062
4	Market risk	-	-	63,812
5	Operational Risk	-	-	102,196
	Total	**2,454,213**	**2,343,932**	**2,016,826**
5	Tier 1 capital			329,730
6	Tier 2 capital			23,191
7	**Total Regulatory Capital**			**352,921**
7.1	Capital requirement for credit risk (including CCB)			238,293
7.2	Capital requirement for market risk (including CCB)			8,216
7.3	Capital requirement for operational risk (including CCB)			13,158
8	**Total required capital (including CCB)**			**259,667**
9	Tier 1 ratio			**16.35%**
10	Total capital ratio			**17.50%**

ii) Capital adequacy

As on 31 December 2018

Sl. No	Details	Simple Approach
1	Tier I capital (after supervisory deductions)	329,730
2	Tier II capital (after supervisory deductions and up to eligible limits)	23,191
3	Risk weighted assets – banking book	1,850,818
4	Risk weighted assets – operational risk	102,196
5	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**1,953,014**
6	**Minimum required capital to support RWAs of banking book and operational risk (including CCB)**	251,450
	i) Minimum required Tier I capital for banking book and operational risk (including CCB)	212,390
	ii) Tier II capital required for banking book and operational risk	39,060
7	Tier I capital available for supporting trading book	117,340
8	Tier II capital available for supporting trading book	-
9	**Risk Weighted Assets – trading book**	**63,812**
10	Total capital required to support trading book	8,216
11	Minimum Tier I capital required for supporting trading book	2,342
12	**Total Regulatory Capital**	**352,921**
13	**Total Risk Weighted Assets – Whole bank**	**2,016,826**
14	**BIS Capital Adequacy Ratio**	**17.50%**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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 areas. 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 has already in place a risk appetite statement set by the Board.

The Bank manages the risks effectively and efficiently by making risk management an integral part of commercial banking business. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading the Bank to identifying the various associated risks.

Having identified the risks, the 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 Identification

↓

Risk Measurement

↓

Risk Monitoring

↓

Risk Control

Risk framework

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

The Board of Directors ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. The risk management department has identified material risks that the Bank is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis.

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:

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

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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

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

The bank has exposure to the following risks:

5. CREDIT RISK

Qualitative Disclosure

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

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

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

All corporate, bank and sovereign credit requires independent credit risk review to be approved by authorities, from Level II to the BoD, depending on their delegated credit approval Jurisdiction (CAJ). All credit approvals are strictly in accordance with the regulatory guidelines issued from time to time by the Central Bank of Oman. Exceptions in retail credit exposure are escalated to Risk Management Department for necessary approvals.

Risk Management 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)

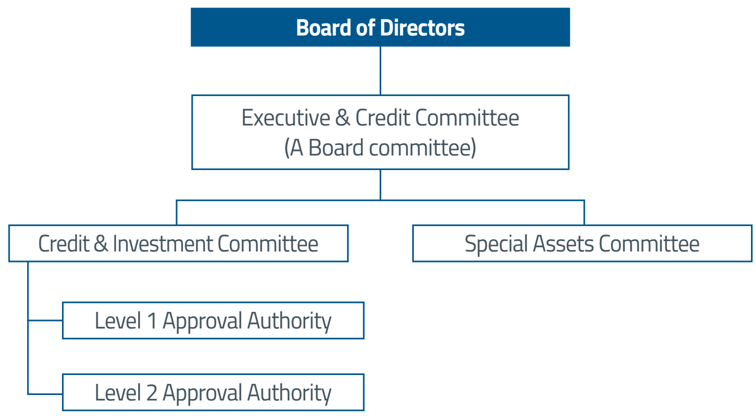
31 December 2018

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 2018

5. CREDIT RISK (continued)

Past due credit exposures

The Bank has adopted IFRS 9 "Financial Instruments" from the beginning of year 2018 as required by CBO Circular BM 1149 dated 13 April 2017.

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing the incurred loss approach with a forward looking Expected Credit Loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

Stage 1:

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

Stage 2:

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

Stage 3:

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

The Bank considers a financial asset to be in default when:

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

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)

		Average Gross Exposure		Total Gross Exposure as at	
Sl. No.	**Type of Credit Exposure**	**31-Dec-18**	**31-Dec-17**	**31-Dec-18**	**31-Dec-17**
1	Overdrafts	62,482	47,502	69,437	55,526
2	Personal Loans	654,240	641,357	671,095	637,385
3	Loans and against Trust receipts	65,087	58,779	63,661	66,512
4	Other Loans	976,158	835,725	1,071,175	881,141
5	Bills Purchased/ Discounted	23,860	18,450	29,727	17,993
	Total	**1,781,827**	**1,601,813**	**1,905,095**	**1,658,557**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

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

Sl. No.	Type of Credit Exposure	Oman	Other GCC Countries	OECD countries	India	Others	Total
1	Overdrafts	69,437	-	-	-	-	69,437
2	Personal loans	671,095	-	-	-	-	671,095
3	Loans against trust receipts	63,661	-	-	-	-	63,661
4	Other loans	1,054,292	9,818	4,191	983	1,891	1,071,175
5	Bills Purchased/discounted	29,727	-	-	-	-	29,727
6	Any other	-	-	-	-	-	-
	Total	**1,888,212**	**9,818**	**4,191**	**983**	**1,891**	**1,905,095**

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

Sl. No.	Economic Sector	Overdrafts	Loans	Bills purchased/ discounts	Others	Total	Off Balance Sheet Exposure
1	Wholesale & retail trade	13,300	159,866	2,178	-	175,344	7,547
2	Mining & quarrying	1,680	104,081	137	-	105,898	831
3	Construction	26,174	395,642	24,470	-	446,286	108,047
4	Manufacturing	6,555	86,918	2,659	-	96,132	12,796
5	Transport & communication	713	87,384	13	-	88,110	1,223
6	Electricity, gas & water	6,614	42,167	-	-	48,781	7,593
7	Financial institutions	1	115,861	-	-	115,862	23,580
8	Services	9,418	116,067	270	-	125,755	3,274
9	Personal loans	4,982	666,113	-	-	671,095	2,416
10	Non- resident lending	-	16,883	-	-	16,883	-
11	All others	-	14,949	-	-	14,949	97,381
	Total	**69,437**	**1,805,931**	**29,727**	**-**	**1,905,095**	**264,688**

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	3,472	160,613	21,481	-	185,566	110,138
2	1-3 Months	3,472	220,614	7,570	-	231,656	18,525
3	3-6 Months	3,472	45,793	676	-	49,941	9,929
4	6-9 Months	3,472	38,718	-	-	42,190	4,643
5	9-12 Months	3,472	43,861	-	-	47,333	15,557
6	1-3 Years	17,358	184,534	-	-	201,892	104,337
7	3-5 Years	17,358	135,332	-	-	152,690	740
8	Over5 Years	17,361	976,466	-	-	993,827	819
	Total	**69,437**	**1,805,931**	**29,727**	**-**	**1,905,095**	**264,688**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

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

Sl. No.	Economic Sector	Gross Loans	Of which Stage 3 exposure	Stage 1 & Stage 2 allowance	Stage 3 allowance	Impairment allowance made during the year	Advances written off, net during the year
1	Import trade	73,497	30	828	19	604	-
2	Wholesale & retail trade	101,846	130	422	49	(227)	-
3	Mining & quarrying	105,898	-	1,397	-	(153)	-
4	Construction	446,287	10,143	5,203	4,448	3,852	-
5	Manufacturing	96,132	798	586	402	(289)	-
6	Electricity, gas & water	48,781	-	83	-	(3)	-
7	Transport & communication	88,110	4,527	1,321	201	373	-
8	Financial institutions	115,862	-	505	-	(456)	-
9	Services	125,755	923	2,945	574	1,195	-
10	Personal loans	671,095	16,264	3,139	9,619	(370)	12
11	Nonresident lending	16,883	-	354	2,303	1,232	-
12	All others	14,949	-	20	-	(30)	-
	Total	**1,905,095**	**32,815**	**16,803**	**17,615**	**5,728**	**12**

The Bank has set aside an additional amount of RO 1.927 million as a non- distributable special reserve on restructured loans based on CBO circular as at 31 December 2018.

Stage 3 allowance includes reserve interest amounting RO 2.130 million.

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

Sl. No.	Countries	Gross Loans	Of which Stage 3 exposure	Stage 1 & Stage 2 allowance	Stage 3 allowance	Impairment allowance made during the year	Advances written off, net during the year
1	Oman	1,888,212	28,624	16,448	15,313	4,360	12
2	Other GCC countries	9,818	-	314	-	297	-
3	OECD countries	4,191	4,191	-	2,302	1,003	-
4	India	983	-	18	-	57	-
5	Pakistan	-	-	-	-	3	-
6	Others	1,891	-	23	-	8	-
	Total	**1,905,095**	**32,815**	**16,803**	**17,615**	**5,728**	**12**

Stage 3 allowance includes reserve interest amounting to RO 2.130 million.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

vii) Movement of gross loans (RO '000)

		Performing Loans		Non-Performing Loans	
Sl. No.	Details	Stage 1	Stage 2	Stage 3	Total
1	Opening balance	1,527,907	111,332	19,318	**1,658,557**
2	Mitigation/ changes (+/)	(13,904)	989	12,915	**-**
3	New loans	1,205,763	163,193	1,640	**1,370,596**
4	Recovery of loans	(1,013,631)	(109,365)	(1,050)	**(1,124,046)**
5	Loans written off	(4)	-	(8)	**(12)**
6	Closing balance	1,706,131	166,149	32,815	**1,905,095**
7	Impairment allowance held	6,706	10,097	15,485	**32,288**
8	Reserve interest	-	-	2,130	**2,130**

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

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

Qualitative disclosure

The Bank is following Moody's, S&P and Fitch rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk. As per the guidelines, the ratings corresponding to the two lowest risk weights are considered and the higher of the two risk weights is applied. There has been no change in the approach compared to previous year.

The bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans and SME which are risk weighted at 35% and 75% based on the requirements as stipulated in the guidelines issued by CBO.

Similarly, the bank uses the discretion of the simple approach for recognising collaterals.

Quantitative disclosure

Gross exposure amount as at 31 December 2018, subject to the standardized approach is as below:

S. No.	Product / Rating	Capital Charge						RO 000's
		0%	20%	35%	50%	75%	100%	Total
	Rated							
1	Sovereign	353,870	-	-	-	-	764	**354,634**
2	Banks	-	25,062	-	20,500	-	-	**45,562**
	Unrated							
3	Corporate	-	-	-	-	64,645	1,063,099	**1,127,744**
4	Banks	-	450	-	1,596	-	-	**2,046**
5	Retail	-	-	-	-	-	424,821	**424,821**
6	Claims secured by residential property	-	-	149,214	-	-	77,296	**226,510**
7	Claims secured by commercial property	-	-	-	-	-	180,915	**180,915**
8	Past due loans	-	-	-	-	-	31,145	**31,145**
9	Other assets	11,078	-	-	-	-	49,758	**60,836**
	Total Banking Book	**364,948**	**25,512**	**149,214**	**22,096**	**64,645**	**1,827,798**	**2,454,213**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

Credit Risk Mitigation: Disclosures for standardized approaches

Qualitative disclosure

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

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

The Bank normally accepts the following types of collateral:

- Cash margins and fixed deposits
- Real estate comprising income-producing and non-income-producing assets.
- Shares listed on recognized stock exchanges located in GCC
- Irrevocable and unconditional guarantees / standby LC issued by acceptable Banks
- Debt securities subject to meeting approved criteria.
- Funds subject to meeting approved criteria

The Bank also accepts guarantees of individuals and corporates to mitigate risks, wherever applicable and has a system of assessment of their creditworthiness.

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The fair value of collateral that the Bank held as at 31 December 2018 towards loan and advances not impaired amounted to RO 1,614.241 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 149.541 million after application of haircut (0%) exposure stands at RO Nil.

Exposure covered by Shares collateral – RO 71.403 Million; after application of haircut (50%) exposure stands at RO. 35.702 Million.

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

Capital charge for credit risk under basic indicator approach as per Basel II is RO 238.293 million.

The Risk weighted assets for credit risk as per Basel II is RO 1,850.818 million.

Counterparty Credit Risk

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

Bank has implemented Current Exposure Method (CEM) for the measurement of Risk Weighted Assets under CCR. Exposure under CEM method is defined as sum of Potential Future Exposure (PFE) and Current Credit Exposure (CCE). The PFE is the estimate of amount of exposure that may occur over a one year time horizon while CCE is the sum of positive MTM (Mark to Market) values. Bank has total exposure (CEM) of OMR on account of OTC derivatives (FX forwards, Interest Rate Swaps etc) and RWA of RO 4.839 million as at 31 December 2018.

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.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

6. MARKET RISK IN TRADING BOOK (continued)

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 ensures 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 63.859 million (RO 62.837 million open position is in effectively pegged currencies) as on 31 December 2018.

Quantitative Disclosure

Capital Charge
Foreign Exchange Risk is the risk that the Bank may suffer losses as a result of adverse exchange rate movements.

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Positons are monitored on daily basis to ensure open currency position is maintained within the regulatory limit.

Value-at-risk (VaR) is used to estimate the potential losses on risk positions as a result of movements in market rates and prices.

The Bank holds a small Held for Trading (HFT) book consisting of investments in equities. The exposures are daily monitored by the Middle Office as per the approved stop loss and exposure limits through Mark-to-Market (MTM) reports. For the purpose of capital charge, the three month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date.

Table showing capital charge for interest rate, equity and FX risk as on 31 December 2018 is shown below:

Type of Risk	Capital Charge (RO '000)
Interest Rate Risk	-
Equity Position Risk	76
Foreign Exchange Risk	5,029

Total risk weighted assets for trading book is RO 63.812 million.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

6. MARKET RISK IN TRADING BOOK (continued)

Investments in the banking book

The Bank's investments will have to be within the overall limits and restrictions as CBO may prescribe from time to time.

However, the Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board of Directors based on the product category like Repo, CBO CD or Equity / Bonds, as a percentage of the Capital Base of the Bank. All investment proposals are routed through the ALCO to the relevant approval authority.

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

The Bank's appetite for private subscriptions and unlisted / unquoted equity is low, and any such proposals should be adequately justified on a case by case basis, and has to be approved at least by the Executive & Credit Committee and by the Board if it exceeds limits structured as a proportion of the Bank's capital base.

All investments of the Bank should be in either USD or USD pegged GCC currencies or any investments in other currencies should be approved at least by the Executive & Credit Committee if it exceeds limits structured as a proportion of the Bank's capital base, after review and recommendation of the ALCO. Aggregate investments in all such currencies should not exceed a limit based on the Bank's capital base unless approved by the Board of Directors. This should include all investments through any Fund Manager, or proprietary investments made through the Bank's Asset Management Department.

Any investments of the Bank outside the GCC countries or US will have to be specifically approved by at least the Executive & Credit Committee if it exceeds limits structured as a proportion of the Bank's capital base. This should include all investments through any Fund Manager, or proprietary investments made through the Bank's Asset Management Department.

The Bank will try to achieve reasonable diversification of its equity investment portfolio among the economic sectors, and will not exceed a certain limit of its investment portfolio in any particular industry / sector groups listed below:

a) Trading and retailing
b) Real estate development, management and rental income
c) Construction / contracting and building materials
d) Travel / tourism, hotels, restaurants, entertainment, health services and education
e) Warehousing / storage, logistics, supply management and transportation, utilities and telecom
f) Oil and gas
g) Banking and financial services
h) Conglomerates or holding companies investing in any of the above business lines

This should include all proprietary investments made through the Bank's Asset Management Department.

Any proposal that leads to contravention of the above or any proposal for investment in any sector or industry not listed above will need approval of the Executive Credit Committee.

All investment approval requests for specific transactions or trading limits must be made by the relevant Business Line, approved by the Credit and Investment Committee and submitted to the Executive & Credit Committee as delegated. Any approval above those delegated limits is to be elevated to the Board level for approval. Any restrictions on investments as per effective CBO regulations shall apply. The details of investments are provided in Note 9 of the financial statements.

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

Exit strategies 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 FVOCI 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.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

6. MARKET RISK IN TRADING BOOK (continued)

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

Interest rate risk is mainly related to retail banking book as they are re-priced with any change in the CBO's interest rate and for corporate customer re-priced in line with the market conditions.

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

Quantitative Disclosure

Exposure and sensitivity analysis

The assumption used for assessing the impact of interest rate risk is by applying a 200 bps interest rate sensitivity. Earning impact of a 200 basis points parallel shift in interest rate is provided below:

	2018 **RO '000**	2017 RO '000
Impact of +200 bps interest rate increase	**6,590**	4,581
Impact of -200 bps interest rate decrease	**(6,590)**	(4,581)

7. LIQUIDITY RISK

Qualitative Disclosure

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

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

- The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.
- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- As per the CBO directives, the Bank keeps at least 5% of its deposit liabilities with CBO in the form of clearing balances
- Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

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

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

Liquidity Management Policy

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

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

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

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

Basel II Pillar III and Basel III Report (continued)

31 December 2018

7. LIQUIDITY RISK (continued)

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

Disclosure pertaining to lending ratio as at 31 December 2018 are provided in note 34.2.2 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 is 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.

Liquidity Contingency Plan:

It is imperative for the Bank to maintain an adequate amount of liquid assets as a protection against a possible loss in the event of emergency situation. The Bank's Liquidity Contingency Plan (LCP) is approved by Board and addresses the institution's strategy for handling any liquidity crisis. LCP will serve as the blueprint for meeting its funding needs under stress environment in a timely manner and at a reasonable cost. It describes policies and procedures for managing or making up cash flow shortfalls in such situations at both solo and consolidated level.

The Bank has adopted quantitative and qualitative key warning indicators which is monitored by Market Risk team and presented to ALCO. The members of the Liquidity Crisis Management Team (LCMT) and ALCO are notified immediately should any of the early warning criteria be breached.

In the event of the plan being invoked, ALCO delegates the responsibility for the management of the Bank's liquidity to the LCMT. The LCMT is comprised of CEO (Chairman), DCEO Wholesale Banking , DCEO – Support Services, Head of Finance, Head of Treasury and Head of Risk.

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.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

7. LIQUIDITY RISK (continued)

Quantitative disclosure

The maturity gaps are measured and reported as per CBO circular BM 955 dated May 7, 2003 and subsequent amendments including the CBO circular dated March 20, 2018 on Maturity of Assets and Liabilities. Disclosure pertaining to the maturity profile of assets and liabilities as at 31 December 2018 are provided in note 34.2.2 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

In order to effectively manage the risks arising from frauds, in line with the CBO Circular on Fraud Risk Management, the Bank has introduced separate Fraud Risk Management (FRM) Policy & FRM Process. The FRM unit forms part of the Operational risk management division of Risk Management functions and is independent of other departments.

Control and Mitigation of Operational Risk

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

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

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

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

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

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

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

Basel II Pillar III and Basel III Report (continued)

31 December 2018

8. OPERATIONAL RISK (continued)

Reputation Risk

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

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

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

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

Business Continuity Test

During the year 2018, the Bank has carried out a comprehensive BCP test and 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 results of the BCP/ volume tests were submitted to the Board. The Bank has in place a crisis management team, and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Fraud Risk Management

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

Concentration Risk

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

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

Information Security Risk

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

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 (Pertaining to Islamic Banking) etc. However, currently these risks are not significant to the Bank. The Bank follows standard methodologies for arriving at the capital adequacy requirements of these risks. These risks are assessed and such assessments form part of the Bank's ICAAP process.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

8. OPERATIONAL RISK (continued)

Operational risk capital charge and risk weighted amount

The Bank follows basic indicator approach for determining operational risk. The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net interest income (+) Non interest income (+) Provisions for unpaid interest (-/+) gain/ loss on sale of investments (-) extraordinary / irregular items of income.

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 8.176 million.

The Risk weighted assets for operational risk as per Basel II is RO 102.196 million.

9. COMPENSATION POLICY

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

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

The key management comprises of 6 members (2017: 7 members) of the management committee.

The below table provides details of key management compensation:

	2018 **RO '000**	2017 RO '000
Salaries and allowances	**834**	1,073
End of service benefits	**24**	33
Total	**858**	**1,106**

10. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2018.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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 2018	Published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with Central Bank of Oman	153,406	153,406
Certificates of deposit		
Due from banks	24,027	24,027
Loans and advances	1,870,677	1,870,677
Investments in securities	214,049	214,049
Loans and advances to banks		
Property and equipment	17,490	17,490
Deferred tax assets		
Other assets	10,741	10,741
Total assets	**2,290,390**	**2,290,390**
Liabilities		
Due to banks	146,777	146,777
Customer deposits	1,661,645	1,661,645
Borrowings	51,975	51,975
Deferred tax liabilities	251	251
Other liabilities	45,762	45,762
Subordinated bonds	25,000	25,000
Total liabilities	**1,931,410**	**1,931,410**
Shareholders' Equity		
Paid-up share capital	149,629	149,629
Share premium		
Legal reserve	28,530	28,530
General loan loss reserve	-	-
Impairment reserve	7,710	7,710
Retained earnings	55,469	55,469
Special reserve	1,927	1,927
Cumulative changes in fair value of investments	(6,885)	(6,885)
Subordinated debt reserve	18,600	18,600
Total shareholders' equity	**254,980**	**254,980**
Tier 1 Perpetual subordinated bonds	104,000	104,000
Total equity	**358,980**	**358,980**
Total liability and shareholders' funds	**2,290,390**	**2,290,390**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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 2018	2018 financial Statement	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	**153,406**	**153,406**	
Balance with banks and money at call & short notice	**24,027**	**24,027**	
Balance with banks and money at call & short notice, of which:	**-**	**24,028**	
- Stage1 / 2 impairment allowance , of which	**-**	**(1)**	
- amount eligible for T2	**-**	**1**	a
Investments, of which:	**214,049**	**214,049**	
Fair Value Through Other Comprehensive income (FVOCI)	213,577	213,601	
Fair Value Through Profit & Loss (FVTPL)	472	472	
- Stage1 / 2 impairment allowance , of which	-	(24)	
- amount eligible for T2	-	24	a
Loans and advances – Net, of which:	**1,870,677**	**1,870,677**	
- Loans and advances to domestic banks	-	-	
- Loans and advances to domestic customers	-	1,515,012	
- Loans and advances to non-resident for operations abroad	-	16,883	
- Loans and advances to SMEs	-	71,715	
- Financing from Islamic banking window	-	301,485	a
- Expected credit loss allowance , of which:	**-**	**(34,418)**	
- Stage 3 impairment allowance and Reserve interest & profit	-	(17,615)	
- Stage1 / 2 impairment allowance , of which	**-**	**(16,803)**	
- amount eligible for T2	**-**	**14,784**	a
- amount ineligible for T2	-	2,019	
Fixed assets	**17,490**	**17,490**	
- Intangibles(CET1 adjustment)		2,293	h
- Other fixed asset		15,197	
Other assets	**10,741**	**10,741**	
Other assets, of which	-	10,752	
- Stage1 / 2 impairment allowance , of which	-	(11)	
- amount eligible for T2	-	10	a
- amount ineligible for T2	-	1	
Total Assets	**2,290,390**	**2,290,390**	
Capital & Liabilities			
Paid-up Capital, of which:	**149,629**	**149,629**	
- Amount eligible for CET1	-	149,629	b
Reserves & Surplus; of which	**209,351**	**209,351**	
- Amount eligible for CET1 (Legal reserve)	28,530	28,530	c
- Amount eligible for CET1 (Subordinated debt reserve)	18,600	18,600	d
- Amount eligible for CET1 (Retained earnings)	55,469	33,025	e
- Proposed cash dividend(removed from retained earnings)	-	14,963	
- Proposed stock dividend(removed from retained earnings)	-	7,481	f
- Amount ineligible for CET1 (Special Reserve)	1,927	1,927	
- Amount eligible for AT1	104,000	104,000	
- Amount ineligible for T2 (Impairment reserve)	7,710	7,710	
- Amount eligible for T2 (Investments Fair value gains)	(6,885)	1,026	g
- FVOCI investments fair value loss (CET1 adjustment)	-	(9,242)	h
- FVOCI investments fair value gain unutilized	-	1,331	
Total Capital	**358,980**	**358,980**	

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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 (continued)

For the year ended 31 December 2018	2018 financial Statement	Under Regulatory scope of consolidation	Reference
Deposits from banks	**146,777**	**146,777**	
Customer deposits, of which	**1,661,645**	**1,661,645**	
- Deposits for customers	-	1,464,731	
- Deposits of Islamic Banking window	-	196,914	
Borrowings, of which:	**51,975**	**51,975**	
- From banks	51,975	51,975	
Borrowings in form of bonds, Debentures & sukuks, of which	**25,000**	**25,000**	
- Amount eligible for T2	-	6,400	i
- Amount ineligible for T2	-	18,600	
Other liabilities & provisions	**46,013**	**46,013**	
Other liabilities & provisions, of which	-	**46,988**	
- Stage 3 provision		-	
- Stage1 / 2 impairment allowance , of which		(975)	
- amount eligible for T2		947	a
- amount ineligible for T2		28	
Total Capital & Liabilities	**2,290,390**	**2,290,390**	

Step 3: Step Reconciliation of Regulatory Capital:
Common Equity Tier 1 capital: instruments and reserves (RO' 000)

	For the year ended 31 December 2018	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	157,110	b+f
2	Retained earnings	33,025*	e
3	Accumulated other comprehensive income (and other reserves)	47,130	c+d
4	**Common Equity Tier 1 capital before regulatory adjustments**	**237,265**	
5	Prudential valuation adjustments	(11,535)	h
6	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
7	**Total regulatory adjustments to Common equity Tier 1**	(11,535)	
8	**Common Equity Tier 1 capital (CET1)**	**225,730**	
Additional Tier 1 capital: instruments			
9	Additional Tier 1 capital (AT1)	104,000	
	Tier 1 capital (T1 = CET1 + AT1)	**329,730**	
Tier 2 capital: instruments and provisions			
9	Directly issued qualifying Tier 2 instruments plus related stock surplus	6,400	i
10	Provisions	15,765	a+i
11	Fair value reserve of AFS investments	1,026	g
	Tier 2 capital before regulatory adjustments	**23,191**	
	Tier 2 capital: regulatory adjustments	**-**	
	Tier 2 capital (T2)	**23,191**	
Total capital (TC = T1 + T2)		**352,921**	

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

Basel II Pillar III and Basel III Report (continued)

31 December 2018

11. BASEL III CAPITAL DISCLOSURE (continued)

11.2 Main features of regulatory capital

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

1	Ahli Bank SAOG	Common Equity Share Capital	Subordinated debt (Basel III)	Perpetual subordinated bonds (Additional Tier 1)	Perpetual subordinated bonds (Additional Tier 1)
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA
3	Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4	Transitional Basel III rules	Common Equity Tier 1	Tier II	Additional Tier I	Additional Tier I
5	Post-transitional Basel III rules	Common Equity Tier 1	Eligible	Eligible	Eligible
6	Eligible at solo/group/group & solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital	Private Placement of Subordinated debt	Rights Issue of Perpetual Subordinated bonds	Rights Issue of Perpetual Subordinated bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	RO 149,629 million	RO 18,600 million	RO 50 million	RO 54 million
9	Par value of instrument	RO 149,629 million	RO 25.000 million	RO 50 million	RO 54 million
10	Accounting classification	Shareholders' Equity	Liability amortised cost	Equity	Equity
11	Original date of issuance	Bank started operations in 1997	*Refer to the below table	11-October-2017	17- December-2018
12	Perpetual or dated	Perpetual	Dated	Perpetual	Perpetual
13	Original maturity date	No maturity	**Refer to the below table	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	NA	NA	The Bank May, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.	The Bank May, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.
16	Subsequent call dates, if applicable	NA	NA		
	Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed
18	Coupon rate and any related index	NA	4%-5%	7.50%	7.50%
19	Existence of a dividend stopper	NA	No	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	NA	NA
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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)	Perpetual subordinated bonds (Additional Tier 1)
23	Convertible or non-convertible	Non-convertible	convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	Statutory approach	NA	NA
25	If convertible, fully or partially	NA	May convert fully or Partially	NA	NA
26	If convertible, conversion rate	NA	Average price *	NA	NA
27	If convertible, mandatory or optional conversion	NA	Optional	NA	NA
28	If convertible, specify instrument type convertible into		CET 1	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	Ahli Bank	NA	NA
30	Write-down feature	Yes	Yes	Yes	Yes
	Ahli Bank SAOG	**Common Equity Share Capital**	**Subordinated Bonds**	**Subordinated debt**	**Subordinated debt**
31	If write-down, write-down trigger(s)	Statutory approach	Statutory approach	Statutory approach	Statutory approach
32	If write-down, full or partial	Write down fully	May be written down partially	Full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Common Equity Share Capital	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/ bonds/sukuk of the bank	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/ bonds/sukuk of the bank
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	NA	NA	NA	NA

Number Of Subordinated debt (as per Basel III)	Par value of instrument	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	*Original date of issuance	**Original maturity date
Subordinated debt 1	5,000	5,000	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	4,000	10-Nov-14	10-Nov-20
Subordinated debt 5	1,000	1,000	13-Nov-14	16-Nov-19
Subordinated debt 6	2,000	2,000	17-Nov-14	18-Nov-19
Subordinated debt 7	3,000	1,800	30-Jun-15	29-Jun-21
Subordinated debt 8	3,000	1,200	10-Jun-15	13-Jun-22
Total	**25,000**	**18,600**		

Basel II Pillar III and Basel III Report (continued)

31 December 2018

11. BASEL III CAPITAL DISCLOSURE (continued)

11.3 Disclosure template

Basel III common disclosure template.

