OMAN ARAB BANK SAOC

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

IN TERMS OF CENTRAL BANK OF OMAN CIRCULAR BM 1027 DATED 4 DECEMBER 2007 & BM 1114 DATED 17 NOVEMBER 2013

Building a better working world

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PR No. HMH/15/2015; HMA/9/2015

REPORT ON FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF OMAN ARAB BANK SAOC IN RESPECT OF BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES

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

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2017 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Ernst & Young LLC

Muscat
6 March 2018

ارنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
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OMAN ARAB BANK SAOC

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENTS

A. SCOPE OF APPLICATION

Oman Arab Bank SAOC (the Bank) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. The Bank is a subsidiary of Oman International Investment and Development Company SAOG (OMINVEST) which owns 51% of the shares and the remaining 49% is owned by Arab Bank Plc, Jordan.

The Bank's objectives of capital management are:

- to comply with the capital requirements set by the regulator i.e. the Central Bank of Oman(CBO) ;
- to safeguard the Bank's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The Bank complies with CBO's requirements for the capital adequacy as specified in the Circular provided for the implementation of the Basel II accord.

Basel II Accord consists of three mutually reinforcing Pillars - Minimum Capital Requirements (First Pillar), Supervisory Review Process (Second Pillar) and Market Discipline (Third Pillar). Under the First Pillar, the new framework offers three distinct options, for computing capital requirements for credit and operational risks, respectively. The approaches for credit risk (Standardized, Internal Ratings-Based –Foundation and Advanced) and operational risk (Basic Indicator, Standardized and Advanced measurement) are based on increasing risk sensitivity and allow banks to choose any of the approaches that are most appropriate to their risk management practices.

B. CAPITAL STRUCTURE

The Bank's Tier 1 and Tier 2 capital are as follows

	RO '000
Paid up share capital	134,620
Legal reserve	38,476
General reserve	25,560
Special reserve	2,400
Subordinated Debt reserve	8,000
Other disclosed reserves	(1,845)
Other intangibles	(113)
Retained earnings	53,169
Perpetual Bonds	30,000
Tier 1 Capital	**290,267**
Collective impairment provisions for loan losses on portfolio basis	20,756
Subordinated term debt	12,000
Tier 2 Capital	**32,756**
Total Capital	**323,023**

<u>Tier 1 Capital</u>

The authorised capital of the Bank is RO 200,000,000 and the issued share capital comprises 1,346,200,000 fully paid shares of RO 0.100 each. In accordance with Article 106 of the Omani Commercial Companies Law of 1974, the Bank is required to transfer 10% of its profit after tax for the year to the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank’s paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency.

B. CAPITAL STRUCTURE (continued)

The subordinated debt reserve has been created by a transfer of 20% of the subordinated bonds out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated bonds which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated bonds.

Additional Tier 1 Capital

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.

The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion on 29 January 2021 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

Tier 2 Capital

Tier 2 Capital consists of the Subordinated Bonds, provision for loan impairment on collective portfolio basis as required by the CBO and cumulative fair value gains on investments available for sale as allowed under the guidelines for Basel II by CBO.

The Bank issued non-convertible unsecured subordinated bonds of RO 50 Million (50,000,000 units of RO 1 each) for a tenor of five years and one month in April 2012 through private placement. These bonds matured in May 2017.

The Bank obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity.

The provisions are made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

C. CAPITAL ADEQUACY

Qualitative disclosures

Basel II provides a range of options for determining the regulatory capital requirements for credit and operational risks. It allows the banks and the supervisors to select approaches that seem most appropriate for the level of sophistication of the banks' activities, financial market infrastructure and risk management practices.

The Bank has chosen the following approaches for determining the regulatory capital with the approval of Central Bank of Oman:

i. Standardized Approach for the credit risk with a simplified approach for the risk weighting of collaterals under the credit risk mitigation and
ii. Basic Indicator approach for the operational risk.

The Bank's Board of Directors reviews the capital requirements based on the strategic plan of the Bank. This is reviewed periodically based on the current market and economic conditions. While formulating the Bank's strategic plans, the Bank's management takes into account forward-looking factors such as changes in the economic conditions, market and liquidity conditions. The Bank's current and future capital requirements are calculated in relation to its strategic business objectives. The strategic plan delineates the Bank's short-term and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels, and capital sources. The Bank prepares its capital planning and operational budgeting on an annual basis.

Management considers that the Bank has adequate systems for monitoring and reporting risk exposures. The capital needs are assessed based on changes in the Bank's risk profile. The Board of Directors and the senior management receive regular reports or updates on the Bank's risk profile and capital needs through the Assets and Liabilities Committee (ALCO), Management Credit Committee (MCC) and directly from the Risk Management Department. This information is used to:

a. evaluate the level and trend of material risks and their effect on capital requirements;
b. evaluate the sensitivity and reasonableness of the main assumptions used in the capital measurement system;
c. determine that the Bank holds sufficient capital against various risks;
d. determine that the Bank meets its internal capital adequacy goals; and
e. assess its future capital requirements based on the Bank's reported risk profile and in turn make necessary adjustments to the Bank's strategic plan.

