

Basel II Pillar III & Basel III
Report of the Bank
FOR THE YEAR ENDED 31 DECEMBER 2015

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

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular No. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Ahli Bank SAOG (the bank) set out on pages 3 to 27 as at and for the year ended 31 December 2015. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular number 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular No. BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and BM 1114 dated 17 November 2013.

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2015 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank



29 February 2016
Muscat



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1. INTRODUCTION

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

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

2. SCOPE

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

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

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

3. Capital Management

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

The Bank has following credit ratings at present:

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

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

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

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

The Bank’s Finance department monitors and reports the planned versus actual position, to ensure that the Bank is always adequately capitalized. Risk weighted assets and capital are monitored by the Risk Management department also periodically to assess the quantum of capital available to support assets growth and optimally deploy capital to achieve targeted returns.

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

	RO '000s
Tier I capital	205,972
Tier II capital	44,578

Capital adequacy

The Bank uses a prudential building-block approach as the measurement technique to assess capital adequacy for current and future activities, which is compared with the consolidated eligible capital.

The Bank's capital management framework sets out to define, measure, raise and deploy capital in a coordinated and consistent manner. Its objective is to maximize its return on capital and, at the same time, provide an adequate cushion to cover any unexpected losses. The Bank manages its capital in an integrated manner with the aim of maintaining strong capital ratios and high ratings. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders and senior creditors), and supporting future business growth. The cost of capital and its composition in terms of its quality and stability is also considered.

The Bank follows a capital adequacy framework to link the Bank's annual budget projections and the capital required to achieve business objectives. It is determined by the Bank's strategic planning objectives and capital planning framework. Capital requirements are assessed for credit, operational, market, liquidity and interest rate risks. The Bank follows the standardized approach for implementing Basel II and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures.

Tier II Capital

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

The Bonds and the loan constitute direct, unconditional, subordinated and unsecured obligations of the Issuer,

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

Internal Capital Adequacy Assessment Process (ICAAP)

In addition to Pillar I under the Base Case, the Bank also calculates the internal capital requirements for Pillar II risks (i.e. liquidity risk, Interest Rate Risk, concentration risk and other risks including strategic, reputational, legal risks, etc.), and has completed the ICAAP exercise for years 2014-2018.

Liquidity Risk

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

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

Interest Rate Risk in the Banking Book

The Bank monitors its interest rate risk in the banking book through performing repricing gap analysis of interest rate sensitive assets and liabilities. Under repricing gap analysis, the Bank distributes interest rate sensitive assets and liabilities into time bands according to their maturity (if fixed rate) or time remaining to their next repricing (if floating rate). The size of the gap for a given time period – that is assets minus liabilities that reprice or mature within that time band – gives an indication of the Bank's repricing risk exposure.

The Bank evaluates the effect of a parallel shift in yield curve on its economic value by applying a proxy for modified duration multiplied by the assumed parallel change in interest rates to the gap under each time band.

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Concentration Risk

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

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

Other Risks

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

Stress Testing

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

The following stress scenarios are applied:

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

4. Risk management of the Bank

Risk Management Principles

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

The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions, and its credit and operational activities do not expose it to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, relative to the Bank's capital and financial positions.

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

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

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

Primary responsibility for the management of risk lies with the business and operational areas responsible for the generation of risk exposure. Risk management provides an in-depth check against risk decisions and an ongoing platform to evaluate, monitor and sanction risk at the individual transaction and overall portfolio level.

Risk Management Structure

The Bank's risk management department reports directly to the Executive Risk Committee (a Board Committee).

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



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Risk framework

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

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

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

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

Policies and Procedures:

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

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

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

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

5. CREDIT RISK

Credit Risk Principles

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

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

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

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

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

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

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

Credit Risk Management

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

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

Transaction risk is concerned with the credit risk of a single counter-party. Risk Management ensures that credit is underwritten according to approved standards and that

all risks are highlighted in the credit risk review, including policy exceptions. It includes analyzing and reporting on the nature of on- and off-balance sheet counter-party exposure (size, tenor, complexity and liquidity), including secured and unsecured credit facilities.