	Common Equity Tier 1 capital: instruments and reserves	**(RO' 000)**
1	Directly issued qualifying common share capital () plus related stock surplus/premium	157,110
2	Retained earnings	33,025
3	Accumulated other comprehensive income (and other reserves)	47,130
4	*Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)*	-
5	*Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)*	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**237,265**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	(2,293)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial ,insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights(amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-

Basel II Pillar III and Basel III Report (continued)

31 December 2018

11. BASEL III CAPITAL DISCLOSURE (continued)

11.3 Disclosure template (continued)

	Common Equity Tier 1 capital: instruments and reserves	**(RO' 000)**
28	**Total regulatory adjustments to Common equity Tier 1**	**(11,535)**
29	**Common Equity Tier 1 capital (CET1)**	**225,730**
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	104,000
31	of which: classified as equity under applicable accounting standards	104,000
32	of which: classified as liabilities under applicable accounting standards	-
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier 1 capital before regulatory adjustments**	**104,000**
Additional Tier 1 capital before regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
		-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
	OF WHICH: …….	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**
44	**Additional Tier 1 capital (AT1)**	**104,000**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**329,730**
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
		-
47	*Directly issued capital instruments subject to phase out from Tier 2*	6,400
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	*of which: instruments issued by subsidiaries subject to phase out*	-
50	Provisions	16,791
51	**Tier 2 capital before regulatory adjustments**	**23,191**
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-

Basel II Pillar III and Basel III Report (continued)

31 December 2018

11. BASEL III CAPITAL DISCLOSURE (continued)

11.3 Disclosure template (continued)

	Common Equity Tier 1 capital: instruments and reserves	(RO' 000)
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
56	Total National specific regulatory adjustments	
	Of which: Investments in Tier 2 capital of unconsolidated banking and financial subsidiary companies, associates or affiliates ect.,	-
	Of which: shortfall in the Tier 2 regulatory capital in the unconsolidated entitites	
57	**Total regulatory adjustments to Tier 2 capital**	**-**
58	**Tier 2 capital (T2)**	**23,191**
59	**Total capital (TC = T1 + T2)**	**352,921**
60	**Total risk weighted assets**	**2,016,826**
60a	*Credit risk weighted assets*	**1,850,818**
60b	*: Market risk weighted assets*	**63,812**
60c	*: Operational risk weighted assets*	**102,196**
Capital Ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.19%
62	Tier 1 (as a percentage of risk weighted assets)	16.35%
63	Total capital (as a percentage of risk weighted assets)	17.50%
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)	8.875%
65	of which: capital conservation buffer requirement	1.875%
66	of which: bank specific countercyclical buffer requirement	
67	of which: G-SIB buffer requirement	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	4.19%
National Minima (if difference from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	8.875%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	10.875%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.875%
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	8,128
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	15,765
77	Cap on inclusion of provisions in Tier 2 under standardised approach	20,310
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	-

Basel II Pillar III and Basel III Report (continued)

31 December 2018

11. BASEL III CAPITAL DISCLOSURE (continued)

11.3 Disclosure template (continued)

	Common Equity Tier 1 capital: instruments and reserves		(RO' 000)
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements		-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		-
82	Current cap on AT1 instruments subject to phase out arrangements		-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		-
84	Current cap on T2 instruments subject to phase out arrangements		-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		-

12. BASEL III LIQUIDITY DISCLOSURE

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

LIQUIDITY COVERAGE RATIO (LCR)
Common Disclosure Template

		Total Unweighted Value (average)	(RO '000) Total Weighted Value (average)
High Quality Liquid Assets			
1	**Total High Quality Liquid Assets (HQLA)**	**243,685**	**241,325**
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	175,543	13,806
3	Stable deposits	70,688	3,321
4	Less stable deposits	104,855	10,485
5	Unsecured wholesale funding, of which:	540,995	257,483
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	749	187
7	Non-operational deposits (all counterparties)	468,041	185,092
8	Unsecured debt	72,204	72,204
9	Secured wholesale funding	58,841	-
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	76,828	20,807
15	Other contingent funding obligations	145,976	69,770
16	**TOTAL CASH OUTFLOWS**		361,866
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	224,355	112,177
19	Other cash inflows	121,970	113,952
20	**TOTAL CASH INFLOWS**	346,325	226,129
			Total Adjusted Value
21	**TOTAL HQLA**		241,325
22	**TOTAL NET CASH OUTFLOWS**		135,737
23	**LIQUIDITY COVERAGE RATIO (%)**		177.79%

Basel II Pillar III and Basel III Report (continued)

31 December 2018

12. BASEL III LIQUIDITY DISCLOSURE (continued)

LEVERAGE RATIO (LR)

Common Disclosure Template

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

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 and CBO circular No. BM 1157 on Implementation of Basel III Leverage Ratio Standard dated December 30, 2018)

(All amounts in OMR'000)

	Item	Current Quarter	Previous Quarter
1	Total consolidated assets as per published financial statements	2,290,390	2,251,722
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	6,764	6,261
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	74,690	128,590
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	155,381	151,997
7	Other adjustments	-	-
8	**Leverage ratio exposure**	2,527,226	2,538,570

Basel II Pillar III and Basel III Report (continued)

31 December 2018

12. BASEL III LIQUIDITY DISCLOSURE (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 and CBO circular No. BM 1157 on Implementation of Basel III Leverage Ratio Standard dated December 30, 2018)

(All amounts in OMR'000)

	Item	Current Quarter	Previous Quarter
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,290,390	2,251,722
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	2,290,390	2,251,722
Derivative Exposures			
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	1,857	2,354
5	Add-on amounts for PFE associated with all derivatives transactions	4,907	3,906
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)	**6,764**	**6,261**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	65,616	119,510
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets	9,074	9,080
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**74,690**	**128,590**
Other Off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	264,688	250,737
18	(Adjustments for conversion to credit equivalent amounts)	(109,307)	(98,740)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**155,381**	**151,997**
Capital and total exposures			
20	**Tier 1 capital**	329,730	293,265
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	2,527,226	2,538,570
Leverage Ratio			
22	**Basel III leverage ratio (%)**	13.0	11.6

Basel II Pillar III and Basel III Report (continued)

31 December 2018

12. BASEL III LIQUIDITY DISCLOSURE (continued)

NET STABLE FUNDING RATIO (NSFR)

Common Disclosure Template

The below Net Stable Funding Ratio (NSFR) disclosure is prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

NSFR disclosure is presented below based on positions as on 31 December 2018.

Bank has maintained NSFR levels of 101%-105% during the year. The major variations in the current quarter under NSFR has come from increase in Tier 1 Capital which was issued in the month of December 2018 amounting to OMR 54 million.

(All amounts in OMR'000)

Sr No.	Particulars	No Maturity	<6 Months	6 Months to < 1 Year	>=1 Year	Weighted Value
ASF ITEM						
1	**Capital**	**352,921**	**-**	**-**	**-**	**352,921**
2	Regulatory Capital	352,921	-	-	-	352,921
3	Other Capital Instruments	-	-	-	-	-
4	**Retail Deposits and Deposits from small Business Customers**	**174,749**	**8,813**	**9,368**	**-**	**175,543**
5	Stable Deposit	37,819	169	129	-	36,211
6	Less Stable Deposit	136,930	8,644	9,239	-	139,331
7	**Wholesale Funding**	**414,760**	**343,588**	**291,079**	**-**	**524,713**
8	Operational	334	-	-	-	167
9	Other Wholesale Funding	414,426	343,588	291,079	-	524,546
10	**Liabilities with matching interdependent Assets**	**-**	**-**	**-**	**-**	**-**
11	**Other Liabilities**	**-**	**-**	**-**	**483,035**	**483,035**
12	NSFR Derivative Liability	-	-	-	-	-
13	All other liabilities and equities not included in above categories	177,631	-	-	-	-
14	**Total ASF**	**-**	**-**	**-**	**-**	**1,536,212**
RSF ITEMS						
15	**Total NSFR high-quality liquid assets (HQLA)**	**-**	**-**	**-**	**-**	**-**
16	**Deposits held at other financial institutions for operational purposes**	**7,471**	**-**	**-**	**-**	**3,736**
17	**Performing Loans and Securities**	**-**	**-**	**-**	**-**	**-**
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	99,778	-	-	14,967
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	333,350	32,023	1,281,411	1,271,886
21	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	112,618	73,202
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	52,202	-	3,045	28,689
25	**Assets with matching interdependent liabilities**	**-**	**-**	**-**	**-**	**-**
26	**Other Assets:**	**-**	**-**	**-**	**-**	**-**
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	336	165	145	646
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	153,407	9,379	206,101	76,461
32	**Off-balance sheet items**	**-**	**197,483**	**22,787**	**159,506**	**18,989**
33	**Total RSF**	**-**	**-**	**-**		**1,488,576**
34	**NET STABLE FUNDING RATIO**	**-**	**-**			**103.20%**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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

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

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

For Ahli Bank SAOG

Hamdan Ali Nasser Al Hinai
Chairman
Date: 28 January 2019

Finacial Statements of the Bank

For the year ended 31 December 2018

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 78 to 140, which comprise the statement of financial position as at 31 December 2018, 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 2018, 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 judgement, 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 3.1.3 and 3.1.4 for transition impact and note 4.3, 5.1, 5.2, 8 and 34.1 of the financial statements for accounting policy, use of estimates and judgements and credit risk disclosures.

IFRS 9 "Financial Instruments" (IFRS 9) was adopted by the Bank on 1 January 2018 and has resulted in:

- change in accounting policies for impairment including the need for making complex estimates and judgement over both timing and recognition of impairment;
- transition adjustment recognised in retained earnings on 1 January 2018, being the date of adoption of IFRS 9;
- use of statistical models and methodologies for determination of expected credit losses;
- significant change in processes, data and control that have not been subject to testing previously; and
- new disclosure requirements regarding impact of initial application of IFRS 9 and credit quality of the portfolio including explanation of key judgements and material inputs used in determination of expected credit losses.

Given the significance of the loans and advances (representing 82% of total assets) to the financial statements and the related estimation uncertainty in the computation of expected credit losses, this is considered as a key audit matter.

Our response

Our audit procedures, amongst others, to address significant risks associated with impairment included:

- Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice;
- Confirming our understanding of management's new or revised processes, systems and controls implemented, including controls over expected credit losses (ECL) model development;
- We involved our information and financial risk management specialists to test the relevant General IT and Application Controls over key systems and to review the reasonableness and appropriateness of the methodology, assumptions and key inputs including macro-economic factors and weightages used in various components of ECL computation respectively;
- Testing controls over authorization of model outputs;
- Performing credit risk assessment for a sample of performing and non-performing loans to test controls over credit rating and its monitoring process;
- Sample testing of loans and advances to customers to determine whether significant increase in credit risk (SICR) was appropriately identified;
- Sample testing of management overlays in order to assess the reasonableness of the adjustments to model and overrides;
- Testing the completeness and accuracy of the data used in the calculation of the ECL;

We assessed the adequacy of Bank's disclosures in relation to transition impact from first time application of IFRS 9, new accounting policies, use of significant estimates and judgment and credit quality of loans and advances by reference to the requirements of relevant accounting standards.

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.

KPMG

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.

KPMG

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 2018, 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.

Kenneth MacFarlane
10 March 2019

Statement of Financial Position

As at 31 December 2018

2017 US$ '000	2018 US$ '000		Note	2018 RO '000	2017 RO '000
		ASSETS			
302,930	**398,457**	Cash and balances with Central Bank of Oman	6	**153,406**	116,628
43,036	**62,408**	Due from banks	7	**24,027**	16,569
4,245,345	**4,858,901**	Loans & advances and financing, net	8	**1,870,677**	1,634,458
562,964	**555,971**	Investment securities	9	**214,049**	216,741
43,384	**45,429**	Property and equipment	10	**17,490**	16,703
35,021	**27,899**	Other assets	12	**10,741**	13,483
5,232,680	**5,949,065**	**TOTAL ASSETS**		**2,290,390**	2,014,582
		LIABILITIES			
346,922	**381,239**	Due to banks	13	**146,777**	133,565
3,768,444	**4,315,961**	Customers' deposits	14	**1,661,645**	1,450,851
150,000	**135,000**	Borrowed funds	15	**51,975**	57,750
810	**652**	Deferred tax liability	11	**251**	312
109,811	**118,863**	Other liabilities	16	**45,762**	42,277
64,935	**64,935**	Subordinated liabilities	17	**25,000**	25,000
4,440,922	**5,016,650**	**TOTAL LIABILITIES**		**1,931,410**	1,709,755
		EQUITY			
370,140	**388,647**	Share capital	18	**149,629**	142,504
66,626	**74,104**	Legal reserve	19	**28,530**	25,651
16,995	**-**	General loan loss reserve	8	**-**	6,543
35,325	**48,312**	Subordinated debt reserve	17	**18,600**	13,600
(317)	**(17,883)**	Fair value reserve		**(6,885)**	(122)
592	**5,005**	Special reserve	8	**1,927**	228
-	**20,026**	Impairment reserve	8	**7,710**	-
172,527	**144,074**	Retained earnings		**55,469**	66,423
661,888	**662,285**	**TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF THE BANK**		**254,980**	254,827
129,870	**270,130**	Tier 1 Perpetual subordinated bonds	21	**104,000**	50,000
791,758	**932,415**	**TOTAL EQUITY**		**358,980**	304,827
5,232,680	**5,949,065**	**TOTAL LIABILITIES AND EQUITY**		**2,290,390**	2,014,582
46	**44**	Net assets value per share (US cents / baizas)	22	**170**	179
803,087	**813,566**	Contingent liabilities and commitments	23	**313,223**	309,189

The financial statements and notes 1 to 36 were approved by the Board of Directors on 28 January 2019 and signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Said Abdullah Al Hatmi
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.
Report of the independent Auditors - page 74.

Statement of Comprehensive Income

For the year ended 31 December 2018

2017 US$ '000	**2018 US$ '000**		Note	**2018 RO '000**	2017 RO '000
200,052	**237,317**	Interest income	24	**91,367**	77,020
(101,322)	**(121,083)**	Interest expense	25	**(46,617)**	(39,009)
98,730	**116,234**	**NET INTEREST INCOME**		**44,750**	38,011
34,042	**43,086**	Income from Islamic financing and investments		**16,588**	13,106
(16,930)	**(24,114)**	Unrestricted investment account holders' share of profit and profit expense		**(9,284)**	(6,518)
17,112	**18,972**	**NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS**		**7,304**	6,588
115,842	**135,206**	**NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTMENTS**		**52,054**	44,599
30,070	**26,231**	Other operating income	26	**10,099**	11,577
145,912	**161,437**	**OPERATING INCOME**		**62,153**	56,176
(10,754)	**(13,257)**	Net impairment on financial assets	8	**(5,104)**	(4,140)
-	**(10)**	Loans & advances and financing written off		**(4)**	-
135,158	**148,170**	**NET OPERATING INCOME**		**57,045**	52,036
(33,410)	**(38,777)**	Staff expenses	27	**(14,929)**	(12,863)
(3,449)	**(3,592)**	Depreciation	10	**(1,383)**	(1,328)
(16,745)	**(18,026)**	Other operating expenses	28	**(6,940)**	(6,447)
(53,604)	**(60,395)**	**OPERATING EXPENSES**		**(23,252)**	(20,638)
81,554	**87,775**	**PROFIT BEFORE TAXATION**		**33,793**	31,398
(12,288)	**(13,005)**	Tax expense	11	**(5,007)**	(4,731)
69,266	**74,770**	**PROFIT FOR THE YEAR**		**28,786**	26,667
		OTHER COMPREHENSIVE EXPENSE - NET OF			
		Items that will not be reclassified to profit or loss			
-	**(2,486)**	Equity investment at FVOCI - net changes in fair value		**(957)**	-
-	**68**	Realised gain on equity investment at FVOCI		**26**	-
		Items that will be reclassified to profit or loss			
(1,397)	**-**	Net amount transferred to profit or loss		**-**	(538)
	(317)	Fair value hedge - net changes in fair value		**(122)**	
-	**(10,800)**	Debt investment at FVOCI - net changes in fair value		**(4,158)**	-
(1,397)	**(13,535)**	**OTHER COMPREHENSIVE EXPENSE FOR THE YEAR**		**(5,211)**	(538)
67,869	**61,235**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**23,575**	26,129
5	**5**	Basic and diluted earnings per share (US cents / baizas)	29	**19**	18

The accompanying notes form an integral part of these financial statements.
Report of the independent Auditors - page 74.

Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Share capital RO '000	Legal reserve RO '000	General loan loss reserve RO '000	Subordinated debt reserve RO '000
At 1 January 2018		**142,504**	**25,651**	**6,543**	**13,600**
Impact of initial application of IFRS 9	3.1.4	-	-	(6,543)	-
Restated balance at 1 January 2018		**142,504**	**25,651**	**-**	**13,600**
Profit for the year		-	-	-	-
Other comprehensive expense, net of tax		-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**-**
Transfer to legal reserve	19	-	2,879	-	-
Transfer to impairment reserve	8	-	-	-	-
Transfer to Special reserve		-	-	-	-
Gain on sale of equity investments at FVOCI		-	-	-	-
Technical write off of loans and advances		-	-	-	-
Interest paid on Tier 1 perpetual subordinated bond	21	-	-	-	-
Transfer to subordinated debt reserve	17	-	-	-	5,000
		-	**2,879**	**-**	**5,000**
Transactions with owners recognised directly in equity					
Cash dividends paid	18, 20	-	-	-	-
Issue of bonus shares	18, 20	7,125	-	-	-
Total transactions with owners		**7,125**	**-**	**-**	**-**
Proceeds from Tier 1 perpetual subordinated bond	21	-	-	-	-
At 31 December 2018		**149,629**	**28,530**	**-**	**18,600**
At 31 December 2018 (US$ '000)		**388,647**	**74,104**	**-**	**48,312**

	Note	Share capital RO '000	Legal reserve RO '000	General loan loss reserve RO '000	Subordinated debt reserve RO '000
At 1 January 2017		142,504	22,984	6,543	44,541
Total Comprehensive income for the year:					
Profit for the year		-	-	-	-
Other comprehensive expense, net of tax		-	-	-	-
Transfer to special reserve		-	-	-	-
Total comprehensive income		-	-	-	-
Transfer to legal reserve	19	-	2,667	-	-
Transfer from subordinated debt reserve *	17	-	-	-	(30,941)
		-	2,667	-	(30,941)
Transactions with owners recognised directly in equity					
Cash dividends paid	18, 20	-	-	-	-
Total transactions with owners		-	-	-	-
Proceeds from Tier 1 perpetual subordinated bond	21	-	-	-	-
At 31 December 2017		142,504	25,651	6,543	13,600
At 31 December 2017 (US$ '000)		370,140	66,626	16,995	35,325

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

The accompanying notes form an integral part of these financial statements.
Report of the independent Auditors - page 74.

Attributable to owners of the Bank

Fair value reserve RO '000	Special reserve RO '000	Impairment reserve RO '000	Retained earnings RO '000	Total RO '000	Tier 1 Perpetual subordinated bond RO '000	Total Equity RO '000
(122)	**228**	**-**	**66,423**	**254,827**	**50,000**	**304,827**
(1,526)	–	1,082	1,526	(5,461)	–	(5,461)
(1,648)	**228**	**1,082**	**67,949**	**249,366**	**50,000**	**299,366**
–	–	–	28,786	28,786	–	28,786
(5,211)	–	–	–	(5,211)	–	(5,211)
(5,211)	**-**	**-**	**28,786**	**23,575**	**-**	**23,575**
–	–	–	(2,879)	–	–	–
–	–	6,592	(6,592)	–	–	–
–	1,699	–	(1,699)	–	–	–
(26)	–	–	26	–	–	–
–	–	36	3	39	–	39
–	–	–	(3,750)	(3,750)	–	(3,750)
–	–	–	(5,000)	–	–	–
(26)	**1,699**	**6,628**	**(19,891)**	**(3,711)**	**-**	**(3,711)**
–	–	–	(14,250)	(14,250)	–	(14,250)
–	–	–	(7,125)	–	–	–
-	**-**	**-**	**(21,375)**	**(14,250)**	**-**	**(14,250)**
–	–	–	–	–	54,000	54,000
(6,885)	**1,927**	**7,710**	**55,469**	**254,980**	**104,000**	**358,980**
(17,883)	**5,005**	**20,026**	**144,074**	**662,285**	**270,130**	**932,415**

Fair value reserve RO '000	Special reserve RO '000	Impairment reserve RO '000	Retained earnings RO '000	Total RO '000	Tier 1 Perpetual subordinated bond RO '000	Total Equity RO '000
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	–	–	–
–	–	–	28,274	–	–	–
–	–	–	(14,250)	(14,250)	–	(14,250)
–	–	–	(14,250)	(14,250)	–	(14,250)
–	–	–	–	–	50,000	50,000
(122)	228	–	66,423	254,827	50,000	304,827
(317)	592	–	172,527	661,888	129,870	791,758

Statement of Cash Flows

For the year ended 31 December 2018

2017 US$ '000	2018 US$ '000		Note	2018 RO '000	2017 RO '000
		CASH FLOWS FROM OPERATING ACTIVITIES			
81,554	**87,775**	Profit for the year before taxation		**33,793**	31,398
		Adjustments for:			
3,449	**3,592**	Depreciation and amortisation	10	**1,383**	1,328
10,754	**13,267**	Net impairment on financial assets	8	**5,108**	4,140
296	**249**	End of service benefits provision	16	**96**	114
21	**-**	Loss on sale of property and equipment		**-**	8
(1,439)	**322**	Loss/ (Gain) on sale of investments		**124**	(554)
94,635	**105,205**	**Operating profit before working capital changes**		**40,504**	36,434
-	**50,618**	Increase in due to banks		**19,488**	-
(436)	**(106)**	End of service benefits paid	16	**(41)**	(168)
(301,099)	**(640,906)**	Increase in loans & advances and financing		**(246,749)**	(115,923)
(126,577)	**348,096**	Net movement in FVTPL investment securities		**134,017**	(48,732)
(1,488)	**7,122**	Decrease / (increase) in other assets		**2,742**	(573)
467,078	**547,517**	Increase in customers' deposits		**210,794**	179,825
9,443	**7,963**	Increase in other liabilities		**3,066**	3,636
141,556	**425,509**	**Cash from operations**		**163,821**	54,499
(10,459)	**(12,218)**	Tax paid		**(4,704)**	(4,026)
131,097	**413,291**	**Net cash from operating activities**		**159,117**	50,473
		CASH FLOWS FROM INVESTING ACTIVITIES			
(59,010)	**(351,460)**	Increase in investment, net (excluding FVTPL investment)		**(135,312)**	(22,719)
(3,140)	**(5,636)**	Purchase of property and equipment	10	**(2,170)**	(1,209)
(62,150)	**(357,096)**	**Net cash used in investing activities**		**(137,482)**	(23,928)
		CASH FLOWS FROM FINANCING ACTIVITIES			
20,000	**(15,000)**	(Decrease) / increase in borrowed funds		**(5,775)**	7,700
(103,896)	**-**	Repayment of subordinated debt	15	**-**	(40,000)
(37,013)	**(37,013)**	Dividends paid	17	**(14,250)**	(14,250)
129,870	**140,260**	Proceeds from Tier 1 perpetual subordinated bond	20	**54,000**	50,000
-	**(9,740)**	Interest paid on Tier 1 perpetual subordinated bond	21	**(3,750)**	-
8,961	**78,507**	**Net cash from financing activities**		**30,225**	3,450
77,908	**134,702**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**51,860**	29,995
139,772	**217,680**	Cash and cash equivalents at 1 January		**83,807**	53,812
217,680	**352,382**	**CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer following page)**		**135,667**	83,807

Statement of Cash Flows (continued)

For the year ended 31 December 2018

2017 US$ '000	2018 US$ '000		Note	2018 RO '000	2017 RO '000
		CASH AND CASH EQUIVALENTS COMPRISE OF THE FOLLOWING			
301,566	397,094	Cash and balances with Central Bank of Oman	6	152,881	116,103
43,036	62,408	Due from banks	7	24,027	16,569
120,000	123,501	Treasury bills with three months maturity		47,548	46,200
(246,922)	(230,621)	Due to banks		(88,789)	(95,065)
217,680	352,382	Cash and cash equivalents		135,667	83,807
		RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES			
		Borrowed funds			
130,000	150,000	Balance at beginning of the year		57,750	50,050
20,000	-	Borrowed during the year		-	7,700
-	(15,000)	Repayments		(5,775)	-
150,000	135,000	Balance at end of the year		51,975	57,750
		Subordinated liabilities			
168,831	64,935	Balance at beginning of the year		25,000	65,000
(103,896)	-	Repayments		-	(40,000)
64,935	64,935	Balance at end of the year		25,000	25,000

The accompanying notes form an integral part of these financial statements.
Report of the independent Auditors - page 74.

Notes to the Financial Statements

For the year ended 31 December 2018

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 & investment banking activities through a network of twenty two branches as at year end with fourteen conventional and eight Islamic branches. (2017- 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 598 employees as at 31 December 2018 compared to 542 as at 31 December 2017.

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 the 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 the 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 financial instruments at fair value through other comprehensive income which have been measured at fair value.

This is the first set of the Bank's annual financial statements in which IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" have been applied. Changes to significant accounting policies are described in Note 3.

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 5.

2.5 Standards, amendments and interpretations effective in 2017 and relevant for the Bank's operations

For the year ended 31 December 2018, the Bank has adopted applicable 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 or after 1 January 2018.

The following are the accounting standards which are relevant to the Bank and have been applied in the preparation of these financial statements which has resulted in changes to the Bank's accounting policies and has not affected the amounts reported for prior periods.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2 BASIS OF PREPARATION (continued)

IFRS 9: Financial Instruments

On 1 January 2018 the Bank adopted IFRS 9 "Financial Instruments" (as revised in July 2014) which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for:

(1) The classification and measurement of financial assets and financial liabilities;

(2) Impairment of financial assets; and

(3) General hedge accounting.

The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. Refer to the Note 3.1 "IFRS 9 Financial Instruments" for impact on account of adoption of IFRS 9, Note 4.3 for the significant accounting policies and Note 34 for risk disclosures in accordance with the standard.

IFRS 15: Revenue from Contracts with Customers

The Bank has adopted IFRS 15 as issued by IASB with effective date from 1 January 2018. This standard has superseded all revenue recognition requirements under the earlier standard and provides a principle based approach for revenue recognition with the introduction of concept for revenue recognition for performance obligation as they are satisfied. The Bank has assessed the impact of IFRS 15 and concluded that the application of this standard does not have any material impact on Bank's financial statements. Accordingly, the impact of IFRS 15 was limited to disclosure requirements only. (Refer note 26)

2.6 The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2018:

2.6.1 IFRS 16 Leases; effective for annual periods commencing 1 January 2019.

IFRS 16 "Leases" replaces the existing guidance and interpretations including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease". 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. Lessor accounting remains similar to the current standard IAS 17, i.e. lessors continue to classify leases as finance or operating leases.

The Bank will adopt the new standard on the required effective date using the modified retrospective approach. The Bank has assessed the impact of IFRS 16 and concluded that the standard doesn't have any material impact in the Bank's financial statements.

2.6.2 Other Standards

- Annual improvements to IFRS standards 2015-2017 cycle- various standards
- IFRIC 23 Uncertainty over Income tax treatments

3 CHANGES IN ACCOUNTING POLICIES

3.1 IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Accordingly, any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current year. As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures were also made only for the current year. The comparative year notes disclosures repeat those disclosures made in the previous year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments: Disclosure".

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 9 Financial Instruments (continued)

3.1.2 Impairment of financial assets

'IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ' expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Further details of the impairment requirements are described in more detail in Note 4.3.6.

3.1.3 Transition

Changes in accounting policies resulting fro adoption of IFRS 9 have been applied retrospectively, except as described below:
Comparative periods have not been restated and the differences in carrying amounts of financial assets and liabilities resulting from adoption of IFRS 9 are recognised in opening balance of retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 which are compliant under IFRS 9.