The Management is in the process of setting the policies and procedures to progressively move to the advanced approaches set out in Basel II for the capital measurement.

Quantitative disclosure

Table 1

2017

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	2,189,460	2,201,528	1,547,474
2	Off -Balance sheet Item	897,448	395,619	321,297
	Assets for Operations risk	143,438	143,438	143,438
	Assets in Trading book	30,713	30,713	30,713
3	Derivatives	19,943	19,943	16,277
4	**Total**	**3,281,002**	**2,791,241**	**2,059,199**
5	Tier 1 Capital			290,267
6	Tier 2 Capital			32,756
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**323,023**
8.1	Capital requirement for credit risk			249,769
8.2	Capital requirement for market risk			4,069
8.3	Capital requirement for operational risk			19,006
9	**Total required capital**			**272,844**
10	**Tier 1 Ratio**			**14.10%**
11	**Total Capital Ratio**			**15.69%**

2016

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	2,116,035	2,140,116	1,508,628
2	Off -Balance sheet Item	821,639	392,508	338,924
	Assets for Operations risk	141,500	141,500	141,500
	Assets in Trading book	2,975	2,975	2,975
3	Derivatives	12,467	12,467	4,994
4	**Total**	**3,094,616**	**2,689,566**	**1,997,021**
5	Tier 1 Capital			282,935
6	Tier 2 Capital			38,687
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**321,622**
8.1	Capital requirement for credit risk			233,884
8.2	Capital requirement for market risk			376
8.3	Capital requirement for operational risk			17,864
9	**Total required capital**			**252,124**
10	**Tier 1 Ratio**			**14.17%**
11	**Total Capital Ratio**			**16.11%**

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, investment activities and other assets in the Bank’s asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographic location.

Credit Risk Management and Control

The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Department while the Retail Banking Department manages the credit risk in the retail portfolio. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004 and the special dispensation dated 20 September 2016 and 1 January 2017 for specific projects of Government owned entities. In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

Bank's Rating	Past due days Commercial / Retail
Standard loans	0 - 59 days
Special mention loan	60 - 89 days
Substandard loan	90 - 179 days
Doubtful loans	180 - 364 days
Loss	365 days and over

The Bank manages, limits and controls concentrations of credit risk − in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit and Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment provisioning

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the loss events such as delays in repayment of contracted amounts by counterparties as well as considering the guidelines issued by the CBO.

The Bank's credit policy requires the review of individual financial assets on a quarterly basis or earlier when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually not significant; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and peer statistics.

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Credit Risk Management and Control (continued)

Quantitative disclosure

ii. Gross credit risk exposures

Table-2
2017

Sl.No	Type of credit exposure	Average Gross Exposure 2017 RO'000	Average Gross Exposure 2016 RO'000	Total Gross Exposure as at 31-Dec-17 RO'000	Total Gross Exposure as at 31-Dec-16 RO'000
1	Overdrafts	153,253	143,410	152,739	143,753
2	Personal Loans	719,104	699,181	718,696	725,591
3	Loans against Trust Receipts	83,951	57,825	98,159	65,199
4	Other Loans	88,300	710,091	659,913	623,041
5	Bills Purchased Discounted	17,737	56,876	74,965	87,278
	Total	**1,062,345**	**1,667,383**	**1,704,472**	**1,644,862**

iii. Geographic distribution of exposures

Table-3

2017

Sl. No	Type of credit exposure	Oman RO'000	Other GCC countries RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
1	Overdrafts	152,739	-	-	-	-	-	152,739
2	Personal Loans	718,696	-	-	-	-	-	718,696
3	Loans against Trust Receipts	98,159	-	-	-	-	-	98,159
4	Other Loans	659,913	-	-	-	-	-	659,913
5	Bills Purchased/Discounted	74,965	-	-	-	-	-	74,965
	Total	**1,704,472**	-	-	-	-	-	**1,704,472**

2016

Sl. No	Type of credit exposure	Oman RO'000	Other GCC countries RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
1	Overdrafts	143,753	-	-	-	-	-	143,753
2	Personal Loans	725,591	-	-	-	-	-	725,591
3	Loans against Trust Receipts	65,199	-	-	-	-	-	65,199
4	Other Loans	623,041	-	-	-	-	-	623,041
5	Bills Purchased/Discounted	87,278	-	-	-	-	-	87,278
	Total	**1,644,862**	-	-	-	-	-	**1,644,862**