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

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

Past due credit exposures

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

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

Structure for credit risk approval



The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board of Directors based on the product category like Commercial Banking Lending, Country Limits or Limits for lending to Banks / FIs or Sovereigns and also lending related to the Bank's brokerage activities, the legal nature of the borrowers and their credit risk rating. In the case of a 'split rating' from approved external rating agencies such as S&P, Fitch or Moody's the lower rating normally applies.

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

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

Credit risk mitigation:

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

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

The Bank normally accepts the following types of collateral:

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

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

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The fair value of collateral that the Bank held as at 31 December 2015 towards loan and advances not impaired amounted to RO 999.253 million.

6. Operational risk

Operational Risk Framework

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

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

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

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

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

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

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

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Control and Mitigation of Operational Risk

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

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

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

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

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

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

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

Reputation risk

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

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

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

Business Continuity

The Bank has documented the Business Continuity Policy (BCP) which outlines the Business Continuity process to be followed in a disaster scenario, and undertakes comprehensive testing of all its critical systems and processes. The BCP aims to minimize the severity and impact of a disaster while continuing to serve both the business and customers with a lowest achievable detriment in service. The plan considers the following:

- Disaster scenarios and magnitude
- Various steps to mitigate the risk
- Impact on the Bank's business and operations
- The resources required for resuming the operations at the earliest possible time following the disaster
- Operating processes and available systems at the Disaster Recover (DR) site

During the year 2015, the Bank has carried out a comprehensive BCP test and the test results were submitted to the Board.

7. MARKET RISK

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

Market Risk Management Framework

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

Shares and investments

The Bank has direct investment in shares to generate sustainable dividend income by identifying high dividend yield shares. The Bank has investments in 31 companies listed on the Muscat Securities Market and the balance as of 31 December 2015 stood at RO 5,916,742 which generated dividend income of RO 296,843. In addition, the Bank had generated a realized profit of RO 13,005. The Bank also has investments in other GCC listed companies and the balance as of 31 December 2015 is RO 850,394.

In its Islamic Window Al Hilal, the Bank has no direct investment in shares but has invested in the Al Hilal MENA Fund (an Islamic Fund managed by the Asset Management Division of Ahli Bank SAOG). The investments as of 31 December 2015 stood at RO 194,885.

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-

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price in a given period. The Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect the Bank's net interest income. Interest rate risk is measured as the potential volatility in net interest income caused by changes in market interest rates. The Bank manages this risk by matching or hedging the re-pricing profile of assets and liabilities through various risk management strategies.

Interest Rate Risk in Banking Book (IRRBB)

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

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

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

Interest Rate Risk in Trading Book

Interest rate risk in the trading book arises from the sensitivity of interest bearing instruments to interest rate volatility. Interest rate risk in the trading book is monitored through notional exposure limits, stop loss limits, and maximum maturity limits, and is marked to market.

Foreign Exchange Risk

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

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

Investments in the banking book

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

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

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

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

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

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

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

- a. Trading and retailing
- b. Real Estate development, management and rental income
- c. Construction / contracting and building materials
- d. Travel / tourism, hotels, restaurants, entertainment, health services and education
- e. Warehousing / storage, logistics, supply management and transportation, utilities and Telecom

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

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

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

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

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

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

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

8. Liquidity risk

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

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

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

- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- As per the Central Bank of Oman (CBO) directives, the Bank keeps at least 5% of its deposit liabilities with CBO in the form of clearing balances
- Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

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

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

Liquidity Management Policy

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

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

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

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

Stock of Liquid Assets

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

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

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.

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Diversification of liabilities

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

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

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

Multi-currency liquidity

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

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

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

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

Limit breaches

All liquidity limit breaches are notified to the Treasurer, the Head of Finance, Head of Risk Management and ALCO members at the earliest possible opportunity. The notification includes:

- The cause of the breach
- The remedial action taken
- The expected duration of the breach if still current.

Immediate action is taken to remedy the breach. Should such action not be possible, the ALCO and the CEO are notified.