3.1.4 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

(a) The measurement category and the carrying amount of financial assets and liabilities as presented at year ended 31 December 2017 and subsequently as per IFRS 9 at 1 January 2018 are compared and set out as below:

	31 December 2017		1 January 2018	
Financial assets	**Measurement category**	**Carrying amount RO '000**	**Measurement category**	**Carrying amount RO '000**
Cash and balances with Central Bank of Oman	Amortised cost (Loans and receivables)	116,628	Amortised cost	116,628
Due from banks	Amortised cost (Loans and receivables)	16,569	Amortised cost	16,567
Loans & advances and financing, net	Amortised cost (Loans and receivables)	1,634,458	Amortised cost	1,630,838
Investment securities	Held for trading investments - Debt	134,489	FVOCI	134,489
	Available for sale investments – Debt	77,353	FVOCI	77,334
	Available for sale investments – Equity	307	FVTPL	307
	Available for sale investments - Equity	4,592	FVOCI	4,592
Other assets - acceptances	Amortised cost (Loans and receivables)	8,567	Amortised cost	8,413
Financial Liabilities				
Due to banks	Amortised cost	133,565	Amortised cost	133,565
Customers' deposits	Amortised cost	1,450,851	Amortised cost	1,450,851
Borrowed funds	Amortised cost	57,750	Amortised cost	57,750
Subordinated liabilities	Amortised cost	25,000	Amortised cost	25,000
Other liabilities	Amortised cost	42,277	Amortised cost	43,942

Other liabilities includes provision against loan commitments and financial guarantees.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 9 Financial Instruments (continued)

3.1.4 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018;

Financial assets	31-Dec-2017 RO '000	Reclassification RO '000	Remeasurement RO '000	1-Jan-2018 RO '000
Amortised cost				
Cash and balances with Central Bank of Oman				
Opening balance under IAS 39	116,628			
Closing balance under IFRS 9				116,628
Due from banks				
Opening balance under IAS 39	16,569			
Remeasurement: ECL allowance			(2)	
Closing balance under IFRS 9				**16,567**
Loans & advances and financing, net				
Opening balance under IAS 39	1,634,458			
Remeasurement: ECL allowance			(3,620)	
Closing balance under IFRS 9				**1,630,838**
Other assets - acceptances				
Opening balance under IAS 39	8,567			
Remeasurement: ECL allowance			(154)	
Closing balance under IFRS 9				**8,413**
Total Amortised cost	**1,776,222**	**-**	**(3,776)**	**1,772,446**
FVOCI				
FVOCI – Debt instruments				
Opening balance under IAS 39	134,489			
Reclassification from: Held for trading investments		134,489		
Closing balance under IFRS 9				**134,489**
FVOCI – Debt instruments				
Opening balance under IAS 39	77,353			
Reclassification from: Available for sale investments		77,353		
Remeasurement: ECL allowance			(19)	
Closing balance under IFRS 9				**77,334**
Equity instruments				
Opening balance under IAS 39	4,592			
Reclassification from: Available for sale securities		4,592		
Closing balance under IFRS 9				**4,592**
Total FVOCI	**216,434**	**216,434**	**(19)**	**216,415**
FVTPL				
Equity instruments				
Opening balance under IAS 39	307			
Reclassification from: Available for sale securities		307		
Closing balance under IFRS 9				**307**
Total FVTPL	**307**	**307**	**-**	**307**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.1. IFRS 9 Financial Instruments (continued)

3.1.4 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

Financial Liabilities	31-Dec-2017 RO'000	Reclassification RO'000	Remeasurement RO'000	1-Jan-2018 RO'000
Amortised cost				
Due to banks	133,565	-	-	133,565
Customers' deposits	1,450,851	-	-	1,450,851
Borrowed funds	57,750	-	-	57,750
Subordinated liabilities	25,000	-	-	25,000
Closing balance under IFRS 9	1,667,166	**-**	**-**	**1,667,166**
Other Liabilities				
Opening balance under IAS 39	42,277			
Remeasurement: Provision for off-balance sheet		-	1,665	43,942
Closing balance under IFRS 9	**42,277**	**-**	**1,665**	**43,942**
Total Amortised cost	**1,709,443**	**-**	**1,665**	**1,711,108**

(c) Reconciliation of impairment allowance and provisions balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	31-Dec-2017 RO '000	Reclassification RO '000	Remeasurement RO '000	1-Jan-2018 RO '000
Due from banks	-	-	2	2
Loans and advances & financing	30,642	-	(2,922)	27,720
Investment securities	1,556	(1,556)	19	19
Other assets	-	-	154	154
Other liabilities (off-balance sheet)	-	-	1,665	1,665
Total	**32,198**	**(1,556)**	**(1,082)**	**29,560**

As at 1 January 2018 after the application of IFRS 9, impairment allowance / provision without reserve interest amounts to RO 28.400 million.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other operating income' in the statement of 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 (before 1 January 2018), 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 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Revenue and expense recognition

4.2.1 Interest income and expense

Policy applicable from 1 January 2018

Interest income and expense is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount or the amortised cost of the financial asset or liability. The calculation of effective interest rate includes transaction costs and fees paid/ received that are an integral part of effective interest rate. Transaction costs includes incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principle repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

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

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

(ii) Interest on debt investment securities on an effective interest rate basis.

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

Policy applicable before 1 January 2018

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

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

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

(ii) Interest on available for sale investment 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.

4.2.2 Fees and commission

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

Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees, advisory fees and syndication fees. Fees and commission income is measured based on the consideration specified in the contract with the customers. The Bank satisfies its performance obligation upon completion of the related services as mentioned in the contract and revenue is recognised accordingly.

4.2.3 Dividends

Dividend income is recognised when the right to receive dividend is established.

4.2.4 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities

4.3.1 Recognition and initial measurement

The Bank initially recognises loans and advances & financing, deposits, borrowings and subordinated liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.3.2 Classification

Financial assets

Policy applicable from 1 January 2018

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified and measured at; amortised cost, FVOCI or FVTPL.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL;

- The asset is held within business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

It is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost less impairment.

Financial assets measured at fair value through other comprehensive income

a) Debt instruments

Investment in debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity.

b) Equity instruments

For an equity instrument that is not held for trading, the Bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment on investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of comprehensive income.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprises of investments held for trading and designated as FVTPL on initial recognition. It is initially recognised at fair value with transaction costs recognised in the statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of income.

Business model assessment

Business model available under IFRS 9 are:

(i) Hold to Collect - Financial assets held with the objective to collect contractual cash flows.

(ii) Hold to Collect and Sell - Financial assets held with the objective of both collecting contractual cash flows and selling financial assets.

(iii) Other - Financial assets held with trading intent or that do not meet the criteria of either "Hold to collect" or "Hold to collect and sell".

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.2 Classification (continued)

Policy applicable from 1 January 2018 (continued)

Assessment whether contractual cash flows are solely payments of principal and interest

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payment of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Modifications of financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification doesn't result in derecognition and the Bank recalculates the gross carrying amount based on the revised cash flows & the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of comprehensive income. If the cash flows are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset.

Financial guarantee contracts and loan commitments

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision as described in Note 4.3.6. The Bank has issued no loan commitments that are measured at FVTPL. Liabilities arising from financial guarantee and loan commitments are included within provisions under other liabilities in statement of financial position.

4.3.2.1 Loans & advances and financings receivables

Policy applicable from 1 January 2018

Loans & advances and financing receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest method less allowance for impairment losses which are recognised in the statement of comprehensive income.

Policy applicable before 1 January 2018

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'.

4.3.2.2 Investments

Policy applicable from 1 January 2018

Investments which are recognised in the statement of financial position includes:

(i) Debt securities measured at FVOCI;

(ii) Equity investment securities designated at FVTPL and these are at fair value with changes recognised immediately in profit or loss;

(iii) Equity investment securities measured at FVOCI

For debt securities measured at FVOCI, gain and losses are recognised in 'Other Comprehensive income' and when it is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The Bank elects to present in other comprehensive income the changes in the fair value of certain investments in equity instruments that are measured at FVOCI. The election is made on an instrument by instrument basis on initial recognition.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.2 Classification (continued)

4.3.2.2 Investments (continued)

Policy applicable before 1 January 2018

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.

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.

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.

4.3.2.3 Cash and cash equivalents

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

4.3.2.4 Due from banks

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

4.3.2.5 Financial liabilities

'IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in Statement of comprehensive income , under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in Statement of comprehensive income.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.2 Classification (continued)

4.3.2.6 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.

4.3.2.7 Deposits and subordinated liabilities

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

4.3.3 Derecognition

Financial assets

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

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

Financial liabilities

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

4.3.4 Offsetting

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

4.3.5 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 32 for fair value hierarchy valuation techniques.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.5 Fair value measurement (continued)

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.

4.3.6 Impairment

Policy applicable from 1 January 2018

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

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

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

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

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

Measurement of ECL

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.6 Impairment (continued)

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

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

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

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

Details of these statistical parameters/inputs are as follows:

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

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

Credit impaired financial assets

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

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

Write off

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. The policy on write off's remains unchanged.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial assets and financial liabilities (continued)

4.3.6 Impairment (continued)

Policy applicable before 1 January 2018

Identification and measurement of impairment of financial assets

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 collateralized 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.

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.

4.3.7 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:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

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 statement of comprehensive income 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date at predetermined price are recognised in the statement of financial position and are measured in accordance with accounting policies for financial assets. The counterparty liability for amounts received under these agreements is included in 'due to banks'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement using the effective interest rate method. These securities are not derecognised as the related risks and rewards are not transferred to the counterparties.

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

4.5 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.

4.6 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.

4.7 Collateral pending sale

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

4.8 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

4.9 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax asset/liability is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Taxation (continued)

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.

4.10 Trade and settlement date accounting

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

4.11 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.

4.12 Leases

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

4.13 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.

4.14 Employee terminal benefits

4.14.1 Terminal benefits

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

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.

4.14.2 Short term benefits

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

4.15 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.

4.16 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.

4.17 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.

4.18 Dividend on ordinary shares

Dividend on ordinary shares is recognised as liability and deducted from equity in the period when it is approved by the Bank's shareholders. Interim dividend is deducted from equity when they are paid.

Dividend for the year that is approved after the reporting date is dealt with as an event after the reporting date and disclosed in the financial statements.

4.19 Perpetual Subordinated Bond

Perpetual subordinated bonds - Additional Tier 1 capital instruments of the Bank are recognised under equity in the SOFP 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 IFRS 9: Financial Instruments. 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5 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.

Applicable to year 2018 only:

5.1 Financial asset classification

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

5.2 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 34.1.5, which also sets out key sensitivities of the ECL to changes in these elements.

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

(a) determining criteria for significant increase in credit risk;

(b) choosing appropriate models and assumptions for measurement of ECL;

(c) establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL; and

(d) establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates is provided in note 4.3.6

Applicable to year 2018 and 2017:

5.3 Fair value of derivatives and other financial instruments

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

5.4 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
18,275	**22,821**	Cash	**8,786**	7,036
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
65	**65**	ATM deposit with Central Bank of Oman	**25**	25
283,291	**374,272**	Clearing account and placement with Central Bank of Oman	**144,095**	109,067
302,930	**398,457**		**153,406**	116,628

The Capital and ATM deposits with the Central Bank of Oman (CBO) are mandatory deposits and cannot be withdrawn without its approval and accordingly are not available for use in day to day operations of the Bank. As at 31 December 2018, Clearing account and placement with CBO includes a balance of RO. NIL equivalent to US$- NIL (31 December 2017- RO and US$ equivalent- Nil) statutory reserve balance to be maintained in accordance with CBO regulations.

7 DUE FROM BANKS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
20,000	**47,349**	Placements	**18,229**	7,700
23,036	**15,062**	Nostro account balances	**5,799**	8,869
-	**(3)**	Less: Impairment loss allowance	**(1)**	-
43,036	**62,408**		**24,027**	16,569

8 LOANS & ADVANCES AND FINANCING, NET

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Conventional Banking		
2,325,631	**2,748,059**	Corporate lending	**1,058,003**	895,368
1,332,883	**1,417,161**	Retail lending	**545,607**	513,160
3,658,514	**4,165,220**	Loans & advances, gross	**1,603,610**	1,408,528
		Islamic Banking		
326,764	**457,135**	Corporate financing	**175,997**	125,804
322,662	**325,943**	Retail financing	**125,488**	124,225
649,426	**783,078**	Financing, gross	**301,485**	250,029
4,307,940	**4,948,298**	**Loans & advances and financing, gross**	**1,905,095**	1,658,557
(62,595)	**(89,397)**	Loan and financing impairment (including reserve interest and profit)	**(34,418)**	(24,099)
4,245,345	**4,858,901**		**1,870,677**	1,634,458

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8 LOANS & ADVANCES AND FINANCING, NET (continued)

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

2017 US$ '000	**2018 US$ '000**		**2018 RO '000**	2017 RO '000
1,655,545	**1,743,104**	Personal loans	**671,095**	637,385
887,766	**1,159,187**	Construction	**446,287**	341,790
363,151	**455,436**	Wholesale and retail trade	**175,343**	139,813
287,691	**326,636**	Services	**125,755**	110,761
144,408	**300,940**	Financial institutions	**115,862**	55,597
224,499	**275,060**	Mining and quarrying	**105,898**	86,432
247,065	**249,694**	Manufacturing	**96,132**	95,120
199,195	**228,857**	Transport and communication	**88,110**	76,690
123,325	**126,704**	Electricity, gas and water	**48,781**	47,480
70,483	**43,852**	Non-resident lending	**16,883**	27,136
104,812	**38,828**	Other	**14,949**	40,353
4,307,940	**4,948,298**		**1,905,095**	1,658,557

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

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

Disclosure requirements containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognised as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8 LOANS & ADVANCES AND FINANCING, NET (continued)

8.1 Comparison of provision held as per IFRS 9 and required as per CBO norms (continued)

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross Carrying amount RO '000	Provision required as per CBO norms RO '000	Provision held as per IFRS 9 RO '000
(1)	(2)	(3)	(4)	(5)
Standard	Stage 1	**1,698,906**	**22,748**	**6,369**
	Stage 2	**56,543**	**-**	**1,166**
	Stage 3	**-**	**-**	**-**
Subtotal		**1,755,449**	**22,748**	**7,535**
Special Mention	Stage 1	**7,225**	**78**	**337**
	Stage 2	**109,606**	**-**	**8,931**
	Stage 3	**-**	**-**	**-**
Subtotal		**116,831**	**78**	**9,268**
Substandard	Stage 1	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**
	Stage 3	**10,635**	**2,655**	**5,079**
Subtotal		**10,635**	**2,655**	**5,079**
Doubtful	Stage 1	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**
	Stage 3	**3,990**	**1,849**	**2,298**
Subtotal		**3,990**	**1,849**	**2,298**
Loss	Stage 1	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**
	Stage 3	**18,190**	**13,745**	**10,238**
Subtotal		**18,190**	**13,745**	**10,238**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	**681,443**	**-**	**865**
	Stage 2	**10,736**	**-**	**146**
	Stage 3	**971**	**139**	**205**
Subtotal		**693,150**	**139**	**1,216**
Total	**Stage 1**	**2,387,574**	**22,826**	**7,571**
	Stage 2	**176,885**	**-**	**10,243**
	Stage 3	**33,786**	**18,388**	**17,820**
	Total	**2,598,245**	**41,214**	**35,634**
	Total (US $'000)	**6,748,688**	**107,049**	**92,556**

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

Difference between CBO provision required and provision held RO '000	Net amount as per CBO norms* RO '000	Net amount as per IFRS 9 RO '000	Interest recognised in SOCI as per IFRS 9 RO '000	Reserve interest as per CBO norms RO '000
(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5)	(9)	(10)
16,379	1,676,158	1,692,537	-	-
(1,166)	56,543	55,377	-	-
-	-	-	-	-
15,213	1,732,701	1,747,914	-	-
(259)	7,147	6,888	-	-
(8,931)	109,606	100,675	-	-
-	-	-	-	-
(9,190)	116,753	107,563	-	-
-	-	-	-	-
-	-	-	-	-
(2,424)	7,927	5,556	-	53
(2,424)	7,927	5,556	-	53
-	-	-	-	-
-	-	-	-	-
(449)	2,018	1,692	-	123
(449)	2,018	1,692	-	123
-	-	-	-	-
-	-	-	-	-
3,507	2,491	7,952	-	1,954
3,507	2,491	7,952	-	1,954
(865)	681,443	680,578	-	-
(146)	10,736	10,590	-	-
(66)	832	766	-	-
(1,077)	693,011	691,934	-	-
15,255	2,364,748	2,380,003	-	-
(10,243)	176,885	166,642	-	-
568	13,268	15,966	-	2,130
5,580	2,554,901	2,562,611	-	2,130
14,494	6,636,106	6,656,132	-	5,532

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8 LOANS & ADVANCES AND FINANCING, NET (continued)

8.2 Restructured Loans

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross Carrying amount RO '000	Provision required as per CBO norms RO '000	Provision held as per IFRS 9 RO '000
(1)	(2)	(3)	(4)	(5)
Classified as Performing	Stage 1	-	-	-
	Stage 2	22,367	1,927	2,900
	Stage 3	-	-	-
Subtotal		22,367	1,927	2,900
Classified as Non-performing	Stage 1	-	-	-
	Stage 2	-	-	-
	Stage 3	547	335	312
Subtotal		547	335	312
Total	**Stage 1**	-	-	-
	Stage 2	22,367	1,927	2,900
	Stage 3	547	335	312
	Total	22,914	2,262	3,212
	Total (US $'000)	59,517	5,875	8,343

*Net of provisions and reserve interest as per CBO norms

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

Difference between CBO provision required and provision held RO '000	Net amount as per CBO norms* RO '000	Net amount as per IFRS 9 RO '000	Interest recognised in SOCI as per IFRS 9 RO '000	Reserve interest as per CBO norms RO '000
(6) = (4) - (5)	(7) = (3) - (4) - (10)	(8) = (3) - (5)	(9)	(10)
-	-	-	-	-
(973)	20,440	19,467	-	-
-	-	-	-	-
(973)	20,440	19,467	-	-
-	-	-	-	-
-	-	-	-	-
23	188	235	-	24
23	188	235	-	24
-	-	-	-	-
(973)	20,440	19,467	-	-
23	188	235	-	24
(950)	20,628	19,702	-	24
(2,468)	53,579	51,174	-	62

8.3 Impairment charge and provisions held

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to SOCI	-	5,104	-
Provisions required as per CBO norms/ held as per IFRS 9	41,214	35,634	5,580
Gross NPL ratio (percentage)	1.72%	1.72%	-
Net NPL ratio (percentage)	0.65%	0.78%	-0.13%

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

In accordance with the requirements of CBO circular BM 977, the Bank was required to create a portfolio based provision by debiting to the statement of comprehensive income. Based on CBO approval, the Bank has set aside an amount of RO 6.543 million equivalent to US$ 16.995 million as a non distributable general loan loss reserve for three years from 1 January 2008 to 31 December 2010. Post IFRS 9 implementation on 1 January 2018, CBO has allowed the Bank to transfer this reserve to retained earnings.

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 1.927 million (2017: RO 0.228 million) equivalent to US$ 5.005 million (2017: US$ 0.591 million) as a non distributable special reserve in its statement of changes in equity for the current year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

9 INVESTMENT SECURITIES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Equity investments:		
-	**1,226**	Designated at FVTPL	**472**	-
-	**14,935**	Designated at FVOCI	**5,750**	-
213,642	**-**	Available for sale	**-**	82,252
213,642	**16,161**	**Total Equity investments**	**6,222**	82,252
		Debt investments:		
	539,872	Designated at FVOCI	**207,851**	-
349,322	**-**	Held for trading	**-**	134,489
349,322	**539,872**	**Gross debt investments**	**207,851**	134,489
-	**(62)**	Less: Impairment loss allowance	**(24)**	-
349,322	**539,810**	**Net debt investments**	**207,827**	134,489
562,964	**555,971**	**Total investment securities**	**214,049**	216,741

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

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Equity investments:		
		A. Designated at FVTPL		
		Quoted investments - Oman		
-	**81**	Banking and investment sector	**31**	-
-	**195**	Service sector	**75**	-
		Quoted investments - Foreign		
-	**283**	Manufacturing	**109**	
-	**203**	Construction	**78**	-
-	**464**	Service sector	**179**	-
-	**1,226**	**Total**	**472**	-

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		B. Designated at FVOCI		
		Quoted investments - Oman		
-	**1,969**	Manufacturing	**758**	-
-	**2,795**	Banking and investment sector	**1,076**	-
-	**6,169**	Service sector	**2,375**	-
		Quoted investments - Foreign		
-	**1,291**	Manufacturing	**497**	-
-	**1,410**	Banking and investment sector	**543**	-
-	**909**	Service sector	**350**	-
-	**392**	Construction	**151**	-
-	**14,935**	**Total**	**5,750**	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

9 INVESTMENT SECURITIES (continued)

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		C. Available for sale		
		Quoted investments - Oman		
3,673	-	Banking and investment sector	-	1,414
24,751	-	Service sector	-	9,529
39,639	-	Government	-	15,261
2,314	-	Manufacturing	-	891
		Quoted investments - Foreign		
138,566	-	Banking and investment sector	-	53,348
1,182	-	Service sector	-	455
2,151	-	Government	-	828
956	-	Manufacturing	-	368
410	-	Construction	-	158
213,642	16,161	**Total equity investments**	6,222	82,252

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Debt investments:		
		A. Designated at FVOCI		
		Quoted investments - Oman		
-	317,846	Government development bonds	122,371	-
-	33,361	Government bonds	12,844	-
-	28,886	Government sukuks	11,121	-
-	18,247	Services	7,025	-
-	49	Banking and investment	19	
		Quoted investments - Foreign		
-	-	Government	-	-
-	125,483	Government bonds	48,311	
-	16,000	Banking and investment	6,160	-
-	539,872	**Total**	207,851	-

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		B. Held for trading		
		Quoted investments - Oman		
320,301	-	Government development bonds	-	123,316
29,021	-	Government sukuks	-	11,173
349,322	-	**Total**	-	134,489
-	(62)	Less: Impairment allowance	(24)	-
349,322	539,810	**Total debt investments**	207,827	134,489
562,964	555,971	**Total investments**	214,049	216,741

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

10 PROPERTY AND EQUIPMENT

	Freehold land RO '000	Building RO '000	Leasehold Improvements RO '000	Computer and other equipment RO '000	Vehicles RO '000	Furniture RO '000	Capital work in progress RO '000	Total RO '000
Cost:								
At 1 January 2018	**7,091**	**5,884**	**2,192**	**9,037**	**145**	**801**	**584**	**25,734**
Additions	**-**	**-**	**105**	**876**	**-**	**37**	**1,152**	**2,170**
Transferred	**-**	**-**	**-**	**55**	**-**	**-**	**(55)**	**-**
Disposals / scrapped	**-**	**-**	**-**	**(201)**	**-**	**-**	**-**	**(201)**
At 31 December 2018	**7,091**	**5,884**	**2,297**	**9,767**	**145**	**838**	**1,681**	**27,703**
Accumulated depreciation:								
At 1 January 2018	**-**	**961**	**1,783**	**5,618**	**133**	**536**	**-**	**9,031**
Depreciation	**-**	**235**	**214**	**853**	**6**	**75**	**-**	**1,383**
Disposals / scrapped	**-**	**-**	**-**	**(201)**	**-**	**-**	**-**	**(201)**
At 31 December 2018	**-**	**1,196**	**1,997**	**6,270**	**139**	**611**	**-**	**10,213**
Net book value as at 31 December 2018"								
RO '000	**7,091**	**4,688**	**300**	**3,497**	**6**	**227**	**1,681**	**17,490**
US$ '000	**18,418**	**12,177**	**779**	**9,083**	**16**	**590**	**4,366**	**45,429**

	Freehold land RO '000	Building RO '000	Leasehold Improvements RO '000	Computer and other equipment RO '000	Vehicles RO '000	Furniture RO '000	Capital work in progress RO '000	Total RO '000
Cost:								
At 1 January 2017	7,091	5,884	2,196	8,926	145	777	477	25,496
Additions	-	-	97	427	-	29	656	1,209
Transferred	-	-	-	549	-	-	(549)	-
Disposals / scrapped	-	-	(101)	(865)	-	(5)	-	(971)
At 31 December 2017	7,091	5,884	2,192	9,037	145	801	584	25,734
Accumulated depreciation:								
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
Net book value as at 31 December 2017								
RO '000	7,091	4,923	409	3,419	12	265	584	16,703
US$ '000	18,418	12,787	1,062	8,881	31	688	1,517	43,384

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

11 TAXATION

a) Recognised in the statement of comprehensive income

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Current tax		
11,743	**13,163**	- Current year	**5,068**	4,521
545	**(158)**	Deferred tax	**(61)**	210
12,288	**13,005**		**5,007**	4,731

b) Tax liability

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Current tax		
11,743	**13,164**	- Current year	**5,068**	4,521
935	**462**	- Prior years	**178**	360
12,678	**13,626**		**5,246**	4,881

Tax liability is included under Note 16 - Other Liabilities.

c) Deferred tax (liability) / asset

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
(265)	**(810)**	At 1 January	**(312)**	(102)
(545)	**158**	Movement during the year	**61**	(210)
(810)	**(652)**	At 31 December	**(251)**	(312)

d) Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2018 in accordance with the income tax laws of the Sultanate of Oman at the rate of 15% (31 December 2017: 15%) on taxable profits.

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
81,554	**87,775**	Accounting profit for the year	**33,793**	31,398
12,233	**13,166**	Tax charge @ 15% on accounting profit	**5,069**	4,710
		Add / (less) tax effects of:		
(342)	**(72)**	Income not taxable	**(28)**	(132)
236	**8**	Non deductible expenses	**3**	91
161	**(97)**	Others	**(37)**	62
12,288	**13,005**	Tax expense	**5,007**	4,731

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

12 OTHER ASSETS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
22,252	**14,221**	Acceptances	**5,475**	8,567
2,745	**3,379**	Prepayments	**1,301**	1,057
3,977	**4,190**	Interest and profit receivable	**1,613**	1,531
6,047	**6,138**	Others	**2,363**	2,328
	(29)	Less: Impairment loss allowance	**(11)**	
35,021	**27,899**		**10,741**	13,483

13 DUE TO BANKS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
211,782	**208,995**	Inter-bank deposits	**80,463**	81,536
2,156	**1,813**	Vostro account balances	**698**	830
132,984	**170,431**	Borrowings under repurchase agreements	**65,616**	51,199
346,922	**381,239**		**146,777**	133,565

Borrowings from financial institutions under repurchase agreements are secured by collateralisation of US treasury bills , OMGRID bonds, Government of Oman bonds and ICICI bonds. Market value of collateralized treasury bills/ bonds as of 31 December 2018 amounted to RO 71.383 million equivalent to US$ 185.410 million (31 December 2017: RO 57.858 million equivalent to US$ 137.344 million).

14 CUSTOMERS' DEPOSITS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Conventional Banking		
2,124,000	**2,329,143**	Time deposits	**896,720**	817,740
822,256	**1,196,647**	Demand deposits	**460,709**	316,569
243,216	**278,706**	Savings deposits	**107,302**	93,638
3,189,472	**3,804,496**		**1,464,731**	1,227,947
		Islamic Banking		
353,068	**226,099**	Time deposits	**87,048**	135,931
110,270	**153,717**	Demand deposits	**59,181**	42,454
115,634	**131,649**	Savings deposits	**50,685**	44,519
578,972	**511,465**		**196,914**	222,904
3,768,444	**4,315,961**		**1,661,645**	1,450,851

15 BORROWED FUNDS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
150,000	**135,000**	Financial institutions	**51,975**	57,750

Borrowed funds includes unsecured US Dollar (USD) borrowings from foreign financial institutions. Applicable financial covenants for these borrowings include the requirement for a minimum tangible networth of the Bank and a minimum capital adequacy ratio to be mantanined by the Bank.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

16 OTHER LIABILITIES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
22,252	**14,221**	Acceptances	**5,475**	8,567
51,948	**66,506**	Interest and profit payable	**25,605**	20,000
9,460	**10,873**	Accrued expenses	**4,186**	3,642
2,554	**4,353**	Staff related liabilities	**1,676**	983
12,678	**13,626**	Provision for tax	**5,246**	4,881
10,919	**6,219**	Others	**2,394**	4,204
-	**3,065**	Provision for off balance sheet items	**1,180**	-
109,811	**118,863**		**45,762**	42,277

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

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
896	**756**	At 1 January	**291**	345
296	**249**	Provided during the year (Note 27)	**96**	114
(436)	**(106)**	Payments made during the year	**(41)**	(168)
756	**899**	At 31 December	**346**	291

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 24,578.987 equivalent to US$ 63,841.525 was transferred to the "Investors' Trust Fund" (2017: RO 22,938.342 equivalent to US $ 59,580.110).

17 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.

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
64,935	**64,935**	Subordinated loans	**25,000**	25,000

For each of the last 5 years of the tenor of the subordinated loans, the Bank is required to transfer 20% of the liability to subordinated debt reserve. All Subordinated liabilities are repayable at par on maturity. On repayment of subordinated loans, the related subordinated debt reserve balance is released to Retained earnings. The maturity profile and interest rate of these liabilities are disclosed in note 34.2.2 and 34.3.2.

18 SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares of 100 baizas each (31 December 2017: 2,500,000,000 shares of 100 baizas each) out of which 1,496,287,951 (31 December 2017: 1,425,036,144 shares) are issued and fully paid up. In the Bank's annual general meeting held on 28 March 2018 the shareholders approved to issue bonus shares of 5% of the capital (5 shares per 100 shares) which resulted an increase by 71,251,807 shares (31 December 2017: Nil).

Ahli United Bank B.S.C (AUB) is the only shareholder which owns 10% or more of the Bank's shares. On 31 December 2018 shareholding of AUB was 523,700,774 shares equivalent to 35% (31 December 2017: 498,762,642 shares equivalent to 35%).