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FOR THE YEAR ENDED 31 DECEMBER 2017

iv. Industry or counterparty type distribution of exposures

Table-4
2017

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	6,203	40,973	3,272	-	50,448	25,303
2	Export Trade	66	873	127	-	1,066	235,188
3	Wholesale & Retail Trade	9,610	41,201	975	-	51,786	11,711
4	Mining & Quarrying	2,538	124,055	579	-	127,172	56
5	Construction	32,784	196,984	50,986	-	280,754	322,321
6	Manufacturing	10,737	99,363	4,890	-	114,990	2,929
7	Electricity ,gas & water	330	50,472	1,025	-	51,827	236,007
8	Transport & communication	8,680	67,722	70	-	76,472	16,046
9	Financial Institutions	113	55,144	144	-	55,401	-
10	Services	10,400	76,278	3,167	-	89,845	2,823
11	Personal Loans	-	722,482	-	-	722,482	-
12	Agriculture & Allied Activites	350	4,400	742	-	5,492	-
13	Government	-	-	-	-	-	45,064
14	Non-Resident Lending	-	1,305	-	-	1,305	-
15	All Others	70,928	(4,484)	8,988	-	75,432	-
16	**Total (1 to 15)**	**152,739**	**1,476,768**	**74,965**	**-**	**1,704,472**	**897,448**

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FOR THE YEAR ENDED 31 DECEMBER 2017

2016

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	13,893	37,047	3,804	-	54,744	40,319
2	Export Trade	110	378	175	-	663	152,983
3	Wholesale & Retail Trade	9,184	34,984	1,921	-	46,089	10,670
4	Mining & Quarrying	1,678	108,518	425	-	110,621	-
5	Construction	74,260	158,256	66,969	-	299,485	287,085
6	Manufacturing	14,077	93,128	4,842	-	112,047	2,544
7	Electricity ,gas & water	716	47,724	672	-	49,112	235,761
8	Transport & communication	1,056	51,275	197	-	52,528	17,801
9	Financial Institutions	1,749	33,280	144	-	35,173	-
10	Sevices	11,079	62,481	4,300	-	77,860	4,462
11	personal Loans	-	725,363	-	-	725,363	-
12	Agriculture & Allied Activites	675	3,173	1,150	-	4,998	-
13	Government	-	-	-	-	-	70,014
14	Non-Resident Lending	-	-	-	-	-	-
15	All Others	15,276	58,224	2,679	-	76,179	-
16	**Total (1 to 15)**	**143,753**	**1,413,831**	**87,278**	**-**	**1,644,862**	**821,639**

v. Residual contractual maturity of credit exposure

Table-5

2017

Sl. No	Time Band	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Up to 1 month	7,637	68,377	22,950	-	98,964	196,023
2	1-3 months	7,637	58,005	33,521	-	99,163	333,326
3	3-6 months	7,637	88,828	16,170	-	112,635	62,311
4	6-9 months	7,637	50,169	2,300	-	60,106	47,788
5	9-12 months	7,637	42,976	2	-	50,615	64,162
6	1-3 years	38,184	210,018	-	-	248,202	176,549
7	3-5 years	38,184	149,886	-	-	188,070	17,289
8	Over 5 years	38,184	808,511	22	-	846,717	-
9	**Total**	**152,737**	**1,476,770**	**74,965**	**-**	**1,704,472**	**897,448**

2016

Sl. No	Time Band	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Up to 1 month	7,188	56,616	35,294	-	99,098	147,793
2	1-3 months	7,188	89,712	38,852	-	135,752	267,101
3	3-6 months	7,188	34,860	13,128	-	55,176	148,817
4	6-9 months	7,188	26,374	1	-	33,563	31,319
5	9-12 months	7,188	40,816	1	-	48,005	48,287
6	1-3 years	35,938	209,132	2	-	245,072	137,035
7	3-5 years	35,938	140,054	-	-	175,992	41,273
8	Over 5 years	35,937	816,267	-	-	852,204	14
9	**Total**	**143,753**	**1,413,831**	**87,278**	**-**	**1,644,862**	**821,639**

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vi. Loans and provisions by major industry or counterparty type

Table-6

2017

SI. NO	Economic Sector	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year * RO'000	Advances written off during the year RO'000
1	Import Trade	50,448	2,912	475	835	883	94	
2	Export Trade	1,066	59	10	22	3	-	31
3	Wholesale & retail trade	51,786	1,402	504	750	282	41	452
4	Mining & quarrying	127,172	6	1,272	6	1	19	
5	Construction	280,754	10,774	2,700	5,063	1,904	1,177	377
6	Manufacturing	114,990	14,311	1,007	3,322	2,162	445	26
7	Electricity ,gas & water	51,827	-	518	-	-	-	
8	Transport & communication	76,472	652	758	313	40	315	
9	Financial Institutions	55,401	555	548	290	78	21	
10	Services	89,845	1,743	881	791	160	460	31
11	Personal Loans	722,482	12,702	11,773	7,075	1,117	5,168	2,070
12	Agriculture & Allied Activities	5,492	785	47	459	71	330	
13	Government	-	-	-	-	-	-	
14	Non-Resident Lending	1,305	-	13	-	-	-	
15	All Others	75,432	4,372	711	3,004	611	1,954	119
16	**Total**	**1,704,472**	**50,273**	**21,217**	**21,930**	**7,312**	**10,024**	**3,106**

*** -** The provision shown under this column represents the specific provision made during the year. The collective provisions are made on a portfolio basis.

