ANNUAL REPORT 2017

بنك عُمان العربي

OMAN ARAB BANK

oman-arabbank.com

HIS MAJESTY SULTAN QABOOS BIN SAID

"We offer thanks and praise to the Almighty Allah for the guidance and virtues with which He has endowed us so that we could take this march forward for the building of a modern, well-founded state, advancing in full determination towards a bright future that is promising of progress and prosperity."

His Majesty Sultan Qaboos bin Said
Speech on November 2014

CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Board of Directors, it is my privilege to present to you the Annual Report of Oman Arab Bank for the financial year ending December 31, 2017, together with relevant financial statements reflecting the Bank's results and achievements over the past year.

I am pleased to report Oman Arab Bank maintained its strong performance over the course of 2017, this strong result for Oman Arab Bank was in no small part due to the quality of the Bank's assets and its carefully crafted business plan, which was endorsed by the Board of Directors earlier in the year.

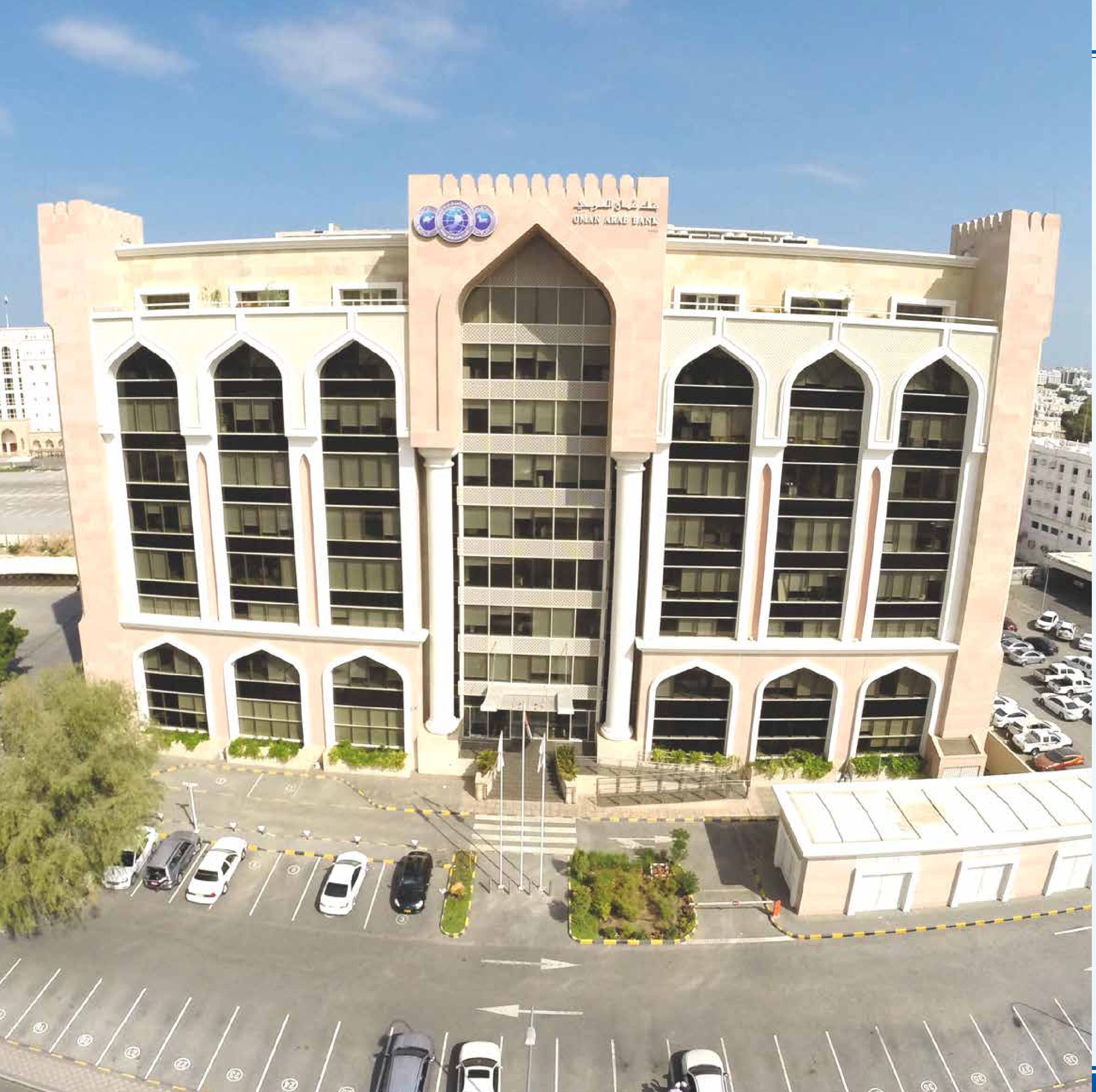
The positive result is also in line with the Bank's transformative vision to enhance and develop new systems, platforms, and services that will continue to set the benchmark for technological advancement and customer excellence for the foreseeable future.