19 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 2.879 million equivalent to US$ 7.477 million (31 December 2017: RO 2.667 million equivalent to US$ 6.927 million) was transferred to legal reserve.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

20 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 ensuing Annual General Meeting and the regulatory authorities (31 December 2017: 10% cash dividend and 5% stock dividend). The cash dividend and stock dividend proposed for 2017 was approved by the shareholders in annual general meeting and was paid in 2018.

21 TIER 1 PERPETUAL SUBORDINATED BONDS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
129,870	**270,130**	Tier 1 perpetual subordinated bonds	**104,000**	50,000

In 2017, the Bank has issued perpetual subordinated bonds - Additional Tier 1 (AT1) capital instruments (the "Tier 1 Securities") amounting to RO 50 million (USD 129.870 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 CBO.

In 2018 the Bank has further issued perpetual subordinated bonds AT1 capital instruments (the "Tier 1 Securities") amounting to RO 54 million (USD 140.260 million). They are redeemable by the Bank at its sole discretion on 17 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

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

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

22 NET ASSETS VALUE PER SHARE

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

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
661,888	**662,285**	Net assets	**254,980**	254,827
1,425,036	**1,496,288**	Issued and paid up shares (in 000's) at 31 December	**1,496,288**	1,425,036
46	**44**	Net asset value per share (cents /baizas)	**170**	179

23 CONTINGENT LIABILITIES AND COMMITMENTS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
353,647	**411,894**	Financial guarantees	**158,579**	136,154
373,078	**275,608**	Letters of credit	**106,109**	143,635
68,548	**120,748**	Loan commitments	**46,488**	26,391
6,026	**3,634**	Capital commitments	**1,399**	2,320
		Lease commitments		
275	**72**	- not later than one year	**28**	106
1,513	**1,610**	- more than one year and upto five years	**620**	583
803,087	**813,566**		**313,223**	309,189

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

24 INTEREST INCOME

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
184,764	215,709	Loans and advances	83,048	71,134
14,265	20,571	Investments	7,920	5,492
1,023	1,037	Due from banks	399	394
200,052	237,317		91,367	77,020

25 INTEREST EXPENSE

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
64,951	74,857	Time deposits	28,820	25,006
21,442	28,522	Demand and saving deposits	10,981	8,255
7,932	7,738	Borrowings	2,979	3,054
6,997	9,966	Inter-bank deposits	3,837	2,694
101,322	121,083		46,617	39,009

26 OTHER OPERATING INCOME

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
23,613	19,947	Fees and commission *	7,680	9,091
1,439	(322)	(Loss) / Gain on sale of investments, net	(124)	554
4,179	5,847	Foreign exchange gain, net	2,251	1,609
839	756	Dividend income	291	323
-	3	Others	1	-
30,070	26,231		10,099	11,577

* Disclosure of disaggregated income are given in note 26.1- Disaggregation of fee and commission income.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

26 OTHER OPERATING INCOME (continued)

26.1 Disaggregation of fee and commission income

IFRS 15 requires the disclosure of disaggregated revenue earned from contracts with customers for major products/ service lines. The below table provides disaggregation of fees and other income & commission with the Bank's reportable segments:

	2018			2017		
	Retail Banking RO '000	**Wholesale Banking, Treasury and Investment Banking RO '000**	**Total RO '000**	Retail Banking RO '000	Wholesale Banking, Treasury and Investment Banking RO '000	Total RO '000
Disaggregated income						
Service charges	**481**	**435**	**916**	461	419	880
Fees income	**1,036**	**4,772**	**5,808**	955	7,382	8,337
Commission income	**21**	**1,375**	**1,396**	2	1,343	1,345
Total fee and commission income	**1,538**	**6,582**	**8,120**	1,418	9,144	10,562
Fee expense	**(424)**	**(16)**	**(440)**	(809)	(662)	(1,471)
Net fee and commission income	**1,114**	**6,566**	**7,680**	609	8,482	9,091

	2018			2017		
	Retail Banking US$ '000	**Wholesale Banking, Treasury and Investment Banking US$ '000**	**Total US$ '000**	Retail Banking US$ '000	Wholesale Banking, Treasury and Investment Banking US$ '000	Total US$ '000
Disaggregated income						
Service charges	**1,249**	**1,130**	**2,379**	1,197	1,088	2,285
Fees income	**2,691**	**12,395**	**15,086**	2,481	19,174	21,655
Commission	**55**	**3,571**	**3,626**	5	3,488	3,493
Total fee and commission income	**3,995**	**17,096**	**21,091**	3,683	23,750	27,433
Fee expense	**(1,102)**	**(42)**	**(1,144)**	(2,101)	(1,719)	(3,820)
Net fee and commission income	**2,893**	**17,054**	**19,947**	1,582	22,031	23,613

27 STAFF EXPENSES

2017 US$ '000	**2018 US$ '000**		**2018 RO '000**	2017 RO '000
29,405	**34,096**	Salaries and allowances	**13,127**	11,321
1,421	**1,987**	Other staff costs	**765**	547
2,288	**2,445**	Contribution to social insurance schemes	**941**	881
296	**249**	Employees end of service benefits	**96**	114
33,410	**38,777**		**14,929**	12,863

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

28 OTHER OPERATING EXPENSES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
12,938	**14,265**	Operating and administration costs	**5,492**	4,981
3,288	**3,242**	Occupancy costs	**1,248**	1,266
519	**519**	Board related expenses	**200**	200
16,745	**18,026**		**6,940**	6,447

29 BASIC AND DILUTED EARNINGS PER SHARE

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
69,266	**74,770**	Profit for the year	**28,786**	26,667
1,496,288	**1,496,288**	Weighted average number of outstanding shares during the year (in 000's)	**1,496,288**	1,496,288
5	**5**	Earnings per share (cents /baizas)	**19**	18

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

Earnings per share for the current and prior year has been calculated using the weighted average shares outstanding for the current year. The weighted average shares outstanding includes 71,251,807 bonus shares issued for nil consideration.

30 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with major shareholders, directors, senior management and their related entities in the ordinary course of business at commercial terms as approved by the board.

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

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Directors and senior management		
1,468	**1,587**	Loans & advances and financing, net	**611**	565
2,288	**1,494**	Customers' deposits	**575**	881
75	**42**	Prepaid expenses	**16**	29
		Major shareholders and others		
2,153	**3,182**	Due from banks	**1,225**	829
1,216	**1,099**	Investments securities	**423**	468
		Other assets		
174	**379**	- Fair value of forward contracts	**146**	67
-	**127**	- Fair value of swaps	**49**	-
100,816	**100,719**	Due to banks	**38,777**	38,814
23	**8**	Customers' deposits	**3**	9
		Other liabilities		
-	**16**	- Accrued expenses	**6**	-
-	**888**	Contingent liabilities and commitments	**342**	-

The related maturity profile and interest rate risk is given in note 34.2.2 and 34.3.2 respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

30 RELATED PARTY TRANSACTIONS (continued)

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

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Directors and senior management		
62	**52**	Interest income	**20**	24
44	**34**	Interest expense	**13**	18
418	**416**	Board remuneration proposed	**160**	162
101	**104**	Board sitting fees	**40**	38
94	**94**	Shariah Supervisory Board expenses	**36**	36
122	**122**	Other operating expenses	**47**	47
		Major shareholders and others		
-	**3**	Interest income	**1**	-
4,117	**4,622**	Interest expense	**1,779**	1,585
421	**-**	Gain on fair value of interest rate swaps	**-**	162
174	**379**	Gain on foreign exchange forward contracts	**-**	67
1,696	**714**	Other operating expenses	**275**	653

During the year, the Bank has not purchased debt instruments from the related party (31 December 2017: RO 21.625 million equivalent to US$ 56.168 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 2017: 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 NIL equivalent to US$ NIL (31 December 2017: RO 57.7 million equivalent to US$ 149.870 million).

As at December 31, 2018, guarantees were issued to beneficiaries on behalf of one related party amounting to RO 10.816 million equivalent to US$ 28.094 million.(31 December 2017: 15.041 million equivalent to US$ 39.067 million).

Compensation of the key management personnel is as follows;

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
2,787	**2,166**	Salaries and allowances	**834**	1,073
86	**62**	End of service benefits	**24**	33
2,873	**2,228**		**858**	1,106

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

31 FINANCIAL INSTRUMENTS CLASSIFICATION

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

		2018				
Particulars	**Note**	**Amortised cost RO '000**	**FVOCI-debt instruments RO '000**	**FVOCI-equity instruments RO '000**	**FVTPL RO '000**	**Total RO '000**
Financial assets						
Cash and balances with Central Bank of Oman	6	153,406	-	-	-	153,406
Due from banks	7	24,027	-	-	-	24,027
Loans and advances & financing	8	1,870,677	-	-	-	1,870,677
Investment securities	9	-	207,827	5,750	472	214,049
Other assets- acceptances	12	5,475	-	-	-	5,475
Financial liabilities						
Due to banks	13	146,777	-	-	-	146,777
Customer deposits	14	1,661,645	-	-	-	1,661,645
Borrowed funds	15	51,975	-	-	-	51,975
Subordinated liabilities	17	25,000	-	-	-	25,000
Other liabilities	16	45,762	-	-	-	45,762

		2018				
Particulars	**Note**	**Amortised cost US$ '000**	**FVOCI-debt instruments US$ '000**	**FVOCI-equity instruments US$ '000**	**FVTPL US$ '000**	**Total US$ '000**
Financial assets						
Cash and balances with Central Bank of Oman	6	398,457	-	-	-	398,457
Due from banks	7	62,408	-	-	-	62,408
Loans and advances & financing	8	4,858,901	-	-	-	4,858,901
Investment securities	9	-	539,810	14,935	1,226	555,971
Other assets- acceptances	12	14,221	-	-	-	14,221
Financial liabilities						
Due to banks	13	381,239	-	-	-	381,239
Customer deposits	14	4,315,961	-	-	-	4,315,961
Borrowed funds	15	135,000	-	-	-	135,000
Subordinated liabilities	17	64,935	-	-	-	64,935
Other liabilities	16	118,863	-	-	-	118,863

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

31 FINANCIAL INSTRUMENTS CLASSIFICATION (continued)

		2017				
Particulars	**Note**	**Amortised cost RO '000**	**Held to maturity RO '000**	**Available for sale RO '000**	**FVTPL (Including held for trading) RO '000**	**Total RO '000**
Financial assets						
Cash and balances with Central Bank of Oman	6	116,628	-	-	-	116,628
Due from banks	7	16,569	-	-	-	16,569
Loans and advances & financing	8	1,658,557	-	-	-	1,658,557
Investment securities	9	-	-	82,252	134,489	216,741
Other assets- acceptances	12	8,567	-	-	-	8,567
Financial liabilities						
Due to banks	13	133,565	-	-	-	133,565
Customer deposits	14	1,450,851	-	-	-	1,450,851
Borrowed funds	15	57,750	-	-	-	57,750
Subordinated liabilities	17	25,000	-	-	-	25,000
Other liabilities	16	42,277	-	-	-	42,277

		2017				
Particulars	**Note**	**Amortised cost US$ '000**	**Held to maturity US$ '000**	**Available for sale US$ '000**	**FVTPL (Including held for trading) US$ '000**	**Total US$ '000**
Financial assets						
Cash and balances with Central Bank of Oman	6	302,930	-	-	-	302,930
Due from banks	7	43,036	-	-	-	43,036
Loans and advances & financing	8	4,307,940	-	-	-	4,307,940
Investment securities	9	-	-	213,642	349,322	562,964
Other assets- acceptances	12	22,252	-	-	-	22,252
Financial liabilities						
Due to banks	13	346,922	-	-	-	346,922
Customer deposits	14	3,768,444	-	-	-	3,768,444
Borrowed funds	15	150,000	-	-	-	150,000
Subordinated liabilities	17	64,935	-	-	-	64,935
Other liabilities	16	109,811	-	-	-	109,811

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 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 & financing

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 fall 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.

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.

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 2018			31 December 2017		
	Level 1 RO '000	**Level 2 RO '000**	**Total RO '000**	Level 1 RO '000	Level 2 RO '000	Total RO '000
Financial assets:						
Investments at FVTPL	**472**	**-**	**472**	-	-	-
Investments at FVOCI	**32,537**	**181,040**	**213,577**	-	-	-
Investments at HFT	**-**	**-**	**-**	-	134,489	134,489
Investments at AFS	**-**	**-**	**-**	36,052	46,200	82,252
Derivative financial instruments						
Interest rate swaps	**-**	**132**	**132**	-	218	218
Forward foreign exchange contracts	**668**	**-**	**668**	1,025	-	1,025
	33,677	**181,172**	**214,849**	37,077	180,907	217,984
Financial liabilities						
Derivative financial instruments						
Interest rate swaps	**-**	**55**	**55**	-	56	56
Forward foreign exchange contracts	**17**	**-**	**17**	836	-	836
	17	**55**	**72**	836	56	892

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 ESTIMATION OF FAIR VALUES (continued)

Other financial instruments (continued)

	31 December 2018			31 December 2017		
	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Financial assets						
Investments at FVTPL	1,226	-	1,226	-	-	-
Investments at FVOCI	84,511	470,234	554,745	-	-	-
Investments at HFT	-	-	-	-	349,322	349,322
Investments at AFS	-	-	-	93,642	120,000	213,642
Derivative financial instruments						
Interest rate swaps	-	343	343	-	566	566
Forward foreign exchange contracts	1,735	-	1,735	2,662	-	2,662
	87,472	470,577	558,049	96,304	469,888	566,192
Financial liabilities						
Derivative financial instruments	-	-	-			
Interest rate swaps	-	143	143	-	145	145
Forward foreign exchange contracts	44	-	44	2,171	-	2,171
	44	143	187	2,171	145	2,316

No financial instruments are carried at level 3 fair value as on 31 December 2018 (31 December 2017: NIL)

There are no transfers between levels of fair value measurement hierarchy during the years 2018 and 2017.

33 DERIVATIVES

Derivative product types

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

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

Derivatives held for hedging purposes

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

Derivatives held for risk management purposes

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

The table below shows the positive and negative fair values of derivative financial instruments, together with the undiscounted cash flows analysed by the term of their maturity.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

33 DERIVATIVES (continued)

Derivatives held for risk management purposes (continued)

			Nominal cash flows by term to maturity			
At 31 December 2018	**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**
Derivatives for hedging:						
Interest rate swaps	**132**	**55**	**77**	**(80)**	**(11)**	**168**
Derivatives:						
Forward purchase contracts	**-**	**17**	**154,970**	**74,534**	**34,091**	**46,345**
Forward sales contracts	**668**	**-**	**288,805**	**84,333**	**84,472**	**120,000**
	US$ 000	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**
Derivatives for hedging:						
Interest rate swaps	**343**	**143**	**200**	**(207)**	**(29)**	**436**
Derivatives:						
Forward purchase contracts	**-**	**44**	**402,520**	**193,595**	**88,548**	**120,377**
Forward sales contracts	**1,735**	**-**	**750,143**	**219,047**	**219,408**	**311,688**
At 31 December 2017	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Derivatives for hedging:						
Interest rate swaps	218	56	162	(9)	(37)	208
Derivatives:						
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
Derivatives for hedging:						
Interest rate swaps	566	145	421	(23)	(96)	540
Derivatives:						
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	-

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 2018

34 FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources from various risks. The Bank has exposure to the following risks from its use of financial instruments:

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

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

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate 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.

34.1 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans & advances and financing to customers, due from banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

34.1.1 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 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.1 Credit Risk (continued)

34.1.1 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.

34.1.2 Credit risk measurement

(a) Loans and advances (including Loan commitments and guarantees)

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

(b) Credit risk grading

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.1 Credit Risk (continued)

34.1.3 Exposure to credit risk

The following table contains an analysis of stagewise risk exposure of financial assets / off balance sheet items and the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses measured as per CBO Circular BM 977.

	2018				2017
	Stage 1 RO '000	**Stage 2 RO '000**	**Stage 3 RO '000**	**Total** RO '000	Total RO '000
Balances with Central Bank of Oman	144,620	-	-	144,620	109,592
Due from banks	24,028	-	-	24,028	16,569
Loans and advances & financing	1,706,131	166,149	32,815	1,905,095	1,658,557
Investment securities (excluding equity investments)	207,851	-	-	207,851	216,741
Other assets (acceptances)	5,004	471	-	5,475	8,567
Loan commitments and financial guarantees	299,940	10,265	971	311,176	-
Gross carrying amount	**2,387,574**	**176,885**	**33,786**	**2,598,245**	2,010,026
Loss allowance	**7,571**	**10,243**	**17,820**	**35,634**	32,198
Carrying amount	**2,380,003**	**166,642**	**15,966**	**2,562,611**	1,977,828

	2018				2017
	Stage 1 US$ '000	**Stage 2 US$ '000**	**Stage 3 US$ '000**	**Total** US$ '000	Total US$ '000
Balances with Central Bank of Oman	375,636	-	-	375,636	284,655
Due from banks	62,411	-	-	62,411	43,036
Loans and advances & financing	4,431,508	431,556	85,234	4,948,298	4,307,940
Investment securities (excluding equity investments)	539,872	-	-	539,872	562,964
Other assets	12,998	1,223	-	14,221	22,252
Loan commitments and financial guarantees	779,066	26,662	2,522	808,250	-
Gross carrying amount	**6,201,491**	**459,441**	**87,756**	**6,748,688**	5,220,847
Loss allowance	**19,665**	**26,605**	**46,286**	**92,556**	83,631
Carrying amount	**6,181,826**	**432,836**	**41,470**	**6,656,132**	5,137,216

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' are given in Note 4.3.6.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.1 Credit Risk (continued)

34.1.3 Exposure to credit risk (continued)

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

Net maximum exposure 2017 US$ '000	Gross maximum exposure 2017 US$ '000	**Net maximum exposure 2018 US$ '000**	**Gross maximum exposure 2018 US$ '000**		**Gross maximum exposure 2018 RO '000**	**Net maximum exposure 2018 RO '000**	Gross maximum exposure 2017 RO '000	Net maximum exposure 2017 RO '000
284,655	284,655	**375,636**	**375,636**	Balances with Central Bank of Oman	**144,620**	**144,620**	109,592	109,592
43,036	43,036	**62,408**	**62,411**	Due from banks	**24,028**	**24,027**	16,569	16,569
3,178,031	4,307,940	**3,024,281**	**4,948,298**	Loans & advances and financing	**1,905,095**	**1,164,348**	1,658,557	1,223,542
562,964	562,964	**555,971**	**556,033**	Investment securities	**214,073**	**214,049**	216,741	216,741
566	566	**343**	**343**	Derivative financial instruments	**132**	**132**	218	218
4,069,252	5,199,161	**4,018,639**	**5,942,721**		**2,287,948**	**1,547,176**	2,001,677	1,566,662
76,364	76,362	**126,065**	**126,064**	Commitments	**48,535**	**48,535**	29,400	29,400
413,740	726,725	**435,442**	**687,502**	Contingent liabilities	**264,688**	**167,645**	279,789	159,290
490,104	803,087	**561,507**	**813,566**		**313,223**	**216,180**	309,189	188,690
4,559,356	6,002,248	**4,580,146**	**6,756,287**	Total credit risk exposure	**2,601,171**	**1,763,356**	2,310,866	1,755,352

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.

34.1.4 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.

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since last year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.1 Credit Risk (continued)

34.1.4 Collateral and other credit enhancements (continued)

Financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below:

fair value of collateral held 2018 US$ '000	Carrying amount net of impairment 2018 US$ '000	Impairment allowance 2018 US$ '000	Gross exposure 2018 US$ '000	Particulars	Gross exposure 2018 RO '000	Impairment allowance 2018 RO '000	Carrying amount net of impairment 2018 RO '000	fair value of collateral held 2018 RO '000
18,917	41,470	46,286	87,756	Credit impaired financial assets	33,786	17,820	15,966	7,283

fair value of collateral held 2017 US$ '000	Carrying amount net of impairment 2017 US$ '000	Impairment allowance 2017 US$ '000	Gross exposure 2017 US$ '000	Particulars	Gross exposure 2017 RO '000	Impairment allowance 2017 RO '000	Carrying amount net of impairment 2017 RO '000	fair value of collateral held 2017 RO '000
23,761	23,340	26,836	50,177	Credit impaired financial assets	19,318	10,332	8,986	9,148

34.1.5 Expected credit loss (ECL) measurement

Overview of ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

Stage 1

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

Stage 2

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

Stage 3

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

Measurement of ECL

The key inputs into the measurement of ECL are given in note 4.3.6.

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

ECL exposure of financial assets and off-balance sheet

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.1 Credit Risk (continued)

34.1.5 Expected credit loss (ECL) measurement (continued)

Movement in impairment allowance and provision	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US$ '000
Opening balance as at 1 January 2018					
Due from banks	2	-	-	2	5
Loans and advances & financing	6,162	11,895	9,663	27,720	72,000
Investment securities	19	-	-	19	49
Other assets	25	129	-	154	400
Loan commitments and financial guarantees	414	1,251	-	1,665	4,325
Net transfer between stages					
Due from banks	-	-	-	-	-
Loans and advances & financing	8,149	(6,604)	(1,545)	-	-
Investment securities	-	-	-	-	-
Other assets	110	(110)	-	-	-
Loan commitments and financial guarantees	828	(828)	-	-	-
Charge for the year (net)					
Due from banks	(1)	-	-	(1)	(3)
Loans and advances & financing*	(7,605)	4,806	9,497	6,698	17,397
Investment securities	5	-	-	5	13
Other assets	(128)	(15)	-	(143)	(371)
Loan commitments and financial guarantees	(409)	(281)	205	(485)	(1,260)
Closing balance as at 31 December 2018					
Due from banks	1	-	-	1	3
Loans and advances & financing	6,706	10,097	17,615	34,418	89,397
Investment securities	24	-	-	24	62
Other assets	7	4	-	11	29
Loan commitments and financial guarantees	833	142	205	1,180	3,065

*- Charge for the year includes reserve interest movement amounting to RO 0.970 million (Equivalent US$ 2.519 million).

Significant increase in credit risk (SICR)

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.1 Credit Risk (continued)

34.1.5 Expected credit loss (ECL) measurement (continued)

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

1. An account will migrate to stage 2 if any of the changes in rating below are met;
   - For risk ratings 1 – 4: >= 3 notch downgrade
   - For risk rating 5: 2 notch downgrade
   - For risk rating 6 : 1 notch downgrade
2. An account will also migrate to stage 2 if it is more than 30 days past due
3. An account will also be considered stage 2 if has been placed under special mention

In addition to the above, qualitative criteria as per the CBO guidelines (BM 1149, Para 12 (d)) are being considered for assessing the significant increase in credit risk to corporate customers with limits of OMR 500,000 or more.

Definition of default

The Bank considers a financial asset to be in default when:

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

Overdrafts are considered as being past due once the customer has breached and advised limit or been advised of a limit smaller than the current amount outstanding.

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

- qualitative - e.g. breaches of covenant
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

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

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

Based on advice from Credit Risk Committee and after considering of external information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.1 Credit Risk (continued)

34.1.6 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.

34.1.7 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.

	2018			2017		
	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by industry						
Corporate	**1,234,000**	**-**	**18,508**	1,021,172	-	20,613
Personal	**671,095**	**-**	**-**	637,385	-	-
Sovereign	**-**	**-**	**195,362**	-	-	195,946
Banks	**-**	**24,028**	**203**	-	16,569	182
Concentration by location						
Oman	**1,888,212**	**-**	**157,696**	1,631,421	-	162,413
Other GCC countries	**9,818**	**19,821**	**1,907**	13,717	10,180	1,450
United Kingdom	**-**	**455**	**-**	-	531	-
United States of America	**-**	**2,754**	**47,548**	-	5,448	46,200
Others	**7,065**	**998**	**6,922**	13,419	410	6,678
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Concentration by industry						
Corporate	**3,205,194**	**-**	**48,073**	2,652,395	-	53,540
Personal	**1,743,104**	**-**	**-**	1,655,545	-	-
Sovereign	**-**	**-**	**507,433**	-	-	508,951
Banks	**-**	**62,411**	**527**	-	43,036	473
Concentration by location						
Oman	**4,904,446**	**-**	**409,600**	4,237,457	-	421,853
Other GCC countries	**25,501**	**51,483**	**4,953**	35,629	26,441	3,766
United Kingdom	**-**	**1,182**	**-**	-	1,379	-
United States of America	**-**	**7,153**	**123,501**	-	14,151	120,000
Others	**18,351**	**2,593**	**17,979**	34,854	1,065	17,345

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.1 Credit Risk (continued)

34.1.7 Concentration Risk (continued)

Concentration by location for loans & advances and financing is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. An analysis of the Bank's gross exposure to relevant segments is provided in note 35.

34.2 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.

34.2.1 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 CBO regulations.

All liquidity policies are subject to review and approval of Board of Directors.

The Bank prepares a liquidity gap report to monitor the Bank's short term liquidity position 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 2018, the Bank's ten largest depositors accounted for 55% (31 December 2017: 56%) of its customer deposits with no single maturity representing more than 12 % of the customers deposit base.(31 December 2017:13%)

Disclosures pertaining to liquidity coverage ratio(LCR) and net stable funding ratio (NSFR) are provided in note 12 as part of Basel III Liquidity disclosure in Basel II Pillar III and Basel III Report.

34.2.2 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 2018 was 87.5% (31 December 2017: 87.5%).

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

	2018 Lending	2017 Lending
Year end	**83.38%**	83.93%
Maximum for the year	**87.44%**	87.40%
Minimum for the year	**82.64%**	81.38%
Average for the year	**85.67%**	85.77%

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.2 Liquidity Risk (continued)

34.2.2 Exposure to liquidity risk (continued)

31 December 2018	Upto three months 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	152,881	-	-	525	153,406
Due from banks	24,027	-	-	-	24,027
Loans & advances and financing, net	400,303	138,035	355,069	977,270	1,870,677
Investment securities	142,582	44,661	777	26,029	214,049
Property and equipment	-	-	-	17,490	*17,490*
Other assets	9,103	1,638	-	-	10,741
Total assets	**728,896**	**184,334**	**355,846**	**1,021,314**	**2,290,390**
Liabilities and equity					
Due to banks	108,040	19,250	19,487	-	146,777
Customers' deposits	384,696	517,629	498,300	261,020	1,661,645
Borrowed funds	11,550	26,950	13,475	-	51,975
Taxation	251	-	-	-	251
Other liabilities	18,516	13,042	10,604	3,600	45,762
Subordinated liabilities	-	8,000	17,000	-	*25,000*
Tier 1 perpetual subordinated bonds	-	-	104,000	-	104,000
Shareholders' funds	-	-	-	254,980	254,980
Total liabilities and equity	**523,053**	**584,871**	**662,866**	**519,600**	**2,290,390**
Net liquidity gap	**205,843**	**(400,537)**	**(307,020)**	**501,714**	**-**

31 December 2018	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Assets					
Cash and balances with Central Bank of Oman	397,094	-	-	1,363	398,457
Due from banks	62,408	-	-	-	62,408
Loans & advances and financing, net	1,039,748	358,532	922,257	2,538,364	4,858,901
Investment securities	370,343	116,003	2,018	67,607	555,971
Property and equipment	-	-	-	45,429	45,429
Other assets	23,644	4,255	-	-	27,899
Total assets	**1,893,237**	**478,790**	**924,275**	**2,652,763**	**5,949,065**
Liabilities and equity					
Due to banks	280,623	50,000	50,616	-	381,239
Customers' deposits	999,210	1,344,491	1,294,286	677,974	4,315,961
Borrowed funds	30,000	70,000	35,000	-	135,000
Taxation	652	-	-	-	652
Other liabilities	48,094	33,875	27,543	9,351	118,863
Subordinated liabilities	-	20,779	44,156	-	64,935
Tier 1 perpetual subordinated bonds	-	-	270,130	-	270,130
Shareholders' funds	-	-	-	662,285	662,285
Total liabilities and equity	**1,358,579**	**1,519,145**	**1,721,731**	**1,349,610**	**5,949,065**
Net liquidity gap	**534,658**	**(1,040,355)**	**(797,456)**	**1,303,153**	**-**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.2 Liquidity Risk (continued)

34.2.2 Exposure to liquidity risk (continued)

31 December 2017	Upto three months 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	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
Total assets	**545,438**	**164,891**	**362,904**	**941,349**	**2,014,582**
Liabilities and equity					
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
Tier 1 perpetual subordinated bonds	-	-	50,000	-	50,000
Shareholders' funds	-	-	-	254,827	254,827
Total liabilities and equity	**408,642**	**514,573**	**659,347**	**432,020**	**2,014,582**
Net liquidity gap	**136,796**	**(349,682)**	**(296,443)**	**509,329**	**-**

31 December 2017	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Assets					
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
Total assets	**1,416,722**	**428,288**	**942,608**	**2,445,062**	**5,232,680**
Liabilities and equity					
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
Tier 1 perpetual subordinated bonds	-	-	129,870	-	129,870
Shareholders' funds	-	-	-	661,888	661,888
Total liabilities and equity	**1,061,407**	**1,336,553**	**1,712,590**	**1,122,130**	**5,232,680**
Net liquidity gap	**355,315**	**(908,265)**	**(769,982)**	**1,322,932**	**-**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.2 Liquidity Risk (continued)

34.2.2 Exposure to liquidity risk (continued)

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

31 December 2018	Upto three months 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
Due to banks	108,410	19,579	21,087	-	149,076
Customers' deposits	386,213	527,833	545,451	302,184	1,761,681
Borrowed funds	11,599	27,516	14,834	-	53,949
Subordinated liabilities	-	8,177	18,803	-	26,980
Total liabilities	**506,222**	**583,105**	**600,175**	**302,184**	**1,991,686**
Credit related commitments	**19,964**	**26,524**	**-**	**-**	**46,488**
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Due to banks	281,584	50,855	54,772	-	387,211
Customers' deposits	1,003,150	1,370,995	1,416,756	784,895	4,575,796
Borrowed funds	30,126	71,471	38,530	-	140,127
Subordinated liabilities	-	21,238	48,838	-	70,076
Total liabilities	**1,314,860**	**1,514,559**	**1,558,896**	**784,895**	**5,173,210**
Credit related commitments	**51,855**	**68,893**	**-**	**-**	**120,748**

31 December 2017	Upto three months 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
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
Total liabilities	**391,108**	**511,106**	**651,682**	**200,156**	**1,754,052**
Credit related commitments	**18,252**	**8,139**	**-**	**-**	**26,391**
	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
Total liabilities	**1,015,862**	**1,327,547**	**1,692,679**	**519,886**	**4,555,974**
Credit related commitments	**47,408**	**21,140**	**-**	**-**	**68,548**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.3 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.