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FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

2016

SI. NO	Economic Sector	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year RO'000	Advances written off during the year RO'000
1	Import Trade	54,744	2,638	521	732	709	527	2,151
2	Export Trade	663	137	5	23	20	16	-
3	Wholesale & Retail Trade	46,089	1,942	441	774	170	13	24
4	Mining & Quarrying	110,621	15	1,106	322	16	346	-
5	Construction	299,485	10,617	2,889	6,213	1,521	3,872	298
6	Manufacturing	112,047	13,670	984	3,004	1,989	228	331
7	Electricity ,gas & water	49,112	-	491	-	-	-	-
8	Transport & communication	52,528	424	521	116	29	34	-
9	Financial Institutions	35,173	514	347	498	62	329	-
10	Sevices	77,860	1,317	765	852	93	505	316
11	personal Loans	725,591	13,084	14,246	4,207	796	5,741	1,720
12	Agriculture & Allied Activites	4,998	793	42	181	97	141	-
13	Government	-	-	-	-	-	-	-
14	Non-Resident Lending	-	-	-	-	-	-	-
15	All Others	75,951	2,787	607	3,901	773	718	560
16	**Total**	**1,644,862**	**47,938**	**22,965**	**20,823**	**6,275**	**12,470**	**5,400**

*** -** The provision shown under this column represents the specific provision made during the year. The collective provisions are made on a portfolio basis.

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
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vii. Geographic distribution of impaired loans

Table-7

2017

SI. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment RO'000	Specific Provision Held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year RO'000	Advances written off during the year RO'000
1	Oman	1,704,472	50,273	21,217	21,930	7,312	10,024	3,106
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**1,704,472**	**50,273**	**21,217**	**21,930**	**7,312**	**10,024**	**3,106**

2016

SI. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment RO'000	Specific Provision Held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year RO'000	Advances written off during the year RO'000
1	Oman	1,644,862	47,938	22,965	20,823	6,275	12,470	5,400
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**1,644,862**	**47,938**	**22,965**	**20,823**	**6,275**	**12,470**	**5,400**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year - 2017

Sl.No	Details	Performing Loans		Non- Performing Loans			
		Standard	Specially Mentioned	Sub-Standard	Doubtful	Loss	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Opening Balance	1,385,033	211,891	2,910	6,727	38,301	**1,644,862**
2	Migration /changes(+/-)	9,688	1,424	(7,618)	(4,542)	1,048	**-**
3	New Loans	956,489	94,111	7,586	1,888	8,413	**1,068,487**
4	Recovery of Loans	(888,514)	(115,915)	(114)	(108)	(1,119)	**(1,005,770)**
5	Loans written off	5	3	4	2	3,093	**3,107**
6	Closing Balance	1,462,691	191,508	2,760	3,963	43,550	**1,704,472**
7	Provisions held	19,095	2,122	823	1,620	19,487	**43,147**
8	Reserve Interest	-	-	78	140	7,094	**7,312**

Movement of Gross Loans during the year - 2016

Sl.No	Details	Performing Loans		Non- Performing Loans			
		Standard	Specially Mentioned	Sub-Standard	Doubtful	Loss	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Opening Balance	1,395,530	124,012	3,658	9,077	32,107	**1,564,384**
2	Migration /changes(+/-)	16,450	(10,632)	(7,227)	(9,009)	10,418	**-**
3	New Loans	1,263,823	100,461	6,744	8,206	4,659	**1,383,893**
4	Recovery of Loans	(1,290,750)	(1,950)	(265)	(1,545)	(3,505)	**(1,298,015)**
5	Loans written off	20	-	-	2	5,378	**5,400**
6	Closing Balance	1,385,033	211,891	2,910	6,727	38,301	**1,644,862**
7	Provisions held	20,843	2,122	1,132	3,023	16,668	**43,788**
8	Reserve Interest	-	-	54	259	5,962	**6,275**

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

The Bank uses the ratings by Moody's Investor Services for the credit ratings for the purpose of determining the risk weight to be assigned to the exposure for on-balance sheet assets such as loans and advances and inter-bank exposure as well as off-balance sheet items such as Letters of Credit, Guarantees and forward contracts. In the absence of a rating by the Moodys' Investor Service, the Bank uses the ratings, if any, by Standard & Poors, Fitch Ratings or Capital Intelligence which are recognized by the Central Bank of Oman.

The claims on corporate are assigned 100% risk weight except for the claims with eligible financial collaterals and the Bank uses the simple approach for recognizing the collaterals in banking book with the approval of Central Bank of Oman. The Bank's retail loan portfolio is assigned a 100% risk weight except the loans secured by residential mortgage, which meet the conditions of CBO, for which risk weight assigned is 35%.