9. Maturity Profile of Assets and Liabilities

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

10. Sensitivity analysis of Interest Rate Risk

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

11. Subsidiaries and significant investments

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2015 (except the listed equity investments as mentioned in 7 above).

12. Disclosure tables

1. Capital Adequacy Disclosures (RO '000)

As on 31 December 2015				
Sl. No.	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balance sheet items	1,920,878	1,898,265	1,532,695
2	Off-balance sheet items	174,200	174,200	58,627
3	Total	<u>2,095,078</u>	<u>2,072,465</u>	<u>1,591,322</u>
4	Tier 1 Capital			205,972
5	Tier 2 Capital			44,578
6	Tier 3 Capital			-
7	Total Regulatory Capital			<u>250,550</u>
7.1	Capital requirement for credit risk (including CCB)			200,904
7.2	Capital requirement for market risk (including CCB)			6,253
7.3	Capital requirement for operational risk (including CCB)			11,291
8	Total required capital (including CCB)			<u>218,448</u>
9	Tier 1 Ratio			11.90%
10	Total Capital Ratio			14.48%

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2. Capital Break (RO '000)

Sl. No.	Elements of capital	Amount
Tier I Capital		
1	Paid-up capital	142,504
2	Share premium	-
3	Legal reserves	20,029
4	General reserves	-
5	Subordinated loan reserve	40,337
6	Stock dividend	-
7	Retained earnings *	3,567
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable Reserve	-
	Total Gross Tier I Capital	206,437
Deductions		
10	Goodwill	-
11	Deferred Tax Asset	-
12	Intangible Assets, including losses, cumulative unrealised losses recognised directly in equity	(465)
13	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	-
	sub-total	(465)
14	Tier I capital after the above deductions	205,972
15	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
16	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-
17	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
18	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	sub-total	-
19	Tier I capital after all deductions	205,972
Tier II Capital		
20	Undisclosed reserves	-
21	Revaluation reserves / cumulative fair value gains or losses on available for sale instruments	233
22	General loan loss provisions / Collective provision	19,682
23	Subordinated debt	24,663
24	Hybrid debt capital instruments	-
25	Total Tier II capital	44,578
Deductions		
26	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-

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

Sl. No.	Elements of capital	Amount
27	50% of significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-
28	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
29	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	Total deductions from Tier II	-
	Tier II Capital (Net)	44,578
30	Tier III Capital (eligible)	-
31	Total Regulatory Capital	250,550

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

Sl. No.	Details	Simple Approach
As on 31 December 2015		
1	Tier I Capital (after supervisory deductions)	205,972
2	Tier II capital (after supervisory deductions and up to eligible limits)	44,578
3	Tier III Capital (up to a limit where Tier II and Tier III does not exceed Tier I)	-
4	Of which, total eligible tier III capital	-
5	Risk weighted assets – banking book	1,591,322
6	Risk weighted assets – operational risk	89,430
7	Total Risk Weighted Assets – Banking Book + Operational Risk	1,680,752
8	Minimum required capital to support RWAs of banking book and operational risk (including CCB)	212,195
	i) Minimum required Tier I Capital for banking book and operational risk (including CCB)	167,617
	ii) Tier II Capital required for banking book and operational risk	44,578
9	Tier I capital available for supporting trading book	38,355
10	Tier II capital available for supporting trading book	-
11	Risk Weighted Assets – trading book	49,528
12	Total capital required to support trading book	6,253
13	Minimum Tier I capital required for supporting trading book	1,782
14	Used Eligible Tier III Capital	-
15	Total Regulatory Capital	250,550
16	Total Risk Weighted Assets – Whole bank	1,730,280
17	BIS Capital Adequacy Ratio	14.48%
18	Unused but eligible Tier III Capital	-

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

Sl. No.	Type of credit exposure	Average Gross Exposure		Total Gross Exposure	
		31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
1	Overdrafts	25,159	19,643	26,698	20,845
2	Personal loans	636,767	530,537	646,732	593,864
3	Other loans	845,251	680,601	867,235	792,454
	Total	1,507,177	1,230,781	1,540,665	1,407,163