34.3.1 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.

34.3.2 Exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate and re-pricing tenure of rate sensitive assets and liabilities.

The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is provided in this note. The Bank also assesses interest rate risk by assessing the interest rate impact (both earnings perspective and economic value perspective) as per Basel-II guidelines communicated by CBO by applying interest rate shock of 200 bps and takes measures to reduce the impact. The Bank also assesses impact on earnings of interest rate shock of 200 bps.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.3 Market Risk (continued)

34.3.2 Exposure to interest rate risk (continued)

31 December 2018	Effective Annual Interest Rate %	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Non-sensitive to interest rate RO '000	Total RO '000
Assets							
Cash and balances with Central Bank of Oman	1.50%	500	-	-	-	152,906	153,406
Due from banks	0.56%	24,027	-	-	-	-	24,027
Loans & advances and financing, net	5.59%	982,732	166,441	283,871	437,633	-	1,870,677
Investment securities	3.68%	47,548	9,385	75,429	75,489	6,198	214,049
Property and equipment		-	-	-	-	17,490	17,490
Other assets		-	-	-	-	10,741	10,741
Total assets		**1,054,807**	**175,826**	**359,300**	**513,122**	**187,335**	**2,290,390**
Liabilities and equity							
Due to banks	2.74%	108,039	19,250	19,488	-	-	146,777
Customers' deposits	3.15%	269,497	435,564	578,111	489	377,984	1,661,645
Borrowed funds	3.36%	11,550	26,950	13,475	-	-	51,975
Taxation		-	-	-	-	251	251
Other liabilities	-	3	43	14	-	45,702	45,762
Subordinated liabilities	4.54%	-	-	-	-	25,000	25,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	104,000	-	-	104,000
Shareholders' funds	-	-	-	-	-	254,980	254,980
Total liabilities and equity		**389,089**	**481,807**	**715,088**	**489**	**703,917**	**2,290,390**
Total interest rate sensitivity gap		**665,718**	**(305,981)**	**(355,788)**	**512,633**	**(516,582)**	**-**
Cumulative interest rate sensitivity gap		**665,718**	**359,737**	**3,949**	**516,582**	**-**	**-**

31 December 2018		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Assets							
Cash and balances with Central Bank of Oman	1.50%	1,299	-	-	-	397,158	398,457
Due from banks	0.56%	62,408	-	-	-	-	62,408
Loans & advances and financing, net	5.59%	2,552,551	432,314	737,327	1,136,709	-	4,858,901
Investment securities	3.68%	123,501	24,377	195,919	196,075	16,099	555,971
Property and equipment		-	-	-	-	45,429	45,429
Other assets		-	-	-	-	27,899	27,899
Total assets		**2,739,759**	**456,691**	**933,246**	**1,332,784**	**486,585**	**5,949,065**
Liabilities and equity							
Due to banks	2.74%	280,621	50,000	50,618	-	-	381,239
Customers' deposits	3.15%	699,992	1,131,335	1,501,587	1,270	981,777	4,315,961
Borrowed funds	3.36%	30,000	70,000	35,000	-	-	135,000
Taxation		-	-	-	-	652	652
Other liabilities	-	8	112	36	-	118,707	118,863
Subordinated liabilities	4.54%	-	-	-	-	64,935	64,935
Tier 1 perpetual subordinated bonds	7.50%	-	-	270,130	-	-	270,130
Shareholders' funds		-	-	-	-	662,285	662,285
Total liabilities and equity		**1,010,621**	**1,251,447**	**1,857,371**	**1,270**	**1,828,356**	**5,949,065**
Total interest rate sensitivity gap		**1,729,138**	**(794,756)**	**(924,125)**	**1,331,514**	**(1,341,771)**	**-**
Cumulative interest rate sensitivity gap		**1,729,138**	**934,382**	**10,257**	**1,341,771**	**-**	**-**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.3 Market Risk (continued)

34.3.2 Exposure to interest rate risk (continued)

31 December 2017	Effective Annual Interest Rate %	Upto three months 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	Non-sensitive to interest rate RO '000	Total RO '000
Assets							
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
Total assets		**850,969**	**187,936**	**316,434**	**507,129**	**152,114**	**2,014,582**
Liabilities and equity							
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	4.54%	-	-	-	-	25,000	25,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	50,000	-	-	50,000
Shareholders' funds		-	-	-	-	254,827	254,827
Total liabilities and equity		**437,057**	**441,891**	**645,053**	**-**	**490,581**	**2,014,582**
Total interest rate sensitivity gap		**413,912**	**(253,955)**	**(328,619)**	**507,129**	**(338,467)**	**-**
Cumulative interest rate sensitivity gap		**413,912**	**159,957**	**(168,662)**	**338,467**	**-**	**-**

31 December 2017		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Assets							
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
Total assets		**2,210,309**	**488,145**	**821,906**	**1,317,218**	**395,102**	**5,232,680**
Liabilities and equity							
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	4.54%	-	-	-	-	64,935	64,935
Tier 1 perpetual subordinated bonds	7.50%	-	-	129,870	-	-	129,870
Shareholders' funds		-	-	-	-	661,888	661,888
Total liabilities and equity		**1,135,213**	**1,147,769**	**1,675,462**	**-**	**1,274,236**	**5,232,680**
Total interest rate sensitivity gap		**1,075,096**	**(659,624)**	**(853,556)**	**1,317,218**	**(879,134)**	**-**
Cumulative interest rate sensitivity gap		**1,075,096**	**415,472**	**(438,084)**	**879,134**	**-**	**-**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.3 Market Risk (continued)

34.3.2 Exposure to interest rate risk (continued)

Exposure and sensitivity analysis

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

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
11,898	**17,117**	Impact of +200 bps interest rate increase	**6,590**	4,581
(11,898)	**(17,117)**	Impact of -200 bps interest rate decrease	**(6,590)**	(4,581)

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.

34.3.3 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;

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
486	**491**	MSM - Oman +5% impact	**189**	187
(486)	**(491)**	MSM - Oman -5% impact	**(189)**	(187)
151	210	Other GCC countries +5% impact	**81**	58
(151)	(210)	Other GCC countries +5% impact	**(81)**	(58)

34.3.4 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.3 Market Risk (continued)

34.3.4 Exposure to currency risk (continued)

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

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
161,249	**159,948**	US Dollar	**61,580**	62,081
153	**278**	Euro	**107**	59
764	**3,265**	UAE Dirham	**1,257**	294
65	**226**	GBP Sterling	**87**	25
1,704	**2,151**	Others	**828**	656

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 2018 on net assets is considered negligible.

34.4 Operational Risk

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

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by establishing necessary controls, systems and procedures. The Bank recognises that over controlled environment will affect the Bank's business and earnings, besides adding to costs. Therefore, the Bank aims at effective management of operational risk through control optimisation and well established systems, methods and governance framework.

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

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

Compliance with Bank standards is complemented by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Compliance Committee and senior management of the Bank. The Bank has a comprehensive Operational Risk Management Framework by which the Bank has put in place Operational Risk Management Policy, Operational Risk Self Assessment (ORSA) Policy, Operational Risk Loss Event Reporting Framework, Maintenance of Operational Risk Loss Data Base.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

34 FINANCIAL RISK MANAGEMENT (continued)

34.5 Capital Management

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue, return capital to shareholders or issue capital securities. However, no changes are made in the objectives, policies and processes from the previous years as far as management of capital is concerned.

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014 . As per CBO circular BDS/2018/1 dated 20 March 2018, minimum capital adequacy ratio requirement has been reduced to 11% from 12% with effect from 1 April 2018. As per new ratio, Tier 2 capital will be restricted to 2% from 3% and CET 1 & Tier 1 requirements remains unchanged. Accordingly, the minimum capital adequacy ratio requirement for the year is 12.875 % including capital conservation buffer of 1.875% (31 December 2017: 13.250% including capital conservation buffer of 1.250%). The capital adequacy ratio working is as follows:

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
599,558	586,312	Common Equity Tier 1 (CET1)	225,730	230,830
129,870	270,130	Additional Tier 1	104,000	50,000
729,428	856,442	Tier 1	329,730	280,830
82,725	60,236	Tier 2	23,191	31,849
812,153	916,678	**Total regulatory capital**	352,921	312,679
		Risk weighted assets		
4,259,244	4,807,319	Credit risk	1,850,818	1,639,809
340,403	165,745	Market risk	63,812	131,055
263,751	265,444	Operational risk	102,196	101,544
4,863,398	5,238,508	**Total risk weighted assets**	2,016,826	1,872,408
		Capital adequacy ratio		
12.33%	11.19%	CET1 capital expressed as a percentage of total risk-weighted assets	11.19%	12.33%
15.00%	16.35%	Total tier I capital expressed as a percentage of total risk-weighted assets	16.35%	15.00%
1.70%	1.15%	Tier II capital expressed as a percentage of total risk-weighted assets	1.15%	1.70%
16.70%	17.50%	Total regulatory capital expressed as a percentage of total risk-weighted assets	17.50%	16.70%

35 SEGMENT INFORMATION

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into two operating segments based on products and services as follows:

- Retail banking includes customers' deposits, unrestricted investment account, consumer loans, overdrafts, credit card, Islamic financing and fund transfer facilities.
- Wholesale banking, treasury and investments include deposits including current accounts, term deposit, loans & advances and Islamic financing etc. for corporate and institutional customers, Treasury, Trade Finance and Investment Banking Services.

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the profit after tax. Geographical distribution of major assets are provided in note 34.1.7 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 2018

35 SEGMENT INFORMATION (continued)

Segment information is as follows:

	2018			2017		
	Retail Banking RO '000	Wholesale banking, Treasury & Investment RO '000	Total RO '000	Retail Banking RO '000	Wholesale banking, Treasury & Investment RO '000	Total RO '000
Net interest income	13,066	31,684	44,750	13,043	24,968	38,011
Net income from Islamic financing and investments	2,446	4,858	7,304	2,037	4,551	6,588
Net interest income and income from islamic financing and investments	**15,512**	**36,542**	**52,054**	**15,080**	**29,519**	**44,599**
Other operating income	1,114	8,985	10,099	609	10,968	11,577
Net operating income	**16,626**	**45,527**	**62,153**	**15,689**	**40,487**	**56,176**
Net impairment on financial assets	(179)	(4,929)	(5,108)	(1,972)	(2,168)	(4,140)
Operating expenses	(12,981)	(10,871)	(23,252)	(11,624)	(9,014)	(20,638)
Profit before taxation	**3,466**	**30,327**	**33,793**	**2,093**	**29,305**	**31,398**
Tax expense	(520)	(4,487)	(5,007)	(430)	(4,301)	(4,731)
Segment profit for the year	**2,946**	**25,840**	**28,786**	**1,663**	**25,004**	**26,667**
Segment assets	**660,409**	**1,629,981**	**2,290,390**	**627,349**	**1,387,233**	**2,014,582**
Segment liabilities	**257,785**	**1,673,625**	**1,931,410**	**221,629**	**1,488,126**	**1,709,755**
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Net interest income	33,938	82,296	116,234	33,878	64,852	98,730
Net income from islamic financing and investments	6,353	12,619	18,972	5,291	11,821	17,112
Net interest income and income from islamic financing and investments	**40,291**	**94,915**	**135,206**	**39,169**	**76,673**	**115,842**
Other operating income	2,894	23,337	26,231	1,582	28,488	30,070
Net operating income	**43,185**	**118,252**	**161,437**	**40,751**	**105,161**	**145,912**
Net impairment on financial assets	(465)	(12,802)	(13,267)	(5,122)	(5,632)	(10,754)
Operating expenses	(33,717)	(26,678)	(60,395)	(30,192)	(23,412)	(53,604)
Profit before taxation	**9,003**	**78,772**	**87,775**	**5,437**	**76,117**	**81,554**
Tax expense	(1,351)	(11,654)	(13,005)	(1,117)	(11,171)	(12,288)
Segment profit for the year	**7,652**	**67,118**	**74,770**	**4,320**	**64,946**	**69,266**
Segment assets	**1,715,348**	**4,233,717**	**5,949,065**	**1,629,478**	**3,603,202**	**5,232,680**
Segment liabilities	**669,571**	**4,347,079**	**5,016,650**	**575,660**	**3,865,262**	**4,440,922**

36 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.

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Al Hilal Islamic Banking Services

Financial Statements

For the year ended 31 December 2018

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 the Board of Directors of 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 (01.01.2018 to 31.12-2018) ended 2018 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:

a) The contracts, transactions and dealings entered into by the Bank during the year ended 2018 are in compliance with Shari'a rules and principles.

b) 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.

c) 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,

d) 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 2018

SR.	SSB Meeting	Resolution No.	Subject
1	**SSB 21st Meeting on 05-April-2018**	2 (SSB-21-2018)	Review of Legal Documents of Diminishing Musharaka for Construction of General Assets i. Diminishing Musharaka Agreement (Assets Under Construction) ii. Undertaking to Purchase iii. Forward Lease Agreement iv. Management Agreement v. Undertaking to Sale vi. Schedule A: Additional Representations and Warranties vii. Schedule B: Additional Undertakings
		3 (SSB-21-2018)	Review and Approval of Amendments in Ijara MBT Agreements: i. Lease Agreement with Promise of Ownership (General Assets) ii. Lease Agreement with Promise of Ownership (Real Estate Assets
		4 (SSB-21-2018)	Review of Wakala Bil Istithmar Agreement
		5 (SSB-21-2018)	Review and Approval of Review of Risk Policies: ▪ Business Continuity Management Policy ▪ Business Continuity Plan ▪ Operational Risk Framework ▪ Operation Risk Policy
		6 (SSB-21-2018)	Review and Opinion on Shari'a Audit Reports: a- Shari'a Audit Report of Retail Banking 3rd Quarter b- 4th Quarter 2017: i- Shari'a Audit Report of Corporate Banking ii- Shari'a Audit Report of Retail iii- Shari'a Audit Report of SME iv- Shari'a Audit Report of Trade Finance
2	**SSB 22nd Meeting on 05-July-2018**	2 (SSB – 22– 2018)	Review of Agency Agreement for Registration of Property in the Name of Bank as Agent of the Customer
		3 (SSB – 22– 2018)	Review of Bank's Policies i. Anti-Money Laundering Policy ii. Compliance Policy iii. Disclosures Policy iv. Customer Complaints Policy
		4 (SSB – 22– 2018)	Review and Opinion on Shari'a Audit Reports of 1st Quarter 2018 i- Shari'a Audit Report of Retail ii- Shari'a Audit Report of Corporate Banking iii- Shari'a Audit Report of SME iv- Shari'a Audit Report of Trade Finance v- Shari'a Audit Report of Treasury
		5 (SSB – 22– 2018)	Review of Al Hilal Islamic Credit Cards Proposal
		6 (SSB – 22– 2018)	Review of Corporate Banking Schedule of Charges

Resolutions Issued by SSB during Year 2018 (continued)

SR.	SSB Meeting	Resolution No.	Subject
3	**SSB 23rd Meeting on 04-October-2018**	2 (SSB – 23 – 2018)	Review of Ahli Bank Policies 1. Asset Management Policy 2. Code of Business Conduct 3. Corporate Governance Policy 4. Corporate Social Responsibility Policy 5. Financial Institutions Policy 6. Fraud Risk Management Policy 7. Human Resources Policy 8. Classification and Measurement Financial Assets
		3 (SSB – 23 – 2018)	Review and Opinion on Shari'a Audit Reports of 2nd Quarter 2018 i- Shari'a Audit Report of Corporate Banking ii- Shari'a Audit Report of Retail iii- Shari'a Audit Report of SME iv- Shari'a Audit Report of Trade Finance v- Shari'a Audit Report of Treasury
		4 (SSB – 23– 2018)	Opinion on Shari'a Audit Report of Corporate Banking for 1ST Quarter 2018
		5 (SSB – 23– 2018)	Review and Approval of supplemental to Diminishing Musharaka Agreement, Supplemental to Lease Agreement, Restated Sale Undertaking, Restated Purchase Undertaking and Management Agreement
		6 (SSB – 23– 2018)	Review of Addition of Wakala Investment Details in Profit Distribution Policy and its Working
		7 (SSB – 23– 2018)	Review of Amendment in the Account Opening Form
		8 (SSB – 23– 2018)	Review of Corporate Banking Customer Conventional Insurance
		9 (SSB – 23– 2018)	Review of Set of Diminishing Musharaka documents for Vehicle Financing i. Dimishing Musharaka Agreement ii. Ijara Agreement iii. Service Agency Agreement iv. Wakala Agreement for Registration of Asset in Name of the Customer v. Services Agency Agreement vi. Purchase Undertaking vii. Sale Undertaking
		10 (SSB – 23– 2018)	Review and Opinion on Transaction Information Sheet of Corporate Customer Abdulah Saleh Al Hashmi

SR.	SSB Meeting	Resolution No.	Subject
4	**SSB 24 Meeting on December 24, 2018**	2 (SSB – 24– 2018)	Approval of Training Plan for Year 2019
		3 (SSB – 24– 2018)	Approval of Sharia Audit Plan for Year 2019
		4 (SSB – 24– 2018)	Review and Opinion on Shari'a Audit Reports of 3rd Quarter 2018 i- Shari'a Audit Report of Corporate Banking ii- Shari'a Audit Report of Retail iii- Shari'a Audit Report of SME iv- Shari'a Audit Report of Trade Finance v- Shari'a Audit Report of Treasury
		6 (SSB – 24– 2018)	Query about Termination of Ijarah MBT Contract with Existing Customer and finance the Same Property to a New Customer
		7 (SSB – 24– 2018)	Deferment of Charity Amount Reimbursement to 2019
		8 (SSB – 24– 2018)	Waiver to Customer who Settles at Earlier under Services Ijara
		9 (SSB – 24– 2018)	Review and Approval on 1. Board Remuneration Policy 2. Brokerage Policy 3. Capital Management Policy 4. Communications Policy 5. Dividend Policy 6. Expenses Policy 7. FATCA Policy 8. New Product Committee and Procedures 9. Outsourcing Policy 10. Personal Account Dealing Policy 11. Security and Safety Policy and Plan 12. Social and Environment Management System 13. Social Media Policy 14. Voice Recording Policy

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

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 147 to 183 which comprise the statement of financial position as at 31 December 2018, 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 2018, and notes, comprising a summary of significant accounting policies and other explanatory information. These financial statements and Al Hilal's undertaking to operate its Islamic Window in accordance with Shari'a are the responsibility of Al Hilal'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 2018 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.

Kenneth MacFarlane
10 March 2019

Statement of Financial Position

As at 31 December 2018

2017 US$ '000	2018 US$ '000		Note	2018 RO '000	2017 RO '000
		ASSETS			
95,099	**100,062**	Cash and balances with Central Bank of Oman	5	**38,524**	36,613
5,901	**4,345**	Due from banks	6	**1,673**	2,272
121,886	**122,010**	Murabaha receivables	7	**46,974**	46,926
157,813	**333,205**	Musharaka receivables	8	**128,284**	60,758
38,086	**37,249**	Investment securities	9	**14,341**	14,663
358,010	**318,530**	Ijarah assets - Ijarah Muntahia Bittamleek	10	**122,634**	137,834
1,112	**1,382**	Credit Card Receivables	11	**532**	428
382	**603**	Service Ijarah	12	**232**	147
2,673	**2,623**	Property and equipment	14	**1,010**	1,029
2,731	**3,513**	Other assets	15	**1,353**	1,052
783,693	**923,522**	**TOTAL ASSETS**		**355,557**	301,722
		LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
100,281	**290,688**	Due to banks	16	**111,915**	38,608
432,758	**352,416**	Wakala deposits	17	**135,680**	166,612
30,571	**26,826**	Customers' current accounts		**10,328**	11,770
11,309	**14,089**	Other liabilities	18	**5,425**	4,354
574,919	**684,019**	**TOTAL LIABILITIES**		**263,348**	221,344
115,642	**132,223**	Equity of investment account holders	19	**50,906**	44,522
690,561	**816,242**	**TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS**		**314,254**	265,866
64,935	**64,935**	Share capital	20	**25,000**	25,000
23	**(1,200)**	Investment fair value reserve		**(462)**	9
-	**5,075**	Impairment reserve		**1,954**	-
-	**839**	Special Reserve		**323**	-
28,174	**37,631**	Retained earnings		**14,488**	10,847
93,132	**107,280**	**TOTAL OWNERS' EQUITY**		**41,303**	35,856
783,693	**923,522**	**TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY**		**355,557**	301,722
21,340	**30,909**	Contingent liabilities and commitments	22	**11,900**	8,216

The financial statements and notes 1 to 33 were approved by the Board of Directors on 28 January 2019 and signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Said Abdullah Al Hatmi
Chief Executive Officer

The notes and other explanatory information form an integral part of these financial statements.
Report of the independent Auditors - page 146.

Statement of Comprehensive Income

For the year ended 31 December 2018

2017 US$ '000	2018 US$ '000		Note	2018 RO '000	2017 RO '000
32,899	**41,623**	Income from financing activities	23	**16,025**	12,666
1,143	**1,462**	Income from investing activities	24	**563**	440
4,325	**1,000**	Other operating income	25	**385**	1,665
(753)	**2,896**	Net impairment on financial assets		**1,115**	(290)
(3)	**-**	Impairment on available for sale investments		**-**	(1)
37,611	**46,981**			**18,088**	14,480
(4,112)	**(5,649)**	Return to investment account holders		**(2,175)**	(1,583)
2,034	**2,242**	Islamic Windows' share as Mudarib		**863**	783
(2,078)	**(3,407)**	**Return to investment account holders before zakah**		**(1,312)**	(800)
35,533	**43,574**	**Islamic Window's share in income from financing and investing activities (as Mudarib and Fund owner)**		**16,776**	13,680
327	**608**	Other operating income from banking services	26	**234**	126
(3,587)	**(7,130)**	Profit paid on due to banks		**(2,745)**	(1,381)
(11,265)	**(13,579)**	Profit paid on wakala deposits		**(5,228)**	(4,337)
21,008	**23,473**	**Net operating income**		**9,037**	8,088
(3,174)	**(3,784)**	Staff expenses	27	**(1,457)**	(1,222)
(688)	**(551)**	Depreciation	14	**(212)**	(265)
(2,031)	**(1,972)**	Other operating expenses	28	**(759)**	(782)
(5,893)	**(6,307)**	**Total expenses**		**(2,428)**	(2,269)
15,115	**17,166**	**Profit before taxation**		**6,609**	5,819
(2,236)	**(2,457)**	**Taxation**		**(946)**	(861)
12,879	**14,709**	**Profit for the year**		**5,663**	4,958
		Other comprehensive expense			
		Items that will not be reclassified to profit or loss			
-	**(67)**	Equity investment at FVOCI net changes in fair value		**(26)**	-
		Items that will be reclassified to profit or loss			
3	**-**	Net amount transferred to profit or loss		**-**	1
-	**(1,044)**	Debt investment at FVOCI net changes in fair value		**(402)**	-
3	**(1,111)**	**Other comprehensive expense for the year**		**(428)**	1
12,882	**13,598**	**Total comprehensive income for the year**		**5,235**	4,959

The notes 1 to 33 and other explanatory information form an integral part of these financial statements.
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Statement of Changes in Owners' Equity

For the year ended 31 December 2018

	Note	Share capital RO '000	Investment fair value reserve RO '000	Impairment reserve RO '000	Special reserve RO '000	Retained earnings RO '000	Total RO '000
Balance at 1 January 2018		25,000	9	-	-	10,847	35,856
Changes on initial application of IFRS 9		-	(43)	212	-	43	212
At 1 January 2018		25,000	(34)	212	-	10,890	36,068
Profit for the year		-	-	-	-	5,663	5,663
Transfer to impairment reserve		-	-	1,742	-	(1,742)	-
Transfer to special reserve		-	-	-	323	(323)	-
Other comprehensive expense		-	(428)	-	-	-	(428)
At 31 December 2018		25,000	(462)	1,954	323	14,488	41,303
At 31 December 2018 (US$ '000)		64,935	(1,200)	5,075	839	37,631	107,280

	Note	Share capital RO '000	Investment fair value reserve RO '000	Impairment reserve RO '000	Special reserve RO '000	Retained earnings RO '000	Total RO '000
At 1 January 2017		25,000	8	-	-	8,389	33,397
Profit for the year		-	-	-	-	4,958	4,958
Other comprehensive expense		-	1	-	-	-	1
Cash Dividend paid	20	-	-	-	-	(2,500)	(2,500)
At 31 December 2017		25,000	9	-	-	10,847	35,856
At 31 December 2017 (US$ '000)		64,935	23	-	-	28,174	93,132

The notes 1 to 33 and other explanatory information form an integral part of these financial statements.
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Statement of Cash Flows

For the year ended 31 December 2018

2017 US$ '000	2018 US$ '000		Note	2018 RO '000	2017 RO '000
		CASH FLOWS FROM OPERATING ACTIVITIES			
15,115	**17,166**	Profit for the year		**6,609**	5,819
		Adjustments for:			
688	**551**	Depreciation - property and equipment	14	**212**	265
88,177	**17,914**	Depreciation - Ijarah Muntahia Bittamleek	10	**6,897**	33,948
(8)	**-**	Gain on sale of property and equipment		**-**	(3)
753	**(2,896)**	Financing impairment, net of recoveries		**(1,115)**	290
3	**-**	Impairment on available for sale investments		**-**	1
104,728	**32,735**	**Operating profit before change in operating assets and liabilities**		**12,603**	40,320
(9,231)	**(125)**	Increase in Murabaha receivables		**(48)**	(3,554)
(30,694)	**(171,945)**	Increase in Musharaka receivables		**(66,199)**	(11,817)
(382)	**(221)**	Increase in Service ijarah receivables		**(85)**	(147)
(171)	**(270)**	Increase in Credit card receivables		**(104)**	(66)
218	**(782)**	(Increase)/Decrease in other assets		**(301)**	83
76,309	**(80,343)**	(Decrease)/increase in Wakala deposits		**(30,932)**	29,379
254	**(3,745)**	(Decrease)/Increase in customers' current accounts		**(1,442)**	98
(2,073)	**2,560**	Increase/(Decrease) in other liabilities		**986**	(797)
59,138	**16,582**	Increase in equity of investment account holders		**6,384**	22,768
198,096	**(205,554)**	**Cash from operations**		**(79,138)**	76,267
(1,584)	**(2,236)**	Tax paid		**(861)**	(610)
196,512	**(207,790)**	**Net cash (used in)/from operating activities**		**(79,999)**	75,657
		CASH FLOWS FROM INVESTING ACTIVITIES			
(104,912)	**21,566**	Investment in Ijarah assets - Ijarah Muntahia Bittamleek		**8,303**	(40,391)
(11,613)	**(275)**	Increase in investment securities (excluding securities at fair value throught income statement)		**(106)**	(4,471)
(161)	**(501)**	Purchase of property and equipment	14	**(193)**	(62)
86	**-**	Proceeds from Sale of property and equipment		**-**	33
(116,600)	**20,790**	**Net cash from/(used in) investing activities**		**8,004**	(44,891)
		CASH FLOWS FROM FINANCING ACTIVITY			
(6,494)	**-**	Dividends paid		**-**	(2,500)
(6,494)	**-**	**Net cash used in financing activity**		**-**	(2,500)
73,418	**(187,000)**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**(71,995)**	28,266
27,301	**100,719**	Cash and cash equivalents at 1 January		**38,777**	10,511
100,719	**(86,281)**	**CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)**		**(33,218)**	38,777
95,099	**100,062**	Cash and current balances with Central Bank of Oman	5	**38,524**	36,613
5,901	**4,345**	Due from banks	6	**1,673**	2,272
(281)	**(190,688)**	Due to banks		**(73,415)**	(108)
100,719	**(86,281)**	**Cash and cash equivalents**		**(33,218)**	38,777

The notes 1 to 33 and other explanatory information form an integral part of these financial statements.
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Statement of Sources and Uses of Charity Fund

For the year ended 31 December 2018

2017 US$ '000	**2018 US$ '000**		Note	**2018 RO '000**	2017 RO '000
		Sources of charity fund			
11	**3**	Fund at the beginning of the year		**1**	4
8	**13**	Penalties to customer for late payment		**5**	3
5	**-**	Contribution from credit card income		**-**	2
24	**16**			**6**	9
		Uses of charity fund			
		Distributed to charity organizations			
6	**-**	Child care center		**-**	2
5	**-**	Association of the welfare of handicapped		**-**	2
5	**-**	Oman Association for the Disabled		**-**	2
5	**-**	Oman Cancer Association		**-**	2
-	**13**	Social Development Department (Al Seeb)		**5**	-
21	**13**	**Total uses of charity fund during the year**		**5**	8
3	**3**	**Undistributed charity fund at the end of the year**	18	**1**	1

The notes 1 to 33 and other explanatory information form an integral part of these financial statements.
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Notes to the Financial Statements

For the year ended 31 December 2018

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, 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 eight branches as at year end (31 December 2017: 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 67 employees as at 31 December 2018 (31 December 2017: 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 other comprehensive income which have been measured at fair value.