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

Quantitative Disclosure

The net exposure after risk mitigation subject to Standardized Approach is as follows:

Table-9

2017

Sl. No	Risk bucket	0%	20%	35%	50%	75%	100%	150%	Total
		RO '000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
1	Sovereigns(Rated)	297,120	-	-	-	-	-		297,120
2	Banks(Rated)	-	117,324	-	115,512	-	130,837	557	364,230
3	Corporate	-	37,765	-	-	-	774,288		812,053
4	Retail	-	-	-	-	37,341	395,062		432,403
5	Claims secured by residential property	-	-	220,558	-	-	57,082		277,640
6	Claims secured by commercial property	-	-	-	-	-	207,671		207,671
7	Past due loans	-	-	-	-	-	21,379		21,379
8	Other assets	39,299	-	-	-	-	89,166		128,465
9	Un-drawn exposure	-	-	92	67,098		8,939		76,129
	Total	**336,419**	**155,089**	**220,650**	**182,610**	**37,341**	**1,684,424**	**557**	**2,617,090**

2016

Sl. No	Risk bucket	0%	20%	35%	50%	100%	Total
		RO '000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
1	Sovereigns(Rated)	313,661	-	-	48,125	-	361,786
2	Banks(Rated)	-	43,867	-	86,256	155,814	285,937
3	Corporate	-	29,710	-	-	861,530	891,240
4	Retail	-	-	-	-	451,930	451,930
5	Claims secured by residential property	-	-	196,220	-	67,332	263,552
6	Claims secured by commercial property	-	-	-	-	39,065	39,065
7	Past due loans	-	-	-	-	20,910	20,910
8	Other assets	37,781	-	-	-	90,932	128,713
9	Un-drawn exposure	-	-	-	-	101,958	101,958
	Total	**351,442**	**73,577**	**196,220**	**134,381**	**1,789,471**	**2,545,091**

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

Following are some of the specific credit risk mitigation measures employed by the Bank:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- charges over business assets such as premises, inventory and accounts receivable;
- lien on fixed deposits;
- cash margins;
- mortgages over residential and commercial properties and
- pledge of marketable shares and securities;

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are unsecured. Additionally, in order to minimise the credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Risk Management Department.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Quantitative disclosure

	2017	**2016**
	RO '000	**RO '000**
Total exposure covered by eligible financial collateral	**39,052**	**34,032**
Value of the eligible collateral	**38,698**	**31,325**

G. MARKET RISK IN TRADING BOOK

Qualitative disclosures

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the Bank has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the banking business.

The Bank manages its market risk in the trading book using tools such as position limits and stop loss limits.

Currency risk arises where the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Bank enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors.

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO).

Quantitative disclosure

The impact of 10% change in the market price of the quoted equities which are part of the investments held for trading at 31 December 2017 is ±0.08% of the total income (2016 - ±0.09%).

H. INTEREST RATE RISK IN BANKING BOOK

Qualitative disclosures

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as substantial portion of its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the Bank's profitability.

For managing its interest rate risk in the banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year.

Quantitative disclosure

The EaR at 31 December 2017 is 2.36% (2016 - 0.83%).

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

H. INTEREST RATE RISK IN BANKING BOOK (continued)

The table below summarises the Bank’s exposure to the interest rate risks. It includes the Bank’s financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

2017	**Average effective interest rate %**	**Within 3 months RO’000**	**4 to 12 months RO’000**	**1 to 5 years RO’000**	**Over 5 years RO’000**	**Non-interest bearing RO’000**	**Total RO’000**
Assets							
Cash and balances with the							-
Central Bank of Oman	1.00	-		-	500	161,487	161,987
Due from banks	0.94	93,747		-	-	15,121	108,868
Loans and advances	5.08	528,730	163,155	913,657	48,471	-	1,654,013
Investment securities at fair value		-		-	-	14,574	14,574
Investment–held to maturity	1.67	23,000	19,000	28,668	53,179	-	123,847
Other assets		8,657		-	-	37,623	46,280
Property and equipment		-		-	-	29,430	29,430
Total assets		**654,134**	**182,155**	**942,325**	**102,150**	**258,235**	**2,138,999**
Liabilities							
Due to banks		-		-	-	4,011	4,011
Deposits from customers	1.58	426,011	331,338	175,924	-	813,583	1,746,856
Other liabilities		3,364		-	-	54,329	57,693
Subordinated debt	5.50	-	-	20,000	-	-	20,000
Taxation		-		-	-	4,891	4,891
Total liabilities		**429,375**	**331,338**	**195,924**	**-**	**876,814**	**1,833,451**
Total interest sensitivity gap		**224,759**	**(149,183)**	**746,401**	**102,150**	**(618,579)**	**305,548**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