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

Sl. No.	Economic sector	As on 31 December 2015			
		Overdraft	Loans	Total	Off-balance sheet exposures *
1	Wholesale and retail trade	4,293	137,343	141,636	22,287
2	Mining and quarrying	1,334	54,988	56,322	3,813
3	Construction	11,912	251,742	263,654	92,354
4	Manufacturing	2,871	83,035	85,906	4,885
5	Financial Institutions	21	101,267	101,288	-
6	Services	5,202	103,389	108,591	9,577
7	Transport and Communication	-	65,835	65,835	50
8	Personal loans	975	646,716	647,691	-
9	Non-resident lending	-	32,575	32,575	-
10	Others	90	37,077	37,167	77,550
	Total	26,698	1,513,967	1,540,665	210,516

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

6. Credit risk maturity exposure (RO '000)

Sl. No.	Time Band	As on 31 December 2015			
		Overdraft	Loans	Total	Off-balance sheet exposures
1	Up to 1 month	1,335	135,411	136,746	90,035
2	1 - 3 months	1,335	250,851	252,186	41,802
3	3 - 6 months	1,335	49,565	50,900	18,621
4	6 - 9 months	1,335	43,928	45,263	7,196
5	9 - 12 months	1,335	23,698	25,033	12,385
6	1 - 3 years	6,675	135,265	141,940	39,669
7	3 - 5 years	6,674	95,803	102,477	808
8	Over 5 years	6,674	779,446	786,120	-
	Total	26,698	1,513,967	1,540,665	210,516

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Gross exposure: Provisioning distribution (RO '000)

		As on 31 December 2015						
Sl. No.	Economic sector	Gross loans	Of which, NPLs	Portfolio - based provision / reserves*	Specific provision held	Reserve interest	Provision / reserve made during the year	Advances written off, net during the year
1	Wholesale and retail trade	141,636	305	1,388	104	21	(1,292)	-
2	Mining and quarrying	56,322	-	563	-	-	173	-
3	Construction	263,654	3,575	2,602	1,151	239	866	-
4	Manufacturing	85,906	-	859	-	-	(106)	-
5	Financial institution	101,288	-	973	-	-	220	-
6	Services	108,591	3,607	1,114	1,086	481	1,007	-
7	Transport & Communication	65,835	-	658	-	-	63	-
8	Personal Loans*	647,691	8,948	10,826	5,921	471	3,487	812
9	Non-Resident Lending	32,575	-	326	-	-	79	-
10	Others	37,167	-	372	-	-	247	-
	Total	1,540,665	16,435	19,682	8,262	1,212	4,745	812

* The bank has set aside an amount of RO 6.543 million as a non-distributable loan loss reserve towards the CBO non-specific position requirements at 31 December 2015.

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

		As on 31 December 2015						
Sl No.	Countries	Gross loans	Of which, NPLs	Portfolio - based provision / reserves*	Specific provision held	Reserve interest	Provisions made during the year	Advances written off, net during 2015
1	Oman	1,508,090	16,435	19,356	8,262	1,212	4,666	812
2	Other Countries	32,575	-	326	-	-	79	-
	Total	1,540,665	16,435	19,682	8,262	1,212	4,745	812

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

		As on 31 December 2015				
Sl No.	Details	Performing loans	Sub- Standard	Doubtful	Loss	Total
1	Opening balance	1,393,452	2,784	2,571	8,356	1,407,163
2	Migration / changes (+/-)	(4,106)	(612)	86	4,632	-
3	New loans	332,699	-	-	407	333,106
4	Recovery of loans	(197,815)	(148)	(66)	(246)	(198,275)
5	Loans written off	-	-	(108)	(1,221)	(1,329)
6	Closing balance	1,524,230	2,024	2,483	11,928	1,540,665
7	Provisions / reserves	20,523	502	1,161	5,758	27,944
8	Reserve interest	-	26	67	1,119	1,212

13. Basel III Capital Disclosure

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

13.1 THE 3 STEP APPROACH TO RECONCILIATION

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114. In step 1, the accounting consolidation is identical to regulatory consolidation therefore the capital reconciliation is started from step 2 onwards.