This is the first set of the Bank's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 3.

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 5.

2.5 Standards, amendments and interpretations effective in 2018 and relevant for the Islamic Window operations

For the year ended 31 December 2018, the Islamic window has adopted applicable 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 or after 1 January 2018.

The following are the accounting standards which are relevant to the Islamic window and have been applied in the preparation of these financial statements which has resulted in changes to the Islamic window accounting policies and has not affected the amounts reported for prior periods.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2 BASIS OF PREPARATION (continued)

2.5 Standards, amendments and interpretations effective in 2018 and relevant for the Islamic Window operations (continued)

IFRS 9: Financial Instruments

On 1 January 2018 the Islamic Window adopted IFRS 9 "Financial Instruments" (as revised in July 2014) which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for:

(1) The classification and measurement of financial assets and financial liabilities;
(2) Impairment of financial assets; and
(3) General hedge accounting.

The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. Please refer to the Note 3.1 "IFRS 9 Financial Instruments" about the impact on changes in accounting policies.

IFRS 15: Revenue from Contracts with Customers

The Islamic window has adopted IFRS 15 as issued by IASB with effective date from 1 January 2018. This standard has superseded all revenue recognition requirements under the earlier standard and provides a principle based approach for revenue recognition with the introduction of concept for revenue recognition for performance obligation as they are satisfied. The Islamic window has assessed the impact of IFRS 15 and concluded that the application of this standard does not have any material impact on Islamic window financial statements.

2.6 The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2018:

2.6.1 IFRS 16 Leases; effective for annual periods commencing 1 January 2019.

IFRS 16 "Leases" replaces the guidance and interpretations including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease". 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. Lessor accounting remains similar to the current standard IAS 17, i.e. lessors continue to classify leases as finance or operating leases.

The Islamic window will adopt the new standard on the required effective date using the modified retrospective approach. The Bank has assessed the impact of IFRS 16 and concluded that the standard doesn't not have any material impact in the Bank's financial statements.

2.6.2 Other Standards

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 supersede 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.

3 CHANGES IN ACCOUNTING POLICIES

3.1 IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As permitted by the transitional provisions of IFRS 9, the Islamic Window elected not to restate comparative figures. Accordingly, any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current year.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures were also made only for the current year. The comparative year notes disclosures repeat those disclosures made in the previous year.

The adoption of IFRS 9 has resulted in changes in the Islamic window accounting policies for recognition, classification and measurement of financial assets and financial liabilties and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments: Disclosure".

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 9 Financial Instruments (continued)

3.1.1 Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ' expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Further details of the impairment requirements are described in more detail in Note 4.16.

3.1.2 Transition

Changes in accounting policies resulting from adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated and the differences in carrying amounts of financial assets and financial liabilties resulting from adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

3.1.3 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

(a) The measurement category and the carrying amount of financial assets and liabilities as presented at year ended 31 December 2017 and subsequently as per IFRS 9 at 1 January 2018 are compared and set out as below:

	31-Dec-2017		01-Jan-2018	
	Measurement category	Carrying amount RO '000	Measurement category	Carrying amount RO '000
Financial assets				
Cash and balances with Central Bank of Oman	Amortised cost	36,613	Amortised cost	36,613
Due from banks	Amortised cost	2,272	Amortised cost	2,272
Financing, net	Amortised cost	245,518	Amortised cost	245,778
Investment securities	Held for trading investments - Debt	14,480	Fair value through other comprehensive income	14,474
	Available for sale investments - Equity	183	Fair value through other comprehensive income	183
Financial Liabilities				
Due to banks	Amortised cost	111,915	Amortised cost	111,915
Customers' deposits	Amortised cost	196,914	Amortised cost	196,914
Other liabilities	Amortised cost	4,354	Amortised cost	4,396

Other liabilities includes provisions against financing commitments and financial guarantees

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 9 Financial Instruments (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Islamic window performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transistion to IFRS 9 on 1 January 2018;

Financial assets	31-Dec-2017 RO '000	Reclassification RO '000	Remeasurement RO '000	1-Jan-2018 RO '000
Amortised cost				
Cash and balances with Central Bank of Oman	36,613	-	-	**36,613**
Due from banks	2,272	-	-	**2,272**
Financing, net				
Opening balance under IAS 39	245,518	-	-	**-**
Remeasurement: ECL allowance	-	-	260	**-**
Closing balance under IFRS 9				**245,778**
Total Amortised cost	**284,403**	**-**	**260**	**284,663**
Fair value through other comprehensive income				
Debt instruments				
Opening balance under IAS 39	14,480	-	-	**-**
Reclassification	-	14,480	(6)	**-**
Closing balance under IFRS 9	**-**	**-**	**-**	**14,474**
Equity instruments				
Opening balance under IAS 39	183	-	-	**-**
Reclassification	-	-	-	**-**
Closing balance under IFRS 9	**-**	**-**	**-**	**183**
Total Fair value through other comprehensive income	**14,663**	**14,480**	**(6)**	**14,657**

Financial liabilities	31-Dec-2017 RO '000	Reclassification RO '000	Remeasurement RO '000	1-Jan-2018 RO '000
Amortised cost				
Due to banks	111,915	-	-	111,915
Customers' deposits	196,914	-	-	196,914
Closing balance under IFRS 9	**308,829**	**-**	**-**	**308,829**
Other Liabilities				
Opening balance under IAS 39	4,354	-	-	-
Remeasurement: Provision for off-balance sheet	-	-	42	-
Closing balance under IFRS 9	**4,354**	**-**	**42**	**4,396**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 9 Financial Instruments (continued)

(c) Reconciliation of impairment allowance and provisions balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	31-Dec-2017 RO '000	Reclassification RO '000	Remeasurement RO '000	1-Jan-2018 RO '000
Due from banks	-	-	-	**-**
Financing	3,100	-	(260)	**2,840**
Investment securities	43	43	3	**3**
Other liabilities	-	-	42	**42**

4 SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other operating income' in the statement of 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 recognized in the income statement, except for non-monetary financial assets, such as investments classified as at Fair value through other comprehensive income, which are included in 'investments fair value reserve' in statement of changes in owners' equity. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

4.2 Cash and cash equivalents

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

4.3 Due from banks

Due from banks comprise wakala placements and nostro accounts. These are stated at cost, less expected credit loss allowance, if any.

4.4 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 expected credit loss allowance, if any.

4.5 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Investments

Investments comprise investments in debt type and equity type financial instruments.

Investments in these instruments are classified into following categories;

- at amortised cost
- at fair value through profit or loss
- at Fair value through other comprehensive income

4.6.1 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 expected credit loss allowance. 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 statement of comprehensive income, when the instruments are de-recognised or impaired.

4.6.2 Instruments at fair value through profit or loss

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 statement of comprehensive income.

4.6.3 Instruments at Fair value through other comprehensive income

This includes debt type instruments that are not fair valued through income statement or not held at amortised cost. Subsequent to acquisition, investments designated at Fair value through other comprehensive income are re-measured at fair value less expected credit loss allowance, with unrealized gains or losses recognized in owners' equity untill the investment is derecognized at which time the cumulative gain or loss previously recorded in owners' equity is recognised in the statement of comprehensive income.

On initial recognition, the Islamic Window makes an irrevocable election to designate certain equity instruments to be classified as investments at Fair value through other comprehensive income. Subsequent to acquisition, these equity instruments are re-measured at fair value with unrealized gains or losses recognized in owners' equity. At time of derecognition of these equity instruments the unrealised gains or losses remains in owners' equity and not recycled to statement of comprehensive income.

4.7 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 tittle 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 statement of comprehensive income.

4.8 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Property and equipment (continued)

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

4.9 Due to banks

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

4.10 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.

4.11 Customers' current accounts

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

4.12 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.

4.13 Revenue recognition

4.13.1 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.

4.13.2 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.

4.13.3 Musharaka

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

4.13.4 Ijarah

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

4.13.5 Income from investments

Income from investments is recognised when earned.

4.13.6 Dividend

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Revenue recognition (continued)

4.13.7 Fee and commissions

Fee and commission income recognised when earned.

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

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

4.13.8 Islamic Window share as a Mudarib

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

4.13.9 Profit suspension

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

4.14 Provisions

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

4.15 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.

4.16 Impairment

Policy applicable from 1 January 2018

The Islamic window assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or Fair value through other comprehensive income which mainly include financings, investments (other than equity investments), interbank placements, financing commitments and financial guarantees. The Islamic window recognises a loss allowance and provision for such losses at reporting date. The measurement of ECL reflects:

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

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

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

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

Measurement of ECL

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

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Impairment (continued)

Measurement of ECL (continued)

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

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

(i) Probability of default (PD);
(ii) loss given default (LGD);
(iii) exposure at default (EAD)

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

Details of these statistical parameters/inputs are as follows:

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

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

Write off

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

4.17 Fair value

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

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- For unquoted investments, fair values is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic Window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 De-recognition of financial assets and liabilities

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

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

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

4.19 Employee terminal benefits

4.19.1 Terminal benefits

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

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

4.19.2 Short term benefits

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

4.20 Earnings prohibited by Sharia

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

4.21 Zakah

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

4.22 Offsetting

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

4.23 Sharia Supervisory Board

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

4.24 Joint and self financed

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

4.25 Commingling of funds

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

5.1 Financial asset classification

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

5.2 Measurement of the expected credit loss allowance

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

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

(a) Determining criteria for significant increase in credit risk;

(b) choosing appropriate models and assumptions for measurement of ECL;

(c) establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL; and

(d) establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates is provided in note 4.16

5.3 Useful life of property and equipment and Ijarah Muntahia Bittamleek

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

5.4 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 forseeable 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

2017 US$ '000	**2018 US$ '000**		**2018 RO '000**	2017 RO '000
2,465	**4,655**	Cash	**1,792**	949
92,634	**95,407**	Clearing account with Central Bank of Oman	**36,732**	35,664
95,099	**100,062**		**38,524**	36,613

6 DUE FROM BANKS

2017 US$ '000	**2018 US$ '000**		**2018 RO '000**	2017 RO '000
-	**-**	Wakala placements	**-**	-
5,901	**4,345**	Nostro account balances	**1,673**	2,272
5,901	**4,345**		**1,673**	2,272

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

7 MURABAHA RECEIVABLES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
47,140	38,995	Vehicles	15,013	18,149
87,577	86,945	Personal financing	33,474	33,717
10,257	15,530	Corporate	5,979	3,949
144,974	141,470	Gross receivables	54,466	55,815
(20,416)	(18,683)	Deferred profits	(7,193)	(7,860)
124,558	122,787		47,273	47,955
		Less: Impairment loss allowance		
(2,390)	(304)	Stage 1 & 2	(117)	(920)
(282)	(473)	Stage 3	(182)	(109)
121,886	122,010		46,974	46,926

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

8 MUSHARAKA RECEIVABLES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
159,351	335,743	Musharaka receivables	129,261	61,350
		Less: Impairment loss allowance		
(1,538)	(2,538)	Stage 1 & 2	(977)	(592)
157,813	333,205		128,284	60,758

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

9 INVESTMENT SECURITIES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Debt type instrument at fair value through other comprehensive income		
37,611	36,566	Sukuks	14,078	14,480
		Equity type instrument atfair value through other comprehensive income		
475	691	Open end mutual fund & equity	266	183
		Less: Impairment loss allowance		
-	(8)	Stage 1 & 2	(3)	-
38,086	37,249		14,341	14,663

Investment securities 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 2018

10 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
498,335	474,143	Cost	182,545	191,859
(136,517)	(154,431)	Accumulated depreciation	(59,456)	(52,559)
361,818	319,712	**Book value**	123,089	139,300
		Less: Impairment loss allowance		
(3,699)	(722)	Stage 1 & 2	(278)	(1,424)
(109)	(460)	Stage 3	(177)	(42)
358,010	318,530	**Net book value**	122,634	137,834

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

11 CREDIT CARD RECEIVABLE

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
1,112	1,392	Islamic Credit Card	536	428
		Less: Impairment loss allowance		
-	(10)	Stage 1 & 2	(4)	-
1,112	1,382	**Net book value**	532	428

12 SERVICE IJARAH

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
382	603	Service Ijarah	232	147

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. FINANCING ACTIVITIES

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

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

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

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount RO '000	Provision required as per CBO Norms RO '000	Provision held as per IFRS 9 RO '000	Difference between CBO provision required and provision held RO '000	Net Amount as per CBO norms* RO '000	Net Amount as per IFRS 9 RO '000	Profit recognised in P&L as per IFRS 9 RO '000	Suspended profit as per CBO norms RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	273,553	3,439	372	3,067	270,114	273,181	-	-
	Stage 2	7,117	-	25	(25)	7,117	7,092	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**280,670**	**3,439**	**397**	**3,042**	**277,231**	**280,273**	**-**	**-**
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	19,090	-	979	(979)	19,090	18,111	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**19,090**	**-**	**979**	**(979)**	**19,090**	**18,111**	**-**	**-**
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	252	63	144	(81)	187	108	-	2
Subtotal		**252**	**63**	**144**	**(81)**	**187**	**108**	**-**	**2**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	172	71	101	(30)	97	71	-	4
Subtotal		**172**	**71**	**101**	**(30)**	**97**	**71**	**-**	**4**
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	207	138	136	2	53	71	-	16
Subtotal		**207**	**138**	**136**	**2**	**53**	**71**	**-**	**16**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	64,195	-	21	(21)	64,195	64,174	-	-
	Stage 2	188	-	1	(1)	188	187	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**64,383**	**-**	**22**	**(22)**	**64,383**	**64,361**	**-**	**-**
Total	**Stage 1**	**337,748**	**3,439**	**393**	**3,046**	**334,309**	**337,355**	**-**	**-**
	Stage 2	**26,395**	**-**	**1,005**	**(1,005)**	**26,395**	**25,390**	**-**	**-**
	Stage 3	**631**	**272**	**381**	**(109)**	**337**	**250**	**-**	**22**
	Total	**364,774**	**3,711**	**1,779**	**1,932**	**361,041**	**362,995**	**-**	**22**

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. FINANCING ACTIVITIES (continued)

13.2 Restructured Loans

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount RO '000	Provision required as per CBO Norms RO '000	Provision held as per IFRS 9 RO '000	Difference between CBO provision required and provision held RO '000	Net Carrying Amount as per CBO norms* RO '000	Net Carrying Amount as per IFRS 9 RO '000	Profit recognised in P&L as per IFRS 9 RO '000	Suspended profit as per CBO norms RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-			
	Stage 2	2,244	323	190	133	1,921	2,054	-	-
	Stage 3	-	-	-	-	-	-		
Subtotal		**2,244**	**323**	**190**	**133**	**1,921**	**2,054**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Sub total		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**Stage 1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**2,244**	**323**	**190**	**133**	**1,921**	**2,054**	**-**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Total	**2,244**	**323**	**190**	**133**	**1,921**	**2,054**	**-**	**-**

*Net of provisions and suspended profit as per CBO norms

6.3 Impairment charge and provisions held

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	-	(1,115)	1,115
Provisions required as per CBO norms/ held as per IFRS 9	3,711	1,779	1,932
Gross NPL ratio (percentage)	0.21%	0.21%	-
Net NPL ratio (percentage)	0.11%	0.08%	0.03%

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

14 PROPERTY AND EQUIPMENT

	Building RO '000	Leasehold improvements RO '000	Computer and other equipment RO '000	Furniture RO '000	Capital work in progress RO '000	Total RO '000
Cost:						
At 1 January 2018	477	448	1,284	86	2	2,297
Additions	-	19	140	-	34	193
Transferred from the Bank	-	-	-	-	-	-
Disposals / scrapped	-	-	-	-	-	-
At 31 December 2018	477	467	1,424	86	36	2,490
Accumulated depreciation:						
At 1 January 2018	78	373	752	65	-	1,268
Depreciation	19	48	134	11	-	212
Disposals / scrapped	-	-	-	-	-	-
At 31 December 2018	97	421	886	76	-	1,480
Net book value as at						
At 31 December 2018	380	46	538	10	36	1,010
At 31 December 2018 (US$ '000)	987	119	1,397	26	94	2,623

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

15 OTHER ASSETS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
2,184	**2,805**	Profit receivable on financing	**1,080**	841
229	**283**	Profit receivable on sukuks	**109**	88
145	**327**	Prepayments	**126**	56
173	**98**	Others	**38**	67
2,731	**3,513**		**1,353**	1,052

16 DUE TO BANKS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
100,000	**290,460**	Wakala acceptances	**111,827**	38,500
281	**228**	Vostro account balances	**88**	108
100,281	**290,688**		**111,915**	38,608

17 WAKALA DEPOSITS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
339,478	**170,366**	Financial institutions	**65,591**	130,699
93,280	**182,050**	Others	**70,089**	35,913
432,758	**352,416**		**135,680**	166,612

18 OTHER LIABILITIES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
6,564	**6,912**	Profit payable	**2,661**	2,527
3,384	**4,003**	Accrued expenses and payable	**1,541**	1,303
3	**3**	Charity payable	**1**	1
1,358	**3,220**	Others	**1,241**	523
-	**(49)**	Impairment loss allowance	**(19)**	-
11,309	**14,089**		**5,425**	4,354

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

19 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		By type:		
115,642	**132,223**	Saving and Call accounts	**50,906**	44,522
115,642	**132,223**		**50,906**	44,522

The average profit rate for the investment accountholders during the year was 2.60 % (2017 : 2.37%). Profit sharing ratio of mudarib as at 31 December 2018 was 40% (2017: 40%)

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.

20 SHARE CAPITAL

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

21 DIVIDEND PAID AND PROPOSED

The Board of Directors has recommended 10% cash dividend for the year 2018 (31 December 2017: 10% cash dividend). The cash dividend proposed for 2017 was approved by the shareholders in annual general meeting and was paid in 2018.

22 CONTINGENT LIABILITIES AND COMMITMENTS

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
1,291	**1,782**	Guarantees	**686**	497
49	**-**	Letter of credits	**-**	19
20,000	**29,127**	Financing Commitment	**11,214**	7,700
21,340	**30,909**		**11,900**	8,216

23 INCOME FROM FINANCING ACTIVITIES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
7,317	**15,242**	Musharaka	**5,868**	2,817
18,722	**19,566**	Rental income on ijarah assets	**7,533**	7,208
6,860	**6,815**	Murabaha	**2,624**	2,641
32,899	**41,623**		**16,025**	12,666

24 INCOME FROM INVESTING ACTIVITIES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
1,125	**1,418**	Income from investments	**546**	433
18	**44**	Income from wakala placements	**17**	7
1,143	**1,462**		**563**	440

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

25 OTHER OPERATING INCOME

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
4,325	1,000	Fee and commission, net	385	1,665
4,325	1,000		385	1,665

26 OTHER OPERATING INCOME FROM BANKING SERVICES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
327	608	Other operating income	234	126

27 STAFF EXPENSES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
1,681	1,875	Salaries and wages	722	647
1,493	1,909	Allowances	735	575
3,174	3,784		1,457	1,222

28 OTHER OPERATING EXPENSES

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
1,233	1,192	Operating and administration costs	459	475
644	587	Occupancy costs	226	248
60	99	Advertisement costs	38	23
94	94	Shariah Supervisory Board related expenses	36	36
2,031	1,972		759	782

29 ZAKAH

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

30 RELATED PARTY TRANSACTIONS

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

30 RELATED PARTY TRANSACTIONS (continued)

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

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Directors, Shariah Supervisory Board and senior management		
60	**36**	Financing assets	**14**	23
205	**278**	Customers' deposits	**107**	79
51	**41**	Prepaid rent	**16**	20
		Major shareholders and others		
5	**694**	Nostro account balances	**267**	2
475	**351**	Investment securities	**135**	183
100,052	**100,000**	Due to banks - Wakala acceptances	**38,500**	38,520

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

2017 US$ '000	2018 US$ '000		2018 RO '000	2017 RO '000
		Directors, Shariah Supervisory Board and senior management		
5	**3**	Profit earned	**1**	2
94	**94**	Shariah Supervisory Board related expenses	**36**	36
123	**129**	Other operating expenses	**50**	47
		Major shareholders and others		
4,117	**8,761**	Profit paid on due to banks	**3,373**	1,585
16	**8**	Profit received on due from banks	**3**	6
-	**-**	Other operating expenses	**-**	-

The Islamic window has rented a branch premises from one of the Directors. 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 2017: RO 0.047 million equivalent to US$ 0.123 million).

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of investments classified as fair value through other comprehensive income as at 31 December 2018 is RO 14.341 million equivalent to US$ 37.249 million (31 December 2017: RO 3.490 million equivalent to US$ 9.065 million) with cost amounts to RO 14.806 million equivalent to US$ 38.457 million (31 December 2017: RO 3.519 million equivalent to US$ 9.140 million).

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

Valuation of financial instruments:

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	2018			2017		
	Level 1 RO '000	**Level 2 RO '000**	**Total RO '000**	Level 1 RO '000	Level 2 RO '000	Total RO '000
Financial assets						
Investment - debt type instrument at fair value through profit or loss	-	-	-	-	11,173	11,173
Investment - debt type instruments at fair value through other comprehensive income	2,954	11,121	14,075	3,307	-	3,307
Investment - equity type instrument at fair value through other comprehensive income	-	266	266	183	-	183
	2,954	11,387	14,341	3,490	11,173	14,663

	2018			2017		
	Level 1 US$ '000	**Level 2 US$ '000**	**Total US$ '000**	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Financial assets						
Investment - debt type instrument at fair value through profit or loss	-	-	-	-	29,021	29,021
Investment - debt type instruments at fair value through other comprehensive income	7,673	28,886	36,558	8,590	-	8,590
Investment - equity type instrument at fair value through other comprehensive income	-	691	691	475	-	475
	7,673	29,577	37,249	9,065	29,021	38,086

No financial instruments are carried at level 2 and level 3 fair values as on 31 December 2018 (31 December 2017: Nil)

32 RISK MANAGEMENT

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.1 Credit Risk

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

32.1.1 Type Of Credit Risk

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

32.1.1.1 Murabaha Receivable

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

32.1.1.2 Musharaka

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

32.1.1.3 Ijarah - Ijarah Muntahia Bittamleek

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

32.1.1.4 Service Ijarah

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

32.1.1.5 Credit Card Recievables

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

32.1.2 Credit risk measurement

(a) Financings (including Loan commitments and guarantees)

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

(b) Credit risk grading

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.1 Credit Risk (continued)

32.1.3 Exposure to credit risk

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

	2018				2017
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total RO '000
Clearing account with Central Bank of Oman	36,732	-	-	36,732	35,664
Due from banks	1,673	-	-	1,673	2,272
Financing to customers - Gross	273,553	26,207	631	300,391	249,180
Investment securities	14,078	-	-	14,078	14,480
Financing Commitments and financial guarantees	11,712	188	-	11,900	8,216
Gross carrying amount	337,748	26,395	631	364,774	309,812
Impairment loss allowance	393	1,005	381	1,779	3,087
Carrying amount	337,355	25,390	250	362,995	306,725

	2018				2017
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000	Total US$ '000
Clearing account with Central Bank of Oman	95,408	-	-	95,408	92,634
Due from banks	4,345	-	-	4,345	5,901
Financing to customers - Gross	710,527	68,070	1,639	780,236	647,221
Investment securities	36,566	-	-	36,566	37,610
Financing Commitments and financial guarantees	30,421	488	-	30,909	21,340
Gross carrying amount	877,267	68,558	1,639	947,464	804,706
Impairment loss allowance	1,021	2,610	990	4,621	8,018
Carrying amount	876,246	65,948	649	942,843	796,688

Impaired Financing

The collateral held against impaired financing is RO 0.241 million equivalent to US$ 0.626 million (31 December 2017: RO 0.287 million equivalent to US$ 0.745 million).

32.1.4 Expected credit loss measurement

Overview of ECL principles

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.1 Credit Risk (continued)

32.1.4 Expected credit loss measurement (continued)

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

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

Stage 1

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

Stage 2

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

Stage 3

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

Measurement of ECL

The key inputs into the measurement of ECL are given in note 4.16

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

ECL Exposure of financial assets and off-balance sheet

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

Movement in Impairment allowance and provision

	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000
Opening balance as at 1 January 2018				
Financings	307	2,300	233	2,840
Investment Securities	3	-	-	3
Financing commitments and financial guarantees	5	37	-	42
Net transfer between stages				
Financings	1,999	(1,972)	(27)	-
Investment Securities	-	-	-	-
Financing commitments and financial guarantees	-	-	-	-
Charge for the Year (net)				
Financings	(1,934)	676	175	(1,083)
Investment Securities	-	-	-	-
Financing commitments and financial guarantees	13	(36)	-	(23)
Closing balance as at 31 December 2018				
Financings	372	1,004	381	1,757
Investment Securities	3	-	-	3
Financing commitments and financial guarantees	18	1	-	19

Note: Charge for the year includes suspended profit of RO 9K

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.1 Credit Risk (continued)

32.1.5 Significant increase in credit risk (SICR)

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

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

1. An account will migrate to stage 2 if any of the changes in rating below are met;
    - For risk ratings 1 – 4: >= 3 notch downgrade
    - For risk rating 5: 2 notch downgrade
    - For risk rating 6 : 1 notch downgrade

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

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

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

32.1.6 Definition of default

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

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

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

- qualitative - e.g. breaches of covenant
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic window; and
- based on data developed internally and obtained from external sources.

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

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

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

Based on advice from Credit Risk Committee and after considering of external information, the Islamic window formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.2 Liquidity Risk

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

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

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

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

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 2018	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Total RO '000
Assets					
Cash and balances with Central Bank of Oman	38,524	-	-	-	38,524
Due from banks	1,673	-	-	-	1,673
Financing assets	8,896	12,400	50,943	226,417	298,656
Investment securities	7,678	3,707	764	2,192	14,341
Property and equipment	-	-	-	1,010	1,010
Other assets	240	1,113	-	-	1,353
Total assets	57,011	17,220	51,707	229,619	355,557
Liabilities, equity of investment account holders and owners' equity					
Due to banks	40,658	19,250	52,007	-	111,915
Customers' deposits	49,843	55,498	50,914	40,659	196,914
Other liabilities	1,977	1,958	980	510	5,425
Shareholder's fund	-	-	-	41,303	41,303
Total liabilities, equity of investment account holders and owners' equity	92,478	76,706	103,901	82,472	355,557
Net liquidity gap	(35,467)	(59,486)	(52,194)	147,147	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.2 Liquidity Risk (continued)

31 December 2018	Upto three months US$ '000	Above three months to twelve months US$ '000	Above one year to five years US$ '000	Mor than five years US$ '000	Total US$ '000
Assets					
Cash and balances with Central Bank of Oman	100,062	-	-	-	100,062
Due from banks	4,345	-	-	-	4,345
Financing assets	23,106	32,208	132,319	588,097	775,730
Investment securities	19,943	9,629	1,984	5,693	37,249
Property and equipment	-	-	-	2,623	2,623
Other assets	623	2,890	-	-	3,513
Total assets	148,079	44,727	134,303	596,413	923,522
Liabilities, equity of investment account holders and owners' equity					
Due to banks	105,605	50,000	135,083	-	290,688
Customers' deposits	129,462	144,151	132,244	105,608	511,465
Other liabilities	5,135	5,086	2,545	1,323	14,089
Shareholder's fund	-	-	-	107,280	107,280
Total liabilities, equity of investment account holders and owners' equity	240,202	199,237	269,872	214,211	923,522
Net liquidity gap	(92,123)	(154,510)	(135,569)	382,202	-

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
Assets					
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	172,624	246,093
Investment securities	7,632	3,724	-	3,307	14,663
Property and equipment	-	-	-	1,029	1,029
Other assets	609	443	-	-	1,052
Total assets	53,230	16,622	55,338	176,532	301,722
Liabilities, equity of investment account holders and owners' equity					
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
Total liabilities, equity of investment account holders and owners' equity	52,312	78,158	101,128	70,124	301,722
Net liquidity gap	918	(61,536)	(45,790)	106,408	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.2 Liquidity Risk (continued)

31 December 2017	Upto three months US$ '000	Above three months to twelve months US$ '000	Above one year to five years US$ '000	Mor than five years US$ '000	Total US$ '000
Assets					
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
Total assets	138,260	43,173	143,735	458,525	783,693
Liabilities, equity of investment account holders and owners' equity					
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
Total liabilities, equity of investment account holders and owners' equity	135,876	203,008	262,670	182,139	783,693
Net liquidity gap	2,384	(159,835)	(118,935)	276,386	-

32.3 Market Risk

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

32.3.1 Profit Rate Risk

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

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

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

31 December 2018	**2018 RO '000**	**2018 US$ '000**	2017 RO '000	2017 US$ '000
Net profit earned	**7,303**	**18,969**	6,588	17,112
Impact of +200 bps profit rate increase	**351**	**912**	399	1,036
Impact of -200 bps profit rate decrease	**(351)**	**(912)**	(399)	(1,036)

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.3 Market Risk (continued)

32.3.2 Foreign Exchange Risk

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

2017 US$ '000	**2018 US$ '000**		**2018 RO '000**	2017 RO '000
7,378	**1,132**	US Dollar	**436**	4,795
6	**283**	Euro	**109**	46
66	**127**	UAE Dirham	**49**	6
8	**221**	GBP Sterling	**85**	11
291	**719**	Others	**277**	12

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 2018 on net assets is considered negligible.