2016	Average effective interest rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets							
Cash and balances with the							-
Central Bank of Oman	1.00	-		-	500	252,606	253,106
Due from banks	0.36	16,659		-	-	13,421	30,080
Loans and advances	4.80	339,702	358,478	854,122	42,497	-	1,594,799
Investment securities							
at fair value		-		-	-	18,012	18,012
Investment–held to maturity	1.67	40,290	20,135	30,210	5,288	-	95,923
Other assets		6,155		-	-	39,246	45,401
Property and equipment		-		-	-	28,651	28,651
Total assets		**402,806**	**378,613**	**884,332**	**48,285**	**351,936**	**2,065,972**
Liabilities							
Due to banks		-		-	-	12,056	12,056
Deposits from customers	1.23	377,570	401,887	159,109	-	698,586	1,637,152
Other liabilities		5,247		-	-	54,256	59,503
Subordinated Debt	5.50	-	50,000	20,000	-	-	70,000
Taxation		-		-	-	4,162	4,162
Total liabilities		**382,817**	**451,887**	**179,109**	**-**	**769,060**	**1,782,873**
Total interest sensitivity gap		**19,989**	**(73,274)**	**705,223**	**48,285**	**(417,124)**	**283,099**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

I. LIQUIDITY RISK

Qualitative Disclosures

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

2017	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets					
Cash and balances with the Central Bank of Oman	124,132	15,460	12,449	9,946	161,987
Due from banks	108,868	-	-	-	108,868
Loans and advances	198,126	216,046	436,272	803,569	1,654,013
Investment securities	37,613	19,000	28,667	53,141	138,421
Other assets	37,561	8,701	-	18	46,280
Property and equipment	-	-	-	29,430	29,430
Total assets	**506,300**	**259,207**	**477,388**	**896,104**	**2,138,999**
Liabilities					
Due to banks	4,011	-	-	-	4,011
Deposits from customers	435,823	539,644	435,949	335,440	1,746,856
Other liabilities	40,275	10,982	5,951	485	57,693
Subordinated bond	-	-	20,000	-	20,000
Taxation	4,798	93	-	-	4,891
Total liabilities	**484,907**	**550,719**	**461,900**	**335,925**	**1,833,451**
Net assets	**21,393**	**(291,512)**	**15,488**	**560,179**	**305,548**

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the balance sheet date.

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

2016	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets					
Cash and balances with the Central Bank of Oman	214,279	17,564	11,585	9,678	253,106
Due from banks	30,080	-			30,080
Loans and advances	234,796	129,967	421,011	809,025	1,594,799
Investment securities	57,797	20,641	30,210	5,287	113,935
Other assets	36,750	8,361	265	25	45,401
Property and equipment	-	-	-	28,651	28,651
Total assets	**573,702**	**176,533**	**463,071**	**852,666**	**2,065,972**
Liabilities					
Due to banks	12,056	-	-	-	12,056
Deposits from customers	414,278	561,178	365,541	296,155	1,637,152
Other liabilities	42,675	9,958	5,476	1,394	59,503
Perpetual Tier 1 Capital Bonds	-	-	-		-
Subordinated bond	-	50,000	20,000	-	70,000
Taxation	4,140	22	-	-	4,162
Total liabilities	**473,149**	**621,158**	**391,017**	**297,549**	**1,782,873**
Net **assets**	**100,553**	**(444,625)**	**72,054**	**555,117**	**283,099**
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	7,193	6,006			13,199
Sale contracts	(7,176)	(6,000)			(13,176)
	17	6	**-**	**-**	23

The LCR framework issued by CBO as part of the implementation of Basel III guidelines is effective from 1 January 2015, which requires the Bank to maintain the minimum LCR of 60% for 2015 with an increase of 10% each year until it reaches 100% by 2019. The LCR of the Bank is 629% as at 31 December 2017

J. OPERATIONAL RISK

Qualitative Disclosures

The Bank is in the process of setting up the systems for collecting the data relating to operational risk. The measurement of the operational risk requires historical data for at least 3 years in order to perform the calculations.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical banking processes are tested to ascertain availability during such situations.

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 143.438 million at 31 December 2017 (2016: RO 141.5 million).

K. COMPOSITION OF CAPITAL DISCLOSURE

The Basel III regulations adopted by the CBO aims at strengthening the capital and liquidity standards of the banks in Oman. The elements of the Basel III regulations consist of

- Enhancing the definition of capital and strengthening the eligibility criteria for inclusion of capital instruments
- Raising the minimum capital requirements and introducing capital buffers for conservation and dealing with systemic risks in the form of Capital Conservation Buffer and Countercyclical Buffer
- Enhancing coverage of risk arising from derivatives, repos and securities financing
- Implementing the leverage ratio to control the build-up of leverage and mitigating the impact of excessive deleveraging
- Higher capital requirements for large and systemically important banks
- Implementing the Liquidity Coverage Ratio to ensure that the banks hold higher quality of liquid assets
- Implementing Net Stable Funding Ratio to ensure financing of activities with more stable source of funding

The requirements of Basel III were gradually implemented from 2013 and the higher capital requirements were implemented by 2015. The banks in Oman have to comply with the related disclosure requirements issued by CBO in the circular BM-1114 dated 16 November 2013.The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2018. During the transition period of phasing-in of regulatory deductions under Basel III the banks in Oman will use a modified version of disclosure of the components of capital.