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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 2015	Published financial statements	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	123,700	123,700	
Balance with banks and money at call & short notice	60,377	60,377	
Investments, of which:	160,334	160,334	
Available for Sale	105,399	105,399	
Held for Trading	54,935	54,935	
Loans and advances – Net, of which:	1,518,052	1,518,052	
- Loans and advances to domestic banks	-	8,008	
- Loans and advances to non-resident banks	-	4,242	
- Loans and advances to domestic customers	-	1,253,229	
- Loans and advances to non-resident for operations abroad	-	24,345	
- Loans and advances to SMEs	-	33,001	
- Financing from Islamic banking window	-	217,840	
Provision against Loans and Advances, of which:	-	(22,613)	
- Specific provision and Reserve interest & profit	-	(9,474)	
- General provision, amount eligible for T2	-	(13,139)	a
Fixed assets	17,604	17,604	
Other assets	18,198	18,198	
Total Assets	1,898,265	1,898,265	
Capital & Liabilities			
Paid-up Capital, of which:	142,504	142,504	
- Amount eligible for CET1	-	142,504	b
Reserves & Surplus; of which:	84,779	84,779	
- Amount eligible for CET1 (Legal reserve)	20,029	20,029	c
- Amount eligible for CET1 (Subordinated debt reserve)	40,337	40,337	d
- Amount eligible for CET1 (Retained earnings)	17,817	3,567	e
- Proposed cash dividend (Removed from retained earnings)	-	14,250	
- Amount eligible for T2 (General loan loss reserve)	6,543	6,543	f
- Amount eligible for T2 (Investments Fair value gains)	53	233	g
- AFS investments fair value loss (CET1 adjustment)	-	(465)	h
- AFS investments fair value gain unutilized	-	285	
Total Capital	227,283	227,283	
Deposits from banks	217,709	217,709	
Customer deposits, of which:	1,300,837	1,300,837	
- Deposits for customers	-	1,146,194	
- Deposits of Islamic Banking window	-	154,643	
Borrowings, of which:	48,125	48,125	
- From banks	-	48,125	
Borrowings in form of bonds, Debentures & sukuks, of which:	65,000	65,000	
- Amount eligible for T2	-	24,663	i
- Amount ineligible for T2	-	40,337	
Other liabilities & provisions	39,311	39,311	
TOTAL	1,898,265	1,898,265	

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Step 3: Step Reconciliation of Regulatory Capital:

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

	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	142,504	b
2	Retained earnings	3,567	e
3	Accumulated other comprehensive income (and other reserves)	60,366	c+d
4	Common Equity Tier 1 capital before regulatory adjustments	206,437	
5	Prudential valuation adjustments	(465)	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	(465)	
8	Common Equity Tier 1 capital (CET1)	205,972	
Additional Tier 1 capital: instruments			
9	Additional Tier 1 capital (AT1)	-	-
	Tier 1 capital (T1 = CET1 + AT1)	205,972	
Tier 2 capital: instruments and provisions			
10	Directly issued qualifying Tier 2 instruments plus related stock surplus	24,663	i
11	Provisions	19,682	a+f
12	Fair value reserve of AFS investments	233	g
	Tier 2 capital before regulatory adjustments	44,578	
	Tier 2 capital: regulatory adjustments	-	
	Tier 2 capital (T2)	44,578	
	Total capital (TC = T1 + T2)	250,550	

13.2 MAIN FEATURES OF REGULATORY CAPITAL

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

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

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13.2 MAIN FEATURES OF REGULATORY CAPITAL (continued)