During 2017, the Bank continued to support its partners in the public and private sectors by financing energy, infrastructure, and other large projects in the Sultanate, as well as offering support to small and medium enterprises.

On the financial front, the Bank's net profit increased by 8% year-on-year to reach OMR 26.5 million by the end of 2017 compared to OMR 24.6 million reported in 2016. Net Interest Income increased by 11% to reach OMR 56 million. Loans and Advances increased by 4% to reach OMR 1.70 billion, together with a 7% increase in Customer Deposits which reached OMR 1.75 billion. The Bank's Total Assets increased by 4%, reaching OMR 2.14 billion by the end of 2017. The Capital Adequacy Ratio was 15.69%, well above the regulatory requirement of 13.250%, while the return on equity was 10%.

With regards to the financial results of Oman Arab Bank's Islamic banking Window 'Al Yusr', the Bank ended the year 2017 with a net profit of OMR 153,000, a good indicator of the significant growth expected from this window in the near future.

2017 also saw the launch of the digital transformation strategy for the Bank, the launch of the Bank's comprehensive new digital platforms for Internet and mobile banking, and the reimaging and ongoing modernisation programme for its branch network. These platforms have enjoyed wide acceptance and praise from our valued clients, which has motivated us to continue the implementation of this strategy to cover the entirety of the bank's operations over the course of the next few years. Indeed, the drive for transformation reinforces Oman Arab Bank's position as one of the pioneers of digital banking in the local market.



Oman Arab Bank believes that its employees are its greatest asset, and in 2017 the bank continued to invest in tomorrow's talent with 'LEAD', a world-class leadership development program. LEAD is firmly centred on developing capabilities and capacities for Omani staff and is focused towards advancing skillsets and capitalizing greater leadership positions within the Bank. In fact, LEAD 2 program was launched successfully with 20 participants undertaking an intensive six-month training courses in cooperation with an institute specialised in management. Reinforcing the commitment to Omanisation, the bank also recorded a remarkable milestone in terms of citizens employed within the Bank across all levels, achieving a percentage over 96%, making it one of leading Banks in the Sultanate with regards to Omanisation.

On the Corporate Social Responsibility front, Oman Arab Bank continued to play its role in joining hands with the local community and supporting a number of non-profit organisations and initiatives. It also took a new approach last year with its community engagement, enhancing the participation of the bank's employees in general social and community activities. This falls in line with the Bank's beliefs in the crucial role its staff play in achieving the Bank's desired social and economic outcomes.

Looking ahead, we expect 2018 to be another eventful year where we will continue in our efforts to reaffirm the bank's position as a leading Omani banking institution, while continuing to elevate our customer banking experience across all touchpoints and platforms.

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to our customers, partners, and shareholders for their continued trust, which has been the cornerstone of our continued success. I would also like to thank the executive management of the Bank and all employees for their hard work and contributions towards achieving the desired goals of the Bank. I would like to take this opportunity also to thank the management of the Central Bank of Oman and all government bodies for their continued efforts and support of the banking sector in the Sultanate.

Most importantly, we would like to express our sincere gratitude and appreciation to His Majesty Sultan Qaboos bin Said for his wise leadership and vision, which has contributed to the prosperity of our great nation.