A reconciliation of the Bank’s Statement of Financial Position with the regulatory capital elements is provided as follows using the three step approach outlined by the Basel Committee:

Step 1: Disclosure of the reported statement of financial position under the regulatory scope of consolidation

This step involves disclosing how the balance sheet in the published financial statements changes when the regulatory scope of consolidation is applied. This disclosure is not made since there is no difference between the scope of regulatory and accounting consolidation.

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

Step 2: Expanding the lines of the regulatory statement of financial position to display all of the components used in the definition of capital disclosure template

The rows of the regulatory-scope statement of financial position have been expanded such that all of the components used in the composition of capital disclosure are displayed separately.

RECONCILIATION	**Financial Position as in published financial statements**	**Under regulatory scope of consolidation**
	As at Dec-31-2017	**As at Dec-31-2017**
	RO '000	**RO '000**
Assets		
Cash and balances with CBO	**161,987**	161,987
Balance with banks and money at call and short notice	**108,868**	108,868
Investments :	**138,421**	**138,421**
Of which :		
Held to Maturity	123,847	123,847
Available for Sale	13,958	13,958
FVPL	562	562
Held for Trading	54	54
Loans and advances	**1,654,013**	**1,654,013**
Of which :		
Loans and advances to domestic banks	-	-
Loans and advances to non-resident banks	-	-
Loans and advances to domestic customers	1,621,319	1,524,484
Loans and advances to non-resident Customers for domestic operations	-	-
Loans and advances to non-resident Customers for operations abroad	-	-
Loans and advances to SMEs	-	96,835
Financing from Islamic banking window	83,153	83,153
Provision for loan impairment	(50,459)	(50,459)
Of which :		
Specific provision	(29,703)	(29,703)
General provision	(20,756)	(20,756)
Fixed assets	**29,430**	**29,430**
Other assets	**46,280**	**46,280**
Total Assets	**2,138,999**	**2,138,999**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

RECONCILIATION	Financial Position as in published financial statements	Under regulatory scope of consolidation
Capital & Liabilities		
Paid-up Capital	**134,620**	**134,620**
Of which:		
Amount eligible for CET1	134,620	134,620
Amount eligible for AT1	30,000	30,000
Reserves & Surplus	**140,928**	**140,568**
Of which:		
Legal reserve	38,476	38,476
General reserve	25,560	25,560
Retained earnings	67,977	53,169
Proposed dividends		14,808
Cumulative changes in fair value of investments	(1,845)	(1,845)
Of which:		
Amount eligible for Tier 2 capital	(1,845)	(1,845)
Amount ineligible due to regulatory adjustment		-
Subordinated debt reserve	8,000	8,000
Special reserve	2,760	2,400
Total Capital	**305,548**	**305,188**

RECONCILIATION	Financial Position as in published financial statements	Under regulatory scope of consolidation
Deposits	**1,746,856**	**1,746,856**
Of which:		
Deposits from banks	-	-
Customer deposits	1,656,951	1,656,951
Deposits of Islamic Banking window	89,905	89,905
Borrowings	**24,011**	**24,011**
Of which:		
From CBO	-	-
From banks	4,011	4,011
From other institutions & agencies	-	-
Borrowings in the form of bonds, debentures and sukuks	20,000	20,000
Of which:		
Directly issued qualifying Tier 2 instruments	20,000	12,000
Amount de-recognised from Tier 2 capital	-	8,000
Other liabilities & provisions	**62,584**	**62,584**
Total Capital, Other liabilities & provisions	**2,138,999**	**2,138,639**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

Step 3: Mapping each of the components that are disclosed in Step 2 to the composition of capital disclosure

2017

	Common Equity Tier 1 capital: instruments and reserves	Under regulatory scope of consolidation
1	Directly issued qualifying common share capital	134,620
2	Retained earnings	53,169
3	Accumulated other comprehensive income (and other reserves)	72,478
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital (CET1)**	**260,267**
7	**Additional Tier 1 capital (AT1)**	30,000
8	**Tier 1 capital (T1 = CET1 + AT1)**	**290,267**
	Tier 2 capital: instruments and provisions	
9	Directly issued qualifying Tier 2 instruments	12,000
10	Provisions	20,756
11	Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital	-
12	**Tier 2 capital (T2)**	**32,756**
	Total capital (TC = T1 + T2)	**323,023**

2016

	Common Equity Tier 1 capital: instruments and reserves	Under regulatory scope of consolidation
1	Directly issued qualifying common share capital	127,000
2	Retained earnings	8,390
3	Accumulated other comprehensive income (and other reserves)	117,545
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	**Common Equity Tier 1 capital (CET1)**	**252,935**
7	**Additional Tier 1 capital (AT1)**	30,000
8	**Tier 1 capital (T1 = CET1 + AT1)**	**282,935**
	Tier 2 capital: instruments and provisions	
9	Directly issued qualifying Tier 2 instruments	16,000
10	Provisions	22,687
11	Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital	-
12	**Tier 2 capital (T2)**	**38,687**
	Total capital (TC = T1 + T2)	**321,622**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.