32.3.3 Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio.

32.4 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Islamic Window cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

32.5 Concentration Risk

Concentration of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Islamic Window's performance to developments affecting a particular industry or geographical location.

The Islamic Window seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentration of credit risk with individuals or group of counterparty in specific locations or businesses. It also obtains appropriate security.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.5 Concentration Risk (continued)

2018

	Murabaha, gross RO '000	Musharaka, gross RO '000	Ijarah Muntahia Bittamleek RO '000	Other financings, gross RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by industry						
Sovereign	-	-	-	-	-	13,364
Corporate	5,757	124,179	44,944	-	-	977
Personal	41,516	5,082	78,145	768	-	-
Banks	-	-	-	-	1,673	-
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Sovereign	-	-	-	-	-	34,711
Corporate	14,953	322,543	116,738	-	-	2,538
Personal	107,834	13,200	202,974	1,995	-	-
Banks	-	-	-	-	4,345	-

2017

	Murabaha, gross RO '000	Musharaka, gross RO '000	Ijarah Muntahia Bittamleek RO '000	Other financings, gross RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by industry						
Sovereign	-	-	-	-	-	13,648
Corporate	3,896	60,426	60,470	-	-	1,015
Personal	44,059	924	78,830	575	-	-
Banks	-	-	-	-	2,272	-
	US$ '000	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	204,753	1,494	-	-
Banks	-	-	-	-	5,901	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.5 Concentration Risk (continued)

	2018					
	Murabaha, gross RO '000	**Musharaka, gross RO '000**	**Ijarah Muntahia Bittamleek RO '000**	**Other financings, gross RO '000**	**Due from banks RO '000**	**Investment securities RO '000**
Concentration by location						
Oman	**47,273**	**129,261**	**122,526**	**768**	**-**	**13,580**
Other GCC countries	**-**	**-**	**563**	**-**	**369**	**-**
Unites States of America	**-**	**-**	**-**	**-**	**-**	**-**
OECD countries	**-**	**-**	**-**	**-**	**-**	**-**
Others	**-**	**-**		**-**	**1,304**	**761**
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Oman	**122,787**	**335,743**	**318,250**	**1,995**	**-**	**35,272**
Other GCC countries	**-**	**-**	**1,462**	**-**	**958**	**-**
Unites States of America	**-**	**-**	**-**	**-**	**-**	**-**
OECD countries	**-**	**-**	**-**	**-**	**-**	**-**
Others	**-**	**-**	**-**	**-**	**3,387**	**1,977**

	2017					
	Murabaha, gross RO '000	Musharaka, gross RO '000	Ijarah Muntahia Bittamleek RO '000	Other financings, gross RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by location						
Oman	47,955	61,350	137,605	575	-	13,835
Other GCC countries	-	-	1,695	-	45	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	2,227	828
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Oman	124,558	159,351	357,415	1,494	-	35,935
Other GCC countries	-	-	4,403	-	117	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	5,784	2,151

Concentration by location for financings is measured based on the location of the entity holding the asset, which has a high correlation with the location of the customer. Concentration by location for investment securities is measured based on the location of the issuer of the security.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

32 RISK MANAGEMENT (continued)

32.6 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. As per CBO circular BDS/2018/1 dated 20 March 2018, minimum capital adequacy ratio requirement has been reduced to 11% from 12% with effect from 1 April 2018. As per new ratio, Tier 2 capital will be restricted to 2% from 3%, CET 1, Tier 1 requirements remains unchanged. 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.

2017 US$ '000	**2018 US$ '000**		**2018 RO '000**	2017 RO '000
91,816	**93,826**	Common Equity Tier 1 (CET1)	**36,123**	35,349
-	**-**	Additional Tier 1	**-**	-
91,816	**93,826**	Tier 1	**36,123**	35,349
6,730	**3,106**	Tier 2	**1,196**	2,591
98,546	**96,932**	**Total regulatory capital**	**37,319**	37,940
		Risk weighted assets		
537,662	**684,875**	Credit risk	**263,677**	207,000
10,205	**5,951**	Market risk	**2,291**	3,929
33,956	**38,104**	Operational risk	**14,670**	13,073
581,823	**728,930**	**Total risk weighted assets**	**280,638**	224,002
		Capital adequacy ratio		
15.78%	**12.87%**	CET1 capital expressed as a percentage of total risk weighted assets	**12.87%**	15.78%
15.78%	**12.87%**	Total tier I capital expressed as a percentage of total risk weighted assets	**12.87%**	15.78%
1.16%	**0.43%**	Tier II capital expressed as a percentage of total risk weighted assets	**0.43%**	1.16%
16.94%	**13.30%**	Total regulatory capital expressed as a percentage of total risk weighted assets	**13.30%**	16.94%

33 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 2018

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 & 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 187 to 227 as at and for the year ended 31 December 2018. 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.

Kenneth MacFarlane
10 March 2019

Basel II Pillar III and Basel III Report

31 December 2018

1. INTRODUCTION

In January 2013, Ahlibank 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 Ahlibank 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 eight branches as at year end.

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

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 11%. 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, and amended from time to time (CAR is 11% latest as per CBO circular dated March 20, 2018).
- 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.
- 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 2018

3. CAPITAL STRUCTURE

The primary objectives of the Bank's capital management framework 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.

Ahlibank SAOG has following credit ratings at present:

Capital Intelligence	
Financial strength rating;	**BBB-**
Foreign currency Long Term Rating:	**BBB-**
Foreign currency Short term;	**A3**
Support rating;	**3**
Outlook:	**Stable**

Fitch Rating	
Viability rating	**bb+**
Long term foreign currency and local currency IDRs;	**BB+**
Short term foreign currency and local currency IDRs;	**B**
Support rating;	**3**
Outlook;	**Negative**

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 and also periodically assess the quantum of capital available to support assets growth and optimally deploy capital to achieve targeted returns.

Strategic business objectives and future capital needs are assessed within this framework. Normally, the Islamic window employs capital rationing techniques to allocate capital for each of the Islamic window'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 Islamic window 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 Islamic window may adjust the amount of dividend payment to shareholders or issue return capital to shareholders or issue capital securities.

Equity of unrestricted investment account holders (URIA) is not considered as part of regulatory capital and the Islamic window is not reducing its risk weighted assets for jointly financed assets.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

3. CAPITAL STRUCTURE (continued)

The Islamic window's capital structure as at 31 December 2018, based on the CBO guidelines is as follows:

CAPITAL ADEQUACY

Sl. No	Elements of Capital	2018 RO'000)	2017 RO'000)
	Tier I Capital		
1	Paid up capital	25,000	25,000
2	Legal reserves	-	-
3	Subordinated loan reserve	-	-
4	Retained earnings*	11,988	10,847
5	Other non-distributable Reserve	-	-
	Total Gross Tier I Capital	**36,988**	**35,847**
	Deduction		
5	Intangible Assets, including losses, cumulative unrealized losses recognized directly in equity	(865)	(498)
	Additional Tier I Capital	**-**	**-**
6	Tier 1 Perpetual Bond	-	-
	Tier I capital after all deductions	**36,123**	**35,349**
	Tier II Capital		
7	Revaluation reserves / cumulative fair value gains or losses on fair value through equity instruments	-	4
8	Expected credit loss (stage 1 & 2) on financing	1,196	2,587
9	Subordinated debt	-	-
	Total Tier II Capital	**1,196**	**2,591**
	Total Regulatory Capital	**37,319**	**37,940**
	Total Amount of unrestricted IAH Funds	50,906	44,522
	Investment fair value reserve	(462)	9
	Profit equalization reserve (PER)	-	-
	Investment Risk Reserve (IRR)	-	-

* Retained earning is adjusted for proposed cash dividend of RO 2.5 mn.

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 and other risks.

Qualitative disclosures

The Islamic window uses a prudential building-block approach as the measurement technique to assess capital adequacy for current and future activities, which is compared with the consolidated eligible capital.

The Islamic window'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 Islamic window 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 Islamic window's capital adequacy ratio is 13.30% as against the CBO requirement of 11% as at 31 December 2018. The Islamic window follows a capital adequacy framework to link the Islamic window's annual budget projections and the capital required to achieve business objectives. It is determined by the Islamic window's strategic planning objectives and capital planning framework. Capital requirements are assessed for credit, operational and market risks. In order to calculate the capital adequacy ratio, the Bank follows the standardized approach forming part of the Pillar 1 requirements of Basel II Norms and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures. In order to equip the requirements of the advanced approaches, the Islamic window has already implemented obligor rating models and the ratings are being tracked regularly.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

3. CAPITAL STRUCTURE (continued)

CAPITAL ADEQUACY (continued)

Internal Capital Adequacy Assessment Process (ICAAP)

In addition to Pillar I capital adequacy requirements 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 2018-2022.

i. Capital Adequacy Disclosures (RO '000)

As on 31 December 2018

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	359,610	358,326	259,165
2	Off-balance sheet items	2,269	2,269	4,512
3	**Total**	**361,879**	**360,595**	**263,677**
4	Tier 1 Capital			36,123
5	Tier 2 Capital			1,196
6	**Total Regulatory Capital**			**37,319**
6.1	Capital requirement for credit risk			29,004
6.2	Capital requirement for market risk			252
6.3	Capital requirement for operational risk			1,614
7	**Total required capital**			**30,870**
8	Tier 1 Ratio			12.87%
9	Total Capital Ratio			13.30%

As on 31 December 2017

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	295,189	292,970	206,660
2	Off-balance sheet items	340	340	340
3	Total	295,530	293,311	207,000
4	Tier 1 Capital			35,349
5	Tier 2 Capital			2,591
6	Total Regulatory Capital			37,940
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	Total required capital			26,880
8	Tier 1 Ratio			15.78%
9	Total Capital Ratio			16.94%

Basel II Pillar III and Basel III Report (continued)

31 December 2018

3. CAPITAL STRUCTURE (continued)

CAPITAL ADEQUACY (continued)

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

Sl. No	Simple Approach	2018	2017
	Details		
1	Tier I Capital (after supervisory deductions)	36,123	35,349
2	Tier II capital (after supervisory deductions and up to eligible limits)	1,196	2,591
3	Risk weighted assets – banking book	263,677	207,000
4	Risk weighted assets – operational risk	14,670	13,073
5	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**278,347**	220,073
6	**Minimum required capital to support RWAs of banking book and operational risk**	**30,618**	26,409
	i) Minimum required Tier I Capital for banking book and operational risk	25,051	23,818
	ii) Tier II Capital required for banking book and operational risk	5,567	2,591
7	Tier I capital available for supporting trading book	11,072	11,531
8	Tier II capital available for supporting trading book	-	-
9	Risk Weighted Assets – trading book	2,291	3,929
10	Total capital required to support trading book	252	471
11	Minimum Tier I capital required for supporting trading book	72	134
12	**Total Regulatory Capital**	**37,319**	37,940
13	**Total Risk Weighted Assets – Whole bank**	**280,638**	224,002
14	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**12.87%**	15.78%
15	**Tier 1 (as a percentage of risk weighted assets)**	**12.87%**	15.78%
16	**BIS Capital Adequacy Ratio**	**13.30%**	16.94%

iii. Capital Adequacy Ratio

	2018	2017
Total Risk weighted assets	280,638	224,002
Total eligible capital	37,319	37,940
Capital Adequacy Ratio	**13.30%**	16.94%

iii. Ratio of total capital to total assets

	2018	2017
Total Capital	36,501	37,940
Total assets	355,557	301,722
Total capital to total assets	**10.27%**	12.57%

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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 are 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 Identification
↓
Risk Measurement
↓
Risk Monitoring
↓
Risk Control

Risk framework

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

The Board of Directors ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. The risk management department has identified material risks that the Islamic Window is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis. Further, the Sharia risk related compliance are one of the KRIs that the Islamic window has been monitoring as part of other KRIs.

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:

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

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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

1. Anti-Money Laundering Manual
2. Personal Account Dealing Policy
3. New Product Committee and Procedures
4. Voice Recording Policy
5. Compliance Policy
6. Communications Policy
7. Corporate Governance Policy
8. Corporate Social Responsibility Policy
9. Dividend Policy
10. Expenses Policy
11. Capital Management Policy
12. Disclosure Policy
13. Board Remuneration Policy
14. Financial Institutions Policy
15. Human Resources Policy
16. Outsourcing Policy
17. Code of Business Conduct
18. Information Security Management Policy
19. Business Continuity Management
20. Credit and Investment Policy
21. Operational Risk Policy & Procedure
22. Fraud Risk Management Policy
23. Liquidity and Funding Policy
24. Trading Book Policy
25. Risk Management-Approach & Framework
26. Social and Environment Management System
27. Security and Safety Policy and Plan
28. Asset Management Policy
29. Brokerage Policy
30. FATCA Policy
31. Customer Complaints Redressal Policy
32. Profit Distribution Policy
33. Charity Policy
34. Zakah Policy
35. Cost Sharing Policy
36. Segregation of Funds Policy
37. Social Media Policy
38. Shari'a Governance Manual
39. Third Party Risk Management 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 authorities, from Level II to the BoD, depending on their delegated credit approval Jurisdiction (CAJ). All credit approvals are strictly in accordance with the regulatory guidelines issued from time to time by the Central Bank of Oman. Exceptions in retail credit exposure are escalated to Risk Management Department for necessary approvals.

Risk Management 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 financing review 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 2018

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, 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. As part of the Banks financing policy, sectoral limits have been set for ensuring that the Islamic window is having a well diversified portfolio, the same is being is being reviewed by the bank on a regular basis.

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 2018

5. CREDIT RISK (continued)

Past due & credit exposures

The Islamic window has adopted IFRS 9 "Financial Instrument" accounting norm from beginning of 2018 as required by CBO circular BM 1149 dated 13 April 2017.

The adoption of IFRS 9 standard has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward looking expected credit loss (ECL) approach. From 1 January 2018, the bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9 accounting standard.

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

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

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

Stage 1

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

Stage 2

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

Stage 3

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

The Bank considers a financial asset to be in default when:

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

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 2018:

		Average Gross Exposure			Total Gross Exposure		
Sl. No.	**Type of Credit Exposure**	**31-Dec-18**	31-Dec-17	**% of total financing**	**31-Dec-18**	31-Dec-17	**% of total financing**
1	Balances with Central bank of Oman	**36,198**	31,991	**11%**	**36,732**	35,664	**10%**
2	Sovereign	**7,622**	1,653	**2%**	**11,936**	3,307	**3%**
3	Banks	**1,965**	2,324	**1%**	**3,598**	2,272	**1%**
4	Musharaka	**97,677**	51,375	**30%**	**129,261**	61,350	**36%**
5	Ijarah	**133,984**	135,994	**41%**	**123,089**	139,300	**34%**
6	Murabaha	**47,665**	47,697	**14%**	**47,273**	47,955	**13%**
7	Credit Card Receivable	**517**	406	**0%**	**536**	428	**0%**
8	Service Ijarah	**228**	48	**0%**	**232**	147	**0%**
9	Other assets & off balance sheet items	**4,039**	5,419	**1%**	**9,222**	5,107	**3%**
	Total	**329,895**	276,907	**100%**	**361,879**	295,530	**100%**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

ii) Credit exposure by risk weighted assets:

Type of credit exposure	31-Dec-18 Gross Balance	31-Dec-18 Net Balance	31-Dec-18 Risk Weighted Assets	31-Dec-17 Gross Balance	31-Dec-17 Net Balance	31-Dec-17 Risk Weighted Assets
Balances with Central bank of Oman	**36,732**	**36,732**	**-**	35,664	35,664	-
Sovereign	**11,936**	**11,936**	**764**	3,307	3,307	828
Banks	**3,598**	**3,598**	**1,297**	2,272	2,272	454
Musharaka	**129,261**	**128,735**	**123,408**	61,350	60,758	58,749
Ijarah	**123,089**	**122,634**	**83,455**	139,300	138,702	112,120
Murabaha	**47,273**	**46,974**	**47,052**	47,955	46,926	32,298
Credit Card Receivable	**536**	**532**	**536**	428	428	428
Service Ijarah	**232**	**232**	**232**	147	147	147
Other Assets & off balance sheet items	**9,222**	**9,221**	**6,933**	5,107	5,107	1,975
Total	**361,879**	**360,595**	**263,677**	295,530	293,311	207,000

iii) Credit exposure by business unit:

Type of credit exposure	Business Unit	As of 31 December 2018 Gross Balance	As of 31 December 2018 Net Balance	As of 31 December 2018 Risk Weighted Assets	As of 31 December 2017 Gross Balance	As of 31 December 2017 Net Balance	As of 31 December 2017 Risk Weighted Assets
Balances with Central bank of Oman		**36,732**	**36,732**	**-**	35,664	35,664	-
Sovereign		**11,936**	**11,936**	**764**	3,307	3,307	828
Banks		**3,598**	**3,598**	**1,297**	2,272	2,272	454
Musharaka	SME	**5,069**	**4,826**	**3,802**	5,522	5,494	4,121
	Corporate	**119,110**	**118,833**	**117,828**	54,904	54,349	54,023
	Retail	**5,082**	**5,076**	**1,778**	924	915	605
Murabaha	SME	**882**	**855**	**662**	-	-	-
	Corporate	**4,875**	**4,844**	**4,875**	3,896	3,857	3,834
	Retail	**41,516**	**41,275**	**41,515**	44,059	43,069	28,464
Ijarah	SME	**3,547**	**3,510**	**2,665**	4,982	4,957	3,718
	Corporate	**41,397**	**41,269**	**41,397**	55,487	54,929	56,789
	Retail	**78,145**	**77,855**	**39,393**	78,831	78,816	51,613
Credit Card Receivable	Retail	**536**	**532**	**536**	428	428	428
Service Ijarah	Retail	**232**	**232**	**232**	147	147	147
Other Assets & off balance sheet items		**9,222**	**9,221**	**6,933**	5,107	5,107	1,975
Total		**361,879**	**360,595**	**263,677**	295,530	293,311	207,000

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

iv) Geographic distribution of exposures by major types of credit exposure (gross):

As at 31 December 2018:

Sl. No.	Type of Credit Exposure	Oman	Other GCC Countries	OECD Countries	India	Pakistan	Others	Total
1	Balances with Central bank of Oman	**36,732**	**-**	**-**	**-**	**-**	**-**	**36,732**
2	Sovereign	**11,172**	**-**	**-**	**-**	**-**	**764**	**11,936**
3	Banks	**1,925**	**369**	**-**	**-**	**-**	**1,304**	**3,598**
4	Musharaka	**129,261**	**-**	**-**	**-**	**-**	**-**	**129,261**
5	Murabaha	**47,273**	**-**	**-**	**-**	**-**	**-**	**47,273**
6	Ijarah	**122,526**	**563**	**-**	**-**	**-**	**-**	**123,089**
7	Credit Card Receivable	**536**	**-**	**-**	**-**	**-**	**-**	**536**
8	Service Ijarah	**232**	**-**	**-**	**-**	**-**	**-**	**232**
9	Other assets & off balance sheet items	**9,222**	**-**	**-**	**-**	**-**	**-**	**9,222**
	Total	**358,879**	**932**	**-**	**-**	**-**	**2,068**	**361,879**

As at 31 December 2017:

Sl. No.	Type of Credit Exposure	Oman	Other GCC Countries	OECD Countries	India	Pakistan	Others	Total
1	Balances with Central bank of Oman	35,664	-	-	-	-	-	35,664
2	Soverign	2,479	-	-	-	-	828	3,307
3	Banks	-	45	-	-	-	2,227	2,272
4	Musharaka	61,350	-	-	-	-	-	61,350
5	Murabaha	47,955	-	-	-	-	-	47,955
6	Ijarah	137,605	1,695	-	-	-	-	139,300
7	Credit Card Receivable	428	-	-	-	-	-	428
8	Service Ijarah	147	-	-	-	-	-	147
9	Other assets & off balance sheet items	5,107	-	-	-	-	-	5,107
	Total	290,735	1,740	-	-	-	3,055	295,530

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

v) Industry or counter party type distribution of exposures, broken down by major types of credit exposure:

As at 31 December 2018:

	Economic Sector	Musharaka	Murabaha	Ijarah	Service Ijarah	Credit Card Receivable	Total	Off Balance Sheet Exposure*
1	Wholesale & Retail Trade	9,439	759	6,241	-	-	**16,439**	4,053
2	Mining & Quarrying	-	-	-	-	-	**-**	-
3	Construction	105,076	398	19,550	-	-	**125,024**	7,450
4	Manufacturing	15	18	2,155	-	-	**2,188**	-
5	Transport & Communication	3,942	51	242	-	-	**4,235**	-
6	Electricity , Gas & Water	-	-	-	-	-	**-**	-
7	Financial Institutions	-	-	-	-	-	**-**	-
8	Services	608	111	16,055	-	-	**16,774**	-
9	Personal Financings	5,082	41,516	78,145	232	536	**125,511**	397
10	Non- Resident Lending	-	-	563	-	-	**563**	-
11	All Others	5,099	4,420	138	-	-	**9,657**	-
	Total	**129,261**	**47,273**	**123,089**	**232**	**536**	**300,391**	**11,900**

* represents notional exposure as per financial statements

As at 31 December 2017:

	Economic Sector	Musharaka	Murabaha	Ijarah	Service Ijarah	Credit Card Receivable	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	2708
4	Mining & Quarrying	-	-	-	-	-	-	-
5	Construction	42,011	103	43,748	-	-	85,862	4508
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	200
11	Personal financings	924	44,059	78,831	147	428	124,389	800
12	Agriculture and Allied Activities	-	-	-	-	-	-	-
13	Government	-	-	-	-	-	-	-
14	Non- Resident Lending	-	-	1,695	-	-	1,695	-
15	All Others	4,264	-	5,708	-	-	9,972	-
	Total	61,350	47,955	139,300	147	428	249,180	8,216

* represents notional exposure as per financial statements

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

vi) Residual contractual maturity of the whole portfolio, broken down by major types of credit exposure.

As at 31 December 2018:

	Time Band	Musharaka	Murabaha	Ijarah	Service Ijarah	Credit Card Receivable	Total	Off Balance Sheet Exposure*
1	Up to 1 month	458	2,329	807	-	268	**3,862**	2,055
2	1-3 Months	1,406	4,414	1,709	8	268	**7,805**	3,773
3	3-6 Months	1,098	1,706	1,745	5	-	**4,554**	1,810
4	6-9 Months	4,417	1,916	2,391	8	-	**8,732**	2,164
5	9-12 Months	1,394	2,705	2,918	11	-	**7,028**	2,012
6	1-3 Years	15,625	14,100	17,035	58	-	**46,818**	81
7	3-5 Years	11,866	10,429	16,862	49	-	**39,206**	-
8	Over 5 Years	92,997	9,674	79,622	93	-	**182,386**	5
	Total	**129,261**	**47,273**	**123,089**	**232**	**536**	**300,391**	**11,900**

* represents notional exposure as per financial statements

As at 31 December 2017:

	Time Band	Musharaka	Murabaha	Ijarah	Service Ijarah	Credit Card Receivable	Total	Off Balance Sheet Exposure*
1	Up to 1 month	687	2,414	805	-	214	4,120	900
2	1-3 Months	1,230	1,790	1,760	5	214	4,999	1,729
3	3-6 Months	901	3,168	2,055	3	-	6,127	1,700
4	6-9 Months	1,796	1,780	2,516	5	-	6,097	1,715
5	9-12 Months	1,408	2,601	3,342	7	-	7,358	2,085
6	1-3 Years	15,077	13,974	18,921	38	-	48,010	81
7	3-5 Years	11,874	10,871	19,253	31	-	42,029	-
8	Over 5 Years	28,377	11,357	90,648	58	-	130,440	6
	Total	61,350	47,955	139,300	147	428	249,180	8,216

* represents notional exposure as per financial statements

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

vii) Total Financing broken down by major industry or counterparty type

As at 31 December 2018:

	Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year**	Financings written off during the year
1	Import Trade	9,632	-	369	-	318	-
2	Export Trade	-	-	-	-	-	-
3	Wholesale & Retail Trade	16,439	-	102	-	(309)	-
4	Mining & Quarrying	-	-	-	-	-	-
5	Construction	125,024	18	676	11	(1,050)	-
6	Manufacturing	2,188	-	5	-	(157)	-
7	Electricity , Gas & Water	-	-	-	-	-	-
8	Transport & Communication	4,236	-	7	-	2	-
9	Financial Institutions	-	-	-	-	-	-
10	Services	16,774	-	23	-	4	-
11	Personal Financing	125,511	613	193	370	100	-
12	Non Resident Lending	563	-	-	-	(1)	-
13	All Others	24	-	1	-	1	-
	Total	**300,391**	**631**	**1,376**	**381**	**(1,092)**	**-**

* Stage 3 ECL include suspended profit of RO 0.022 mn
** Includes suspensed profit amounting to RO 0.009 mn

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

vii) Total Financing broken down by major industry or counterparty type (continued)

As at 31 December 2017:

	Economic Sector	Gross financings	Of Which NPLs	General Provisions	Specific Provisions	Suspended profit	Provisions made / (reversed) 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	124,388	333	1,688	151	13	55	-
12	Agriculture and Allied Activities	-	-	-	-	-	-	-
13	Government	-	-	-	-	-	-	-
14	Non- Resident Lending	1,695	-	17	-	-	(11)	-
15	All Others	-	-	-	-	-	-	-
	Total	**249,180**	**333**	**2,936**	**151**	**13**	**290**	**-**

viii) Amount of impaired Financing broken down by significant geographical areas including, with the amounts of expected credit loss/ specific and general allowances related to each geographical area

As at 31 December 2018:

	Countries	**Gross financings**	**Of Which NPLs**	**ECL stage 1 & 2**	**ECL stage 3***	**Impairment charge/ (reversed) during the Year****	**Financings written off during the year**
1	Oman	299,828	631	1,376	381	(1,091)	-
2	Other GCC Countries	563	-	-	-	(1)	-
3	OECD Countries	-	-	-	-	-	
4	India	-	-	-	-	-	
5	Pakistan	-	-	-	-	-	
6	Others	-	-	-	-	-	
	Total	**300,391**	**631**	**1,376**	**381**	**(1,092)**	**-**

* Stage 3 ECL include suspended profit of RO 0.022 mn

** Includes suspensed profit amounting to RO 0.009 mn

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

viii) Amount of impaired Financing broken down by significant geographical areas including, with the amounts of expected credit loss/ specific and general allowances related to each geographical area (continued)

As at 31 December 2017:

	Countries	Gross financings	Of Which NPLs	General Provisions	Specific Provisions	Suspended profit	Provisions made / (reversed) during the Year	Financings written off during the year
1	Oman	247,485	333	2,919	151	13	301	-
2	Other GCC Countries	1,695	-	17	-	-	(11)	-
3	OECD Countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
	Total	**249,180**	**333**	**2,936**	**151**	**13**	**290**	**-**

ix) Movement of gross Financing during the year.

As at 31 December 2018:

	Details	Stage 1	Stage 2	Stage 3	Total
1	Opening Balance	219,979	28,868	333	**249,180**
2	Migration / changes (+ / -)	9,777	(10,082)	305	**-**
3	New financings	76,041	11,531	-	**87,572**
4	Recovery of financings	(32,244)	(4,110)	(7)	**(36,361)**
5	Financing Written Off	-	-	-	**-**
6	**Closing Balance**	**273,553**	**26,207**	**631**	**300,391**

Opening balance includes credit card receivables amounting to RO 0.428 mn.