	Common Equity Share Capital	Subordinated Bonds	Subordinated debt	Subordinated debt	
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	RO 142.504 million	-	RO 1.820 million	RO 22.843 million
9	Par value of instrument	RO 142.504 million	RO 35.000 million	RO 5.000 million	RO 25.000 million
10	Accounting classification	Shareholders' Equity	Liability amortised cost	Liability amortised cost	Liability amortised cost
11	Original date of issuance	Bank started operations in 1997	16-Dec-10	26-Oct-10	*Refer to the below table
12	Perpetual or dated	Perpetual	Dated	Dated	Dated
13	Original maturity date	No maturity	15-Dec-17	26-Oct-17	*Refer to the below table
14	Issuer call subject to prior supervisory approval	No	Yes	No	No
15	Optional call date, contingent call dates and redemption amount	NA	16-Dec-15	NA	NA
16	Subsequent call dates, if applicable	NA	NA	NA	NA
Coupons / dividends					
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed
18	Coupon rate and any related index	NA	5.50%	5.75%	4% - 5%
19	Existence of a dividend stopper	NA	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Partially discretionary	Partially discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible
24	If convertible, conversion trigger (s)	NA	NA	NA	Statutory Approach
25	If convertible, fully or partially	NA	NA	NA	May convert fully or partially
26	If convertible, conversion rate	NA	NA	NA	Average price
27	If convertible, mandatory or optional conversion	NA	NA	NA	Optional
28	If convertible, specify instrument type convertible into	NA	NA	NA	CET 1
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA	Ahli Bank
30	Write-down feature	Yes	No	No	Yes
31	If write-down, write-down trigger(s)	Statutory approach	Contractual approach	Contractual approach	Statutory approach
32	If write-down, full or partial	Write down fully	May be written down partially	May be written down partially	May be written down partially
33	If write-down, permanent or temporary	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Common Equity Share Capital	Common Equity Share Capital	Common Equity Share Capital
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	NA	NA	NA	NA

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13.2 MAIN FEATURES OF REGULATORY CAPITAL (continued)

Number Of Subordinated debt (as per Basel III)	Par value of instrument	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	*Original date of issuance	**Original maturity date
Subordinated debt 1	5,000	3,657	28-Aug-14	29-Aug-19
Subordinated debt 2	1,000	1,000	30-Sep-14	30-Sep-21
Subordinated debt 3	5,000	5,000	01-Oct-14	02-Oct-21
Subordinated debt 4	5,000	4,863	10-Nov-14	10-Nov-20
Subordinated debt 5	1,000	772	13-Nov-14	16-Nov-19
Subordinated debt 6	2,000	1,551	17-Nov-14	18-Nov-19
Subordinated debt 7	3,000	3,000	10-Jun-15	13-Jun-22
Subordinated debt 8	3,000	3,000	30-Jun-15	29-Jun-21
Total	25,000	22,843		

13.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE

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

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)

AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT (RO'000)

Common Equity Tier 1 capital: instruments and reserves

1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	142,504
2	Retained earnings	3,567
3	Accumulated other comprehensive income (and other reserves)	60,366
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)</i>	-
	Public sector capital injections grandfathered until 1 January 2018	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	Common Equity Tier 1 capital before regulatory adjustments	206,437
7	Prudential valuation adjustments	(465)
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage Servicing rights (amount above 10% threshold)	-

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13.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

		AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT
Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)	(RO'000)	
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22 Amount exceeding the 15% threshold	-	
23 of which: significant investments in the common stock of financials	-	
24 of which: mortgage servicing rights	-	
25 of which: deferred tax assets arising from temporary differences	-	
26 National specific regulatory adjustments	-	
REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE BASEL III TREATMENT		
Of which: [INSERT NAME OF ADJUSTMENT]	-	
Of which: [INSERT NAME OF ADJUSTMENT]	-	
OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	
27 Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28 Total regulatory adjustments to Common equity Tier 1	(465)	
29 Common Equity Tier 1 capital (CET1)	205,972	
Additional Tier 1 capital: instruments		
30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31 of which: classified as equity under applicable accounting standards 5	-	
32 of which: classified as liabilities under applicable accounting standards 6	-	
33 <i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-	
34 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35 <i>of which: instruments issued by subsidiaries subject to phase out</i>	-	
36 Additional Tier 1 capital before regulatory adjustments	-	
37 Investments in own Additional Tier 1 instruments	-	
38 Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39 Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40 Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41 National specific regulatory adjustments	-	
REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		
OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	
OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	
OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	
42 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43 Total regulatory adjustments to Additional Tier 1 capital	-	
44 Additional Tier 1 capital (AT1)	-	
45 Tier 1 capital (T1 = CET1 + AT1)	205,972	
Tier 2 capital: instruments and provisions		
46 Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47 <i>Directly issued capital instruments subject to phase out from Tier 2*</i>	24,663	
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)	-	