Rashad Al Zubair
Chairman

CEO'S REPORT

The year 2017 played witness to continued instability in the global economy due to low growth rates and low prices for energy-related products. This together with the unstable security situation and sudden political shifts in several countries around the world, were all factors that affected the global economy.

The relative recovery of oil prices during the second half of 2017, accompanied by the efforts of the Omani government to control public spending, resulted in a decline in the overall deficit. However, challenges persisted throughout the year and were reflected in the level and nature of competition within the local banking sector, the latter of which has changed drastically from previous years.

Oman Arab Bank, based on its vision of the sector and its expected developments, has worked on enhancing its financial position and developing its banking tools in line with the requirements of the sector and to ensure its continued growth over the coming years. This is clearly reflected in the figures presented in the Chairman's report, confirming the Bank's success in overcoming yet another challenging year in the market.

Over the course of the past year, the Bank has primarily focused on completing the implementation of its transformation strategy, shifting from its traditional commercial banking roots to become a modern bank; one that utilizes an advanced digital banking platform, enabling it to compete at the highest level and become a leading bank in the sector. Furthermore, it has done so whilst enhancing its asset quality, strengthening its financial position, and increasing productivity for the years ahead.

The Bank has also continued to work towards developing its staff, attracting local competencies, and enhancing the skills of its teams in each of its various branches, through programs specially designed for Oman Arab Bank. In fact, last year alone, 947 employees participated in various training courses specifically designed to match their area of specialisation.

Furthermore, the Bank also worked towards further developing its risk management infrastructure in order to reduce high-risk transactions; the results of which have been very positive. The Bank also strengthened its compliance with laws, regulations, and instructions issued by the competent authorities and the Central Bank of Oman, as well as the principles of the Basel III agreement.

OVERVIEW ON THE BANK'S ACHIEVEMENTS FOR 2017

1. Oman Arab Bank smartphone application: The new smartphone application was launched to join the bank's e-channels and has witnessed wide acceptance from retail clients over the past few months. The number of the app users reached *** as of December 31, 2017.

2. Online banking platform: The comprehensive online banking platform was launched with a unified interface across all channels. This interface helps user complete transactions quickly and easily regardless of which channel he/she uses, be it the website, smartphone app, or ATMs and CDMs.

3. Smart bank cards: The shift to the new chip and pin credit and debit cards was completed successfully as of the end of last year, enhancing overall security for all OAB clients.

4. E-payment gateway was launched successfully, establishing itself as a platform through which Oman Arab Bank delivers all its e-payments services.

5. Initiated collaborations with other business entities to apply joint marketing strategies, focused on launching mutually beneficial packages that will appeal to specific segments of our client base.

6. Children's accounts: A new product of children's accounts was launched with attractive benefits. The product received increasingly positive feedback during the second half of last year.

7. Updating the branches: The bank updated six of its branches during the year 2017. These branches feature an enhanced brand identity with a refreshed look and feel, augmented by a number of features and systems introduced as part of the new transformed branches.

8. A new kiosk at the police station: A new kiosk has installed at the Traffic Department of the Royal Oman Police for paying traffic fines.

9. E-commerce platform: An integrated e-commerce platform has been launched to provide a solid infrastructure to serve retail sector via the internet. This is expected to achieve good levels of growth over the coming years.

10. An electronic system for cash management: A special electronic system has been launched for companies to assist them in cash management operations in line with international best practices and standards.

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CEO'S REPORT

11. Remote Deposit Cheque Processing: An advanced program was developed to process deposited cheques at high speed. The bank's clients have subsequently experienced a significant improvement in processing times as a result.

12. Robotic Process Automation System: The Robotic Process Automation System was launched to carry out the majority of the Bank's day-to-day operations and processes automatically without human intervention. In doing so, it helps increase productivity and reduces the possibilities of errors; whilst at the same time enhancing efficiency and speed thanks to a certified performance evaluation system. The automation this system provides extends to processes related to account management, approval of loans, and cards' operations, in addition to issues related to compliance and financial risks management, cyber risks, procurement and supