

Basel II Pillar III and Basel III Report

31 December 2018



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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

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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.

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.

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3. CAPITAL STRUCTURE (continued)

Capital Management

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

The Bank has following credit ratings at present:

Capital Intelligence		Fitch Rating	
Financial strength rating	BBB-	Viability rating	bb+
Foreign currency Long Term Rating	BBB-	Long term foreign currency and local currency IDRs	BB+
Foreign currency Short term	A3	Short term foreign currency and local currency IDRs	B
Support rating	3	Support rating	3
Outlook	Stable	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 Additional Tier I Capital	(11,535)
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)

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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.

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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%

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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.

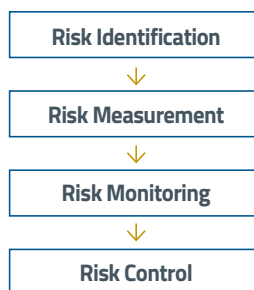
Having identified the risks, the RMD formulate policies and procedures taking into account regulatory requirements and best international practices, so as to monitor and control the risks within pre-determined acceptable limits.

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 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

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4. RISK EXPOSURE AND ASSESSMENT (continued)

Policies and Procedures

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

- | | |
|--|--|
| 1. Anti-Money Laundering Manual | 21. Operational Risk Policy & Procedure |
| 2. Personal Account Dealing Policy | 22. Fraud Risk Management Policy |
| 3. New Product Committee and Procedures | 23. Liquidity and Funding Policy |
| 4. Voice Recording Policy | 24. Trading Book Policy |
| 5. Compliance Policy | 25. Risk Management-Approach & Framework |
| 6. Communications Policy | 26. Social and Environment Management System |
| 7. Corporate Governance Policy | 27. Security and Safety Policy and Plan |
| 8. Corporate Social Responsibility Policy | 28. Asset Management Policy |
| 9. Dividend Policy | 29. Brokerage Policy |
| 10. Expenses Policy | 30. FATCA Policy |
| 11. Capital Management Policy | 31. Customer Complaints Redressal Policy |
| 12. Disclosure Policy | 32. Profit Distribution Policy |
| 13. Board Remuneration Policy | 33. Charity Policy |
| 14. Financial Institutions Policy | 34. Zakah Policy |
| 15. Human Resources Policy | 35. Cost Sharing Policy |
| 16. Outsourcing Policy | 36. Segregation of Funds Policy |
| 17. Code of Business Conduct | 37. Social Media Policy |
| 18. Information Security Management Policy | 38. Shari'a Governance Manual |
| 19. Business Continuity Management | 39. Third Party Risk Management Policy |
| 20. Credit and Investment Policy | |

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

The bank has exposure to the following risks:

5. CREDIT RISK

Qualitative Disclosure

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

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

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

All corporate, bank and sovereign credit requires independent credit risk review to be approved by 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.

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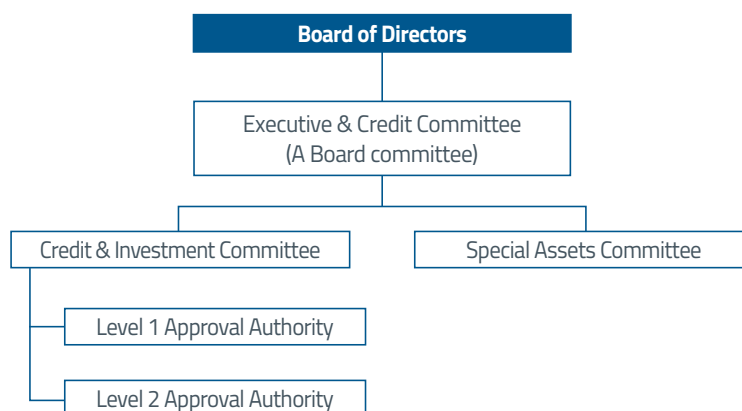
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5. CREDIT RISK (continued)

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.

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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)

Sl. No.	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		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

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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			Others	Total
			Countries	OECD countries	India		
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

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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)

Sl. No.	Details	Performing Loans		Non-Performing Loans	Total
		Stage 1	Stage 2	Stage 3	
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 ensure appropriate risk limits are in place and reports the same to appropriate authorities.

Foreign Exchange Risk

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

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

The Bank treats its entire Foreign Exchange Exposure under Basel II Standardized method for capital calculation. The Net open position in all foreign currencies stands at RO 63.859 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. Positions 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)

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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)

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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 & sukus, 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		-	
- Stage 1 / 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)

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11. BASEL III CAPITAL DISCLOSURE (continued)

11.2 Main features of regulatory capital

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

	Common Equity Share Capital	Subordinated debt (Basel III)	Perpetual subordinated bonds (Additional Tier 1)	Perpetual subordinated bonds (Additional Tier 1)
1 Ahli Bank SAOG				
2 Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA
3 Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4 Transitional Basel III rules	Common Equity Tier 1	Tier II	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 Coupons / dividends	NA	NA		
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)

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

Number Of Subordinated debt (as per Basel III)	Par value of instrument	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	*Original date of issuance	**Original maturity date
Subordinated debt 1	5,000	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.

	(RO' 000)	
Common Equity Tier 1 capital: instruments and reserves		
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	<i>Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)</i>	-
5	<i>Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)</i>	-
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)

	(RO' 000)
Common Equity Tier 1 capital: instruments and reserves	
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	<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
	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	<i>Directly issued capital instruments subject to phase out from Tier 2</i>
	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	<i>of which: instruments issued by subsidiaries subject to phase out</i>
	-
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)

	(RO' 000)
Common Equity Tier 1 capital: instruments and reserves	
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 entities
57	Total regulatory adjustments to Tier 2 capital
58	Tier 2 capital (T2)
59	Total capital (TC = T1 + T2)
60	Total risk weighted assets
60a	<i>Credit risk weighted assets</i>
60b	<i>: Market risk weighted assets</i>
60c	<i>: Operational risk weighted assets</i>
Capital Ratios and buffers	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)
62	Tier 1 (as a percentage of risk weighted assets)
63	Total capital (as a percentage of risk weighted assets)
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)
65	of which: capital conservation buffer requirement
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)
National Minima (if difference from Basel 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)
71	National total capital minimum ratio (if different from Basel 3 minimum)
Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials
73	Significant investments in the common stock of financials
74	Mortgage servicing rights (net of related tax liability)
75	Deferred tax assets arising from temporary differences (net of related tax liability)
Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)
77	Cap on inclusion of provisions in Tier 2 under standardised approach
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)

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11. BASEL III CAPITAL DISCLOSURE (continued)

11.3 Disclosure template (continued)

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

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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.

Sr No.	Particulars	(All amounts in OMR'000)				Weighted Value
		No Maturity	<6 Months	6 Months to < 1 Year	>=1 Year	
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 circulars 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