* Subordinated debt of RO 5 million, raised in 2010; recognized in T2 RO 1.820 million; 100% phase out by end of 2017
Subordinated debt of RO 25 million, raised in 2014-15; recognized in T2 RO 22.843 million;

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13.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)	(RO'000)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT
49 <i>of which: instruments issued by subsidiaries subject to phase out</i>	-	
50 Provisions	19,915	
51 Tier 2 capital before regulatory adjustments	44,578	
Tier 2 capital: regulatory adjustments		
52 Investments in own Tier 2 instruments	-	
53 Reciprocal cross-holdings in Tier 2 instruments	-	
54 Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55 Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56 National specific regulatory adjustments	-	
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	
OF WHICH: [INSERT NAME OF ADJUSTMENT]		
OF WHICH: [INSERT NAME OF ADJUSTMENT]		
OF WHICH: [INSERT NAME OF ADJUSTMENT]		
57 Total regulatory adjustments to Tier 2 capital	-	
58 Tier 2 capital (T2)	44,578	
59 Total capital (TC = T1 + T2)	250,550	
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	1,730,280	
OF WHICH: [INSERT NAME OF ADJUSTMENT]		
OF WHICH: ...		
60 Total risk weighted assets (60a+60b+60c)	1,730,280	
60a <i>Of which: Credit risk weighted assets</i>	1,591,322	
60b <i>Of which: Market risk weighted assets</i>	49,528	
60c <i>Of which: Operational risk weighted assets</i>	89,430	
Capital Ratios		
61 Common Equity Tier 1 (as a percentage of risk weighted assets)	11.90%	
62 Tier 1 (as a percentage of risk weighted assets)	11.90%	
63 Total capital (as a percentage of risk weighted assets)	14.48%	
64 Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.625%	
65 <i>of which: capital conservation buffer requirement</i>	0.625%	
66 <i>of which: bank specific countercyclical buffer requirement</i>	-	
67 <i>of which: D-SIB/G-SIB buffer requirement</i>	-	
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	2.480%	
National minima (if different from Basel III)		
69 National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.625%	
70 National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.625%	
71 National total capital minimum ratio (if different from Basel 3 minimum)	12.625%	

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13.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

Amounts below the thresholds for deduction (before risk weighting)

72	Non-significant investments in the capital of other financials	2,628
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)	19,682
77	Cap on inclusion of provisions in Tier 2 under standardised approach	19,892
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)	-

14. BASEL III LIQUIDITY DISCLOSURE

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

LIQUIDITY COVERAGE RATIO (LCR) Common Disclosure Template

		(RO '000)	
		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		184,841
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	125,827	10,322
3	Stable deposits	42,152	1,954
4	Less stable deposits	83,675	8,368
5	Unsecured wholesale funding, of which:	336,783	193,366
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	236,190	92,773
8	Unsecured debt	100,593	100,593
9	Secured wholesale funding		37,117
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	69,175	6,918
15	Other contingent funding obligations	85,109	4,255
16	TOTAL CASH OUTFLOWS		251,978

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LIQUIDITY COVERAGE RATIO (LCR) Common Disclosure Template (continued)

		(RO '000)	
		Total Unweighted Value (average)	Total Weighted Value (average)
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	134,640	67,320
19	Other cash inflows	60,380	50,278
20	TOTAL CASH INFLOWS	195,020	117,597
			Total Adjusted Value
21	TOTAL HQLA		184,841
22	TOTAL NET CASH OUTFLOWS		134,380
23	LIQUIDITY COVERAGE RATIO (%)		137.6%

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

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

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

For Ahli Bank SAOG



Hamdan Ali Nasser Al Hinai

Chairman

Date: 28th January 2016