Main features of Subordinated Bonds	
Issuer	OMAN ARAB BANK
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-
Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
Transitional Basel III rules	Eligible for inclusion in Tier -2 Capital
Post-transitional Basel III rules	Eligible for inclusion in Tier -2 Capital
Eligible at solo/group/group & solo	Solo
Instrument type (types to be specified by each jurisdiction)	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 20 Million
Par value of instrument	OMR 20 Million
Accounting classification	Subordinated Debt
Original date of issuance	11/30/2015
Perpetual or dated	Dated
Original maturity date	5/30/2021
Issuer call subject to prior supervisory approval	-
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	Fixed coupon
Coupon rate and any related index	5.50%
Existence of a dividend stopper	-
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	-
If write-down, write-down trigger(s)	-
If write-down, full or partial	-
If write-down, permanent or temporary	-
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
Non-compliant transitioned features	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

	Main features of Subordinated Bonds	
1	Issuer	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-
3	Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -1 Capital
5	Post-transitional Basel III rules	Eligible for inclusion in Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 30 Million
9	Par value of instrument	OMR 30 Million
10	Accounting classification	Subordinated Debt
11	Original date of issuance	12/29/2016
12	Perpetual or dated	Perpetual
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	7.75%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	non-liability event
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	Permanet
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

The following table shows the composition of capital under Basel III:

BASEL-III DISCLOSURE AS AT DECEMBER 31 2017

		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT RO '000
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	134,620
2	Retained earnings	53,169
3	Accumulated other comprehensive income (and other reserves)	74,436
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
	Public sector capital injections grandfathered until 1 January 2018	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**262,225**
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	(1,845)
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(113)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage Servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-
28	Perpetual Bonds	30,000
29	**Total regulatory adjustments to Common equity Tier 1**	**28,042**
29	**Common Equity Tier 1 capital (CET1)**	**290,267**
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier 1 capital before regulatory adjustments**	**-**
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**
44	**Additional Tier 1 capital (AT1)**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**290,267**
		Tier 2 capital: instruments and provisions
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	*Directly issued capital instruments subject to phase out from Tier 2*	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-
50	Subordinated term debt.	12,000
50	Provisions	20,756
51	**Tier 2 capital before regulatory adjustments**	**32,756**

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
	OF WHICH: Cumulative unrealised gains on available-for-sale financial instruments	-
57	**Total regulatory adjustments to Tier 2 capital**	**-**
58	**Tier 2 capital (T2)**	**32,756**
59	**Total capital (TC = T1 + T2)**	**323,023**
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	2,059,199
60	**Total risk weighted assets (60a+60b+60c)**	**2,059,199**
60a	*Of which: Credit risk weighted assets*	1,885,048
60b	*Of which: Market risk weighted assets*	30,713
60c	*Of which: Operational risk weighted assets*	143,438
	Capital Ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.10%
62	Tier 1 (as a percentage of risk weighted assets)	14.10%
63	Total capital (as a percentage of risk weighted assets)	15.69%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.625%
65	*of which: capital conservation buffer requirement*	1.250%
66	*of which: bank specific countercyclical buffer requirement*	*0%*
67	*of which: D-SIB/G-SIB buffer requirement*	*0%*
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	2.22%
National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	13.250%
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)	-

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2017

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	1.25%
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	*Current cap on CET1* instruments *subject to phase out arrangements*	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-
84	*Current cap on T2 instruments subject to phase out arrangements*	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-

Oman Arab Bank

LCR Disclosure for the period ending: 31-Dec-2017

(RO '000)

		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		291,124
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	88,098	8,105
3	Stable deposits	14,091	705
4	Less stable deposits	74,007	7,401
5	Unsecured wholesale funding, of which:	294,735	122,701
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	286,724	114,689
7	Non-operational deposits (all counterparties)	8,011	8,011
8	Unsecured debt		
9	Secured wholesale funding		0
10	Additional requirements, of which	76,384	7,392
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	76384	7392
14	Other contractual funding obligations	2,171	2,171
15	Other contingent funding obligations	897,448	44,872
16	**TOTAL CASH OUTFLOWS**		185,242
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	99,701	49,850
19	Other cash inflows	108,455	108,455
20	**TOTAL CASH INFLOWS**	208,156	158,305
			Total Adjusted Value
21	**TOTAL HQLA**		291,124
22	**TOTAL NET CASH OUTFLOWS**		46,310
23	**LIQUIDITY COVERAGE RATIO (%)**		629