As at 31 December 2017:

		Performing financings		Non-Performing financings			
	Details	**Standard**	**Special mention**	**Sub-Standard**	**Doubtful**	**Loss**	**Total**
1	Opening Balance	226,016	558	22	195	-	**226,791**
2	Mitigation/ Changes (+/-)	(24,975)	25,241	114	(113)	161	**428**
3	New financings	36,587	-	-	-	-	**36,587**
4	Recovery of financings	(14,436)	(144)	(46)	-	-	**(14,626)**
5	Financing Written Off	-	-	-	-	-	**-**
6	**Closing Balance**	**222,764**	**25,655**	**90**	**82**	**161**	**248,752**
7	Provisions Held	(2,936)	-	(23)	(21)	(107)	**(3,087)**
8	Reserve profit	-	-	(1)	(1)	(11)	**(13)**
	Total	**219,828**	**25,655**	**66**	**60**	**43**	**245,652**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

Credit Risk Mitigation: Disclosures for portfolio subject to standardized approaches

Qualitative disclosure

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

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

Financing receivables are principally divided into following Islamic products:

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

- Financing Ijarah: An agreement whereby the Islamic Window (lesser) leases an asset or services to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period.

- 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 insurance policy is assigned in the Islamic Window's favor. Real estate collateral is valued on regular intervals on need basis based on the assessment of risk and economic scenario prevailing.

The Islamic Window normally accepts the following types of collateral:

- Cash margins and wakala 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 approval criteria.
- Funds subject to meeting approval 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.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

5. CREDIT RISK (continued)

Credit Risk Mitigation: Disclosures for portfolio subject to standardized approaches (continued)

Quantitative disclosure

Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	IFRS 9 Classification
1 – 6	397	-	Standard	Stage 1 & 2
7	979	-	Special mention	
8 – 10	381	-	Non-performing	Stage 3
Total	**1,757**	**-**		

6. MARKET RISK

Qualitative disclosure

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

Market Risk Management Framework

The Islamic window 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 other share which are recognized this as equity type instruments carried at fair value through other comprehensive income. The fair value of investments as of 31 December 2018 is RO 0.27 mn with cost amounts to RO 0.34mn. The Islamic window also has invested in debt type instrument carried at fair value through other comprehensive income. The fair value of investments as of 31 December 2018 is RO 14.08 mn with a cost amounts to RO 14.47 mn.

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.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

6. MARKET RISK (continued)

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.

As of 31 December 2018, there were no investments carried at fair value though profit and loss. 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:

As of 31 December 2018;

Particular	Effective profit rate	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
ASSETS							
Cash and balances with Central Bank of Oman		-	-	-	-	38,524	38,524
Due from banks		1,673	-	-	-	-	1,673
Financing Assets	5.75%	11,190	21,352	86,027	179,555	532	298,656
Investments	3.11%	-	-	11,885	2,192	264	14,341
Property and equipment		-	-	-	-	1,010	1,010
Other assets		-	-	-	-	1,353	1,353
Total profit bearing assets		**12,863**	**21,352**	**97,912**	**181,747**	**41,683**	**355,557**
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS							
Due to banks	4.09%	40,658	19,250	52,007	-	-	111,915
Equity of investment accountholders and other liabilities	3.01%	40,694	42,759	71,986	-	41,475	202,339
Shareholders fund		-	-	-	-	-	41,303
Total		**81,355**	**62,052**	**124,007**	**-**	**88,143**	**355,557**
Net gap		**(68,492)**	**(40,700)**	**(26,095)**	**181,747**	**(46,460)**	**-**
Cumulative net gap		**(68,492)**	**(109,192)**	**(135,287)**	**46,460**	**-**	**-**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

6. MARKET RISK (continued)

Rate of Return Risk in Trading Book (continued)

As of 31 December 2017;

Particular	Effective profit rate	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
ASSETS							
Cash and balances with Central Bank of Oman		-	-	-	-	36,613	36,613
Due from banks		2,272	-	-	-	-	2,272
Financing Assets	5.60%	8,763	20,426	90,039	126,437	428	246,093
Investments	3.70%	-	-	11,173	3,307	183	14,663
Property and equipment		-	-	-	-	1,029	1,029
Other assets		-	-	-	-	1,052	1,052
Total profit bearing assets		11,035	20,426	101,212	129,744	39,305	301,722
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS							
Due to banks	3.80%	108	-	38,500	-	-	38,608
Equity of investment accountholders and other liabilities	2.70%	77,349	64,647	61,044	-	24,218	227,258
Shareholders fund		-	-	-	-	35,856	35,856
Total		77,457	64,647	99,544	-	60,074	301,722
Net gap		(66,422)	(44,221)	1,668	129,744	(20,769)	-
Cumulative net gap		(66,422)	(110,643)	(108,975)	20,769	-	-

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 limits and authorized currencies to monitor and control foreign exchange exposures.

The Islamic window treats its entire Foreign Exchange Exposure under Basel II Standardized approch for capital calculation. The Net open position in all foreign currencies stands at OMR 0.96 mn (OMR 0.96 mn position is in effectively pegged currencies) as on 31st Dec 2018.

Capital Charge

The Capital Charge for market risk exposures is measured based on Standardized approach in accordance with the guidelines issued by CBO under Circular BM1009. The Islamic window has implemented standardized duration based approach to arrive at capital requirement for bonds and debt securities. The capital charge for foreign exchange is computed based on three month 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 2018

6. MARKET RISK (continued)

Capital Charge (continued)

Table showing capital charge for profit Rate, Equity and foreign exchange risk as on 31 December 2018 is given below:

Type of Risk- Capital Charge (OMR 000)	2018	2017
Profit Rate Risk	-	224
Equity Position Risk	-	-
Foreign Exchange Risk	183.3	90
Percentage of NOP to regulatory capital	2.56%	13.78%
Regulatory ceiling (% to total networth)	40%	40%

Total risk weighted assets for trading book is RO 2.291 mn.

Price risk

Impact of 10% fall in price

Investment type	Change in price	Effect on equity (millions)
Regional listed Sukuk	10%	+/- 1,331.4
Foreign listed Sukuk	10%	+/- 76.4
Listed equities	10%	+/- 26.6

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 Islamic window'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 Islamic window should be in either USD or USD pegged GCC currencies and any investments in other currencies should be approved at least by the Executive and 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.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

6. MARKET RISK (continued)

Investments in the banking book (continued)

Any investments of the Islamic window outside the GCC countries or US will have to be specifically approved by at least the Executive and 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 tries to achieve reasonable diversification of its investment portfolio among the economic sectors, and will not exceed a certain limit of its investment portfolio in any particular industry / sector groups listed below:

a) Trading and retailing
b) Real Estate development, management and rental income
c) Construction / contracting and building materials
d) Travel / tourism, hotels, restaurants, entertainment, health services and education
e) Warehousing / storage, logistics, supply management and transportation, utilities and Telecom
f) Oil and Gas
g) Banking and Financial Services
h) Conglomerates or Holding Companies investing in any of the above business lines

This should also include all proprietary investments made through the Bank's Asset Management Department.

Any proposal that leads to contravention of the above or any proposal for investment in any sector or industry not listed above will need approval of the Executive Credit Committee.

All investment approval requests for specific transactions or trading limits must be made by the relevant Business Line, approved by the Credit and Investment Committee and submitted to the Executive Credit Committee as delegated. Any approval above those delegated limits is to be elevated to the Board level for approval. Any restrictions on investments as per effective CBO regulations shall apply.

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

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

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

7. LIQUIDITY RISK

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

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

- The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.
- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- As per the CBO directives, the Bank keeps at least 5% of its 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 and funding policy and a contingency liquidity plan have been established by the Bank, which applies to its Islamic Window as well.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

7. LIQUIDITY RISK (continued)

Liquidity and funding Policy

The liquidity and funding policy of the Bank, which applies for its Islamic Window as well, is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

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

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

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

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

The Islamic window also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2018 was 87.5%.

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

Ratios	2018	2017
Financing ratio	%	%
Year end	85.76	83.40
Maximum for the year	87.50	87.50
Minimum for the year	75.17	78.76
Average for the year	85.52	85.57
Other Ratios		
Financing to customers to total assets	84.48	82.81
Equity to total assets	11.62	11.88
Liquidity Coverage Ratio	128.60	336.11
Net Stable Funding Ratio	100.76	117.97

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 is effective from January 1, 2018 with a minimum ratio of 100%.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

7. LIQUIDITY RISK (continued)

Diversification of liabilities

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

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

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

Multi-currency liquidity

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

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

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

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

Limit breaches

All liquidity limit (internal) breaches are notified to the Treasurer, the Head of Finance, Head of Risk Management and ALCO members at the earliest possible opportunity. The notification includes:

- The cause of the breach
- The remedial action taken
- The expected duration of the breach if still current.

Immediate action is taken to remedy the breach. Should such action not be possible, the ALCO and the CEO are notified.

Liquidity Contingency Plan:

It is imperative for the Islamic window to maintain an adequate amount of liquid assets as a protection against a possible loss in the event of emergency situation. Bank's Liquidity Contingency Plan (LCP) is approved by Board and addresses the institution's strategy for handling any liquidity crisis. LCP will serve as the blueprint for meeting its funding needs under stress environment in a timely manner and at a reasonable cost. It describes policies and procedures for managing or making up cash flow shortfalls in such situations at both solo and consolidated level.

Islamic window has adopted quantitative and qualitative key warning indicators which is monitored by Market Risk team and presented to ALCO. The members of the Liquidity Crisis Management Team (LCMT) and ALCO are notified immediately should any of the early warning criteria be breached.

In the event of the plan being invoked, ALCO delegates the responsibility for the management of the Bank's liquidity to the LCMT. The LCMT is comprised of CEO (Chairman), DCEO Wholesale Banking , DCEO – Support Services, Head of Finance, Head of Treasury and Head of Risk.

8. OPERATIONAL RISK

Operational Risk Management 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.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

8. OPERATIONAL RISK (continued)

Operational Risk Management Framework (continued)

Operational risk is identified and 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. The Operational Risk Committee that is the owner of this Framework overseas the Islamic window.

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
- Shariah Compliance risk

Control and Mitigation of Operational Risk

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

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

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

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

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

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

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

Fraud Risk Management

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

Basel II Pillar III and Basel III Report (continued)

31 December 2018

8. OPERATIONAL RISK (continued)

Reputational risk

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

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

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

Business Continuity

The Bank has a documented Business Continuity Policy (BCP) and plan which outlines the Business Continuity process to be followed in a disaster scenario, and undertakes comprehensive testing of all its critical systems and processes; this BCP also applies to the processes and systems pertaining to the Islamic Window. The BCP aims to minimize the severity and impact of a disaster while continuing to serve both the business and customers with a lowest achievable detriment in service. The plan considers the following:

- Disaster scenarios and magnitude
- Various steps to mitigate the risk
- Impact on the Bank's business and operations
- The resources required for resuming the operations at the earliest possible time following the disaster.
- Operating processes and available systems at the Disaster Recover (DR) site

During the year 2018, the bank has carried out a comprehensive BCP test including a volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board. The Bank has in place a Crisis Management Team (CMT), and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the bank.

Concentration Risk

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

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

Information Security Risk

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

Other Risks

The Islamic window 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. The Bank follows standard methodologies for arriving at the capital adequacy requirements of these risks. These risks are assessed and such assessments form part of the Bank's ICAAP process.

Operational risk capital charge and risk weighted amount

The Islamic window follows basic indicator approach for determining operational risk. The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income includes Net income from financing activities gross of any provisions and depreciation expense on ijarah assets (+) Net income from investment activities (+) fee income (-) investment account holders share of income (-) extraordinary / irregular items of income.

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 1.174 mn.

The Risk weighted assets for operational risk as per Basel II is RO 14.670 mn.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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 and Wakala bil Istithmar contract.

Investment account holders under mudaraba contract

As per the mudaraba 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 have 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 equalization 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 Islamic window.

During the year ended December 2018 there were no appropriations made towards Profit equalization and Investment risk reserve. Net profit is allocated to the pool participants based on weighted average balance. Participation fator, 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.

Investment account holders under wakala bil istithmar

Under Wakala bil Istithmar arrangement, Islamic window accepts funds from investors as Wakeel and invests in Shari'a compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Islamic window as Wakeel as incentive fee. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala bil Istithmar agreement, otherwise the loss would be borne by the investor or Muwakil.

Mudaraba fee

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

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. The percentage (up to a maximum of 10%) being set aside for the purpose is determined by management. Currently, 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 Islamic window out of the total common pool profit as per the policy before any distribution takes place, in order to ensure certain level of cushion for the Investment portfolio. Any provisions that are required against the Islamic financing assets or investments will be provided in the books as per the policy which will be in adherence to the central bank revised provisioning policy. The balance of the PER shall also be maintained as a current account.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

10. INVESTMENT ACCOUNT HOLDERS (continued)

Transfer to or from (IRR)

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

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

Assignment of a portion of shareholders' profit to depositors

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

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

Type	2018	2017
Saving and call accounts	50,906	44,522
Total	**50,906**	**44,522**

II. Equity of Investment Accountholders – Ratios

RO in '000	2018	2017	2016	2015
Ratios and Returns				
Amount of total net income	6,975	5,758	4,617	4,091
Average amount of assets	328,640	284,225	260,898	215,932
ROA (Net income before IA's distribution / total assets)	2.12%	2.03%	1.77%	1.89%
Amount of total net income	5,663	4,958	4,433	4,024
Average amount of shareholder's equity	38,580	35,856	33,397	31,430
ROE (Net income after IA's distribution / Shareholders equity)	14.68%	13.83%	13.30%	12.80%
PSR - Average Profit Paid				
Profit sharing ratio (Mudarib : Investment Accountholders)	40:60	40:60	70:30	70:30
Average Profit paid to investment accountholders	2.60%	2.37%	1.27%	0.86%
Average Profit distributed per type of IAH				
Savings (RO 100 – RO 999.999)	0.26%	0.26%	0.22%	0.22%
Savings (RO 1,000 – RO 9,999.999)	0.42%	0.42%	0.33%	0.33%
Savings (above RO 10,000)	0.59%	0.58%	0.55%	0.55%
Call Account (RO 100 - RO 999.999)	0.26%	0.30%	0.33%	0.33%
Call Account (RO 1,000 - RO 9,999.999)	0.43%	-	-	-
Al Nama Smart Saving (RO 100 – RO 2,499.99)	0.59%	0.58%	0.22%	0.22%
Al Nama Smart Saving (RO 2,500 – RO 49,999.99)	2.10%	2.08%	1.32%	1.32%
Al Nama Smart Saving (RO 50,000 – RO 499,999.99)	2.67%	2.64%	1.54%	1.54%
Al Nama Smart Saving (500,000 - 999,999.999)	3.22%	3.19%	1.76%	1.71%
Al Nama (Above 1,000,000)	3.60%	3.55%	-	-
Time deposits (below RO 25,000)	-	-	-	0.51%

Basel II Pillar III and Basel III Report (continued)

31 December 2018

10. INVESTMENT ACCOUNT HOLDERS (continued)

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

RO in '000	2018	2017	2016	2015
Average Assets Allocated	**105,209**	**86,127**	**62,114**	**53,420**
Total profits	**5,948**	**5,196**	**4,577**	**3,914**
Profits to Shareholders	3,765	3,616	3,938	3,692
Profits to IAH	1,310	1,580	639	222
Mudarib Share	873	783	447	140

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

There was no appropriation made towards Profit Equalization Reserve and Investment Risk Reserve.

IV. PER to IAH Ratio (RO '000)

	2018	2017
Profit equalization reserve (PER)	-	-
Unrestricted investment account holder account (IAH)	**50,906**	**44,522**

V. Computation of pool income for the year ended 31 December 2018 (RO '000)

	2018	2017
Pool income		
Income from financing	16,378	12,666
Income from placements	555	440
	16,933	**13,106**
Distribution of Income		
Revenue generated on Mudaraba funds	5,948	5,196
Profit equalization reserve	-	-
Mudarib share	873	783
Investment risk reserve	-	-
Distributable Profit	5,075	4,413
Utilization of reserves	-	-
Share of Profit for IAH and shareholders	**5,075**	**4,413**

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 32.2 of Islamic window financial statements.

12. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Islamic Window does not have any subsidiary or other significant equity investments as on 31 December 2018 (except the investment in Al Hilal MENA Fund as mentioned in 6 above).

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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 recognizing any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes. During the year ended 2018, 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.

16. GENERAL DISCLOSURES

Shari'a governance

Shari'a governance is the most important feature of the Islamic Window. Shari'a governance is defined as a system whereby the Bank attempts and abides by the Shari'a principles in all its activities. The main objective of Shari'a governance framework is to ensure Shari'a compliance at all the times and at all levels and that is to enable the Islamic Window to be perceived as fully Shari'a compliant by all aspects. The key elements of Shari'a governance framework of the Islamic Window are as follows:

i. Shari'a Supervisory Board (SSB)
ii. Head Shari'a Audit and Compliance/Internal Shari'a Reviewer (Head SAC)
iii. Shari'a Audit Unit (SAU)
iv. Shari'a Compliance Unit (SCU)
v. Shari'a Risk Control Unit (SRCU)

Shari'a audit and compliance department

As per the Shari'a governance structure of the Window, Shari'a Audit and Compliance Unit (SACU) is a full-fledged department of the Bank. The Shari'a Audit and Compliance includes SAU, SCU and SRCU and is led by Head Shari'a Audit and Compliance / Internal Shari'a Reviewer. SACU main function is to objectively examine and evaluate the extent of compliance of the Bank in view of the pronouncements issued by the SSB or its Chairman and in adherence to the regulations issued by CBO.

SACU has direct and regular communication with all levels of management, the SSB, and external auditors and it is provided with full and continuous support of management and the SSB to perform its duties. Shari'a Audit and Compliance works under supervision of the SSB to ensure independence and objectivity in performance of department's tasks.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

16. GENERAL DISCLOSURES (continued)

Trainings

The Sharia Audit and Compliance Unit (SACU) 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 AhliBank which was followed by the a test.

The training division has an online training human resource department has launched with an agreement 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 management departments on the topic Sharia Principles of Al Hilal Islamic Banking Services SME Products and their Legal Documents. Further, most branches of Al Hilal islamic window 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 the year 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 and 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 enquiries and compliants are sent to related department of Islamic banking to address and advice and there is proper mechanism in place and a responsible person is identified who collects complains and send the same to the relevant staff.

The Islamic window has trained customer services representative in all the branches who provide appropriate guidance to customers in selection of relevant products suitable to the individual investors. Further, complete product booklet is available at the branches and on the Bank's website which can be referred in case of any further clarification is required. Customers call center (can contact number 24577177) or walk in any of the branches to register their compliants.

Awareness

The Bank has trained customer services representatives in all the branches and call center staff who provide appropriate guidance to customers with regard to Islamic Banking. Furthermore, product brochures are available at all the branches. Product feature and related SSB Fatawa and glossary of Islamic banking are also available on the website for public information. Additionally, during 2018 Sharia Audit and Compliance team has regularly been meeting with customers and clients and explaining them about Islamic banking products and their conditions.

Related Party

Disclosures related to related party and transactions during 2018 are disclosed in note 30 of Islamic window financial statements.

Basel II Pillar III and Basel III Report (continued)

31 December 2018

17. BASEL III CAPITAL DISCLOSURE

17.1 The 3 Step Approach To Reconciliation

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114. In step 1, the accounting consolidation is identical to regulatory consolidation therefore the capital reconciliation is started from step 2 onwards.

Step 1: Balance Sheet under Regulatory Scope of Consolidation

TABLE 2a - Balance Sheet under Regulatory Scope of Consolidation (RO '000)

Year ended 31 December 2018	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with Central Bank of Oman	38,524	38,524
Certificates of deposit	-	-
Due from banks	1,673	1,673
Financings, net	298,656	298,656
Investments in securities	14,341	14,341
Placements with banks	-	-
Property and equipment	1,010	1,010
Deferred tax assets	-	-
Other assets	1,353	1,353
Total assets	**355,557**	**355,557**
Liabilities		
Due to banks	111,915	111,915
Customer deposits	196,914	196,914
Current and deferred tax liabilities	-	-
Other liabilities	5,425	5,425
Subordinated bonds	-	-
Total liabilities	**314,254**	**314,254**
Shareholders' Equity		
Paid-up share capital'	25,000	25,000
Share premium	-	-
Legal reserve	-	-
General reserve	-	-
Retained earnings	14,488	14,488
Cumulative changes in fair value of investments	(462)	(462)
Subordinated debt reserve	-	-
Other Reserves	2,277	2,277
Total shareholders' equity	**41,303**	**41,303**
Total liability and shareholders' funds	**355,557**	**355,557**

- -

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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 2018	Published financial Statements	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	**38,524**	**38,524**	
Due from banks	**1,673**	**1,673**	
Financings - Net, of which:	**298,656**	**298,656**	
- Financings to domestic customers	-	300,391	
- Provision against financings, of which:	-	**(1,735)**	
- Stage 3 Impairment allowance and Reserve profit	-	(381)	
- Stage 1 / 2 impairment allowance, of which	-	**(1,354)**	
- Amount eligible for T2	-	(1,196)	a
- Amount ineligible for T2	-	(158)	
Investments, of which:	**14,341**	**14,341**	
- fair value through other comprehensive income	14,344	14,341	
- Stage 1 / 2 impairment allowance, of which	-	(3)	
- amount eligible for T2	-	-	
- amount ineligible for T2	-	(3)	
Fixed assets	**1,010**	**1,010**	
- Intangibles (CET1 adjustment)	-	403	
- Other fixed Asset	-	607	
Other assets	**1,353**	**1,353**	
Total Assets	**355,557**	**355,557**	
Capital & Liabilities			
Paid-up Capital, of which:	**25,000**	**25,000**	
- Amount eligible for CET1	-	25,000	b
Reserves & Surplus; of which	**16,303**	**16,303**	
- Amount eligible for CET1 (Accumulated gains brought forward)	-	10,847	c
- Amount eligible for T2 (Investments Fair value gains)	-	-	d
- AFS investments fair value loss (CET1 adjustment)	-	(462)	e
- Amount eligible for CET 1 (Retained Earnings)	-	3,163	
- Adjustments to retained earnings (not eligible for CET1)	-	(2,022)	
- proposed stock dividend (Removed from Retained Earnings)	-	2,500	
- Amount eligible for CET1- Reserves (special reserve)	-	323	
- Reserves (impairment reserve - not eligible for CET1)	-	1,954	
Total Capital	**41,303**	**41,303**	
Deposits	**196,914**	**196,914**	
Due to banks	**111,915**	**111,915**	
Other liabilities and provisions	**5,425**	**5,425**	
Other liabilities & provisions , of which	-	5,446	
- Stage 1 / 2 impairment allowance, of which	-	(21)	
- amount eligible for T2	-	-	
- amount ineligible for T2	-	(21)	
TOTAL	**355,557**	**355,557**	

Basel II Pillar III and Basel III Report (continued)

31 December 2018

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 2018	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	25,000	b
2	Retained earnings	11,988	c
3	**Common Equity Tier 1 capital before regulatory adjustments**	**36,988**	
4	Prudential valuation adjustments	**(865)**	
5	**Total regulatory adjustments to Common equity Tier 1**	**(865)**	e
6	**Common Equity Tier 1 capital (CET1)**	**36,123**	
Additional Tier 1 capital: instruments			
7	Additional Tier 1 capital (AT1)	**-**	
	Tier 1 capital (T1 = CET1 + AT1)	**36,123**	
Tier 2 capital: instruments and provisions			
8	Provisions	1,196	a
9	Fair value reserve of AFS investments	-	d
	Tier 2 capital before regulatory adjustments	**1,196**	
	Tier 2 capital: regulatory adjustments	**-**	
	Tier 2 capital (T2)	**1,196**	
Total capital (TC = T1 + T2)		**37,319**	

Basel II Pillar III and Basel III Report (continued)

31 December 2018

17. BASEL III CAPITAL DISCLOSURE (continued)

17.2 Main Features of Regulatory Capital

Year ended 31 December 2018

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

Basel II Pillar III and Basel III Report (continued)

31 December 2018

17. BASEL III CAPITAL DISCLOSURE (continued)

17.3 BASEL III common disclosure template

	Basel III common disclosure template	(RO' 000)
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital plus related stock surplus	25,000
2	Retained earnings	11,988
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)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**36,988**
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	(462)
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(403)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-
14	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 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)	-
20	Mortgage servicing rights(amount above 10% threshold)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	**Total regulatory adjustments to Common equity Tier 1**	(865)
29	**Common Equity Tier 1 capital (CET1)**	**36,123**
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-

Basel II Pillar III and Basel III Report (continued)

31 December 2018

17. BASEL III CAPITAL DISCLOSURE (continued)

17.3 BASEL III common disclosure template (continued)

	Basel III common disclosure template	(RO' 000)
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	**Additional Tier 1 capital before regulatory adjustments**	-
	Additional Tier 1 capital before regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial 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	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	-
44	**Additional Tier 1 capital (AT1)**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**36,123**
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	Directly issued capital instruments subject to phase out from Tier 2	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Provisions (provision and fair value reserve)	1,196
51	**Tier 2 capital before regulatory adjustments**	**1,196**
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial 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	-
	- OF WHICH: [INSERT NAME OF ADJUSTMENT]	
	- OF WHICH: ...	
57	**Total regulatory adjustments to Tier 2 capital**	**-**
58	**Tier 2 capital (T2)**	**1,196**
59	**Total capital (TC = T1 + T2)**	**37,319**

Basel II Pillar III and Basel III Report (continued)

31 December 2018

17. BASEL III CAPITAL DISCLOSURE (continued)

17.3 BASEL III common disclosure template (continued)

	Basel III common disclosure template	(RO' 000)
60	**Total risk weighted assets**	280,638
60a	Of which: Credit risk weighted assets	263,677
60b	Of which: Market risk weighted assets	2,291
60c	Of which: Operational risk weighted assets	14,670
	Capital Ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.87%
62	Tier 1 (as a percentage of risk weighted assets)	12.87%
63	Total capital (as a percentage of risk weighted assets)	13.30%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.000%
65	of which: capital conservation buffer requirement	0.000%
66	of which: bank specific countercyclical buffer requirement	-
67	of which: G-SIB buffer requirement	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	2.30%
	National minima (if different from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.000%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.000%
71	National total capital minimum ratio (if different from Basel 3 minimum)	11.000%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	135
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,196
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	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

Basel II Pillar III and Basel III Report (continued)

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18 LIQUIDITY COVERAGE RATIO

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard" issued on 24 December 2014. The LCR disclosures is based on the average three month end data points.

	LIQUIDITY COVERAGE RATIO (LCR) **Common Disclosure Template**	**Total Unweighted Value (average)**	**(RO '000)** **Total Weighted Value (average)**
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)	-	49,574
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	56,882	4,423
3	Stable deposits	24,299	1,164
4	Less stable deposits	32,584	3,258
5	Unsecured wholesale funding, of which:	77,411	38,211
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	64,764	25,564
8	Unsecured debt	12,647	12,647
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	1,938	194
15	Other contingent funding obligations	11,550	11,550
16	**TOTAL CASH OUTFLOWS**		54,377
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	4,031	2,015
19	Other cash inflows	13,812	13,812
20	**TOTAL CASH INFLOWS**	17,843	15,828
			Total Adjusted Value
21	**TOTAL HQLA**		49,574
22	**TOTAL NET CASH OUTFLOWS**		38,550
23	**LIQUIDITY COVERAGE RATIO (%)**		128.60%

Basel II Pillar III and Basel III Report (continued)

31 December 2018

ISLAMIC NSFR

		No Maturity	<6 Months	6 Months to < 1 Year	>= 1 Year	Weighted Value
	ASF ITEM					
1	Capital	**37,319**	**-**	**-**	**-**	**37,319**
2	Regulatory Capital	37,319	-	-	-	37,319
3	Other Capital Instruments	-	-	-	-	-
4	Retail Deposits and Deposits from small Business Customers	**55,713**	**1,521**	**4,266**	**-**	**55,941**
5	Stable Deposit	11,719	61	37	-	11,227
6	Less Stable Deposit	43,994	1,460	4,229	-	44,714
7	Wholesale Funding	**54,152**	**37,931**	**31,329**	**-**	**61,706**
8	Operational	-	-	-	-	-
9	Other Wholesale Funding	54,152	37,931	31,329	-	61,706
10	Liabilities with matching interdependent Assets	-	-	-	-	-
11	Other Liabilities	-	-	-	83,216	83,216
12	NSFR Derivative Liability	-	-	-	-	-
13	All other liabilities and equities not included in above categories	47,288	-	-	-	-
14	Total ASF	**-**	**-**	**-**	**-**	**238,182**
	RSF ITEMS					
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	-
16	Deposits held at other financial institutions for operational purposes	1,673	-	-	-	837
17	Performing Loans and Securities	-	-	-	-	-
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-
20	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	15,002	15,759	206,238	190,683
21	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	62,198	40,429
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	131	-	1,613	1,437
25	Assets with matching interdependent liabilities	-	-	-	-	-

Basel II Pillar III and Basel III Report (continued)

31 December 2018

ISLAMIC NSFR (continued)

		No Maturity	<6 Months	6 Months to < 1 Year	>= 1 Year	Weighted Value
26	Other Assets:	-	-	-	-	-
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	38,524	-	14,419	2,449
32	Off-balance sheet items	-	7,264	3,950	1	561
33	Total RSF	**-**	**-**	**-**	**-**	**236,394**
34	**NET STABLE FUNDING RATIO**	**-**	**-**	**-**	**-**	**100.76%**

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, CBO circular dated march 20, 2018 and BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard" issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated October 26, 2016.

For Al Hilal Islamic Banking Services – Ahli Bank SAOG

Hamdan Ali Nasser Al Hinai
Chairman
Date: 28 January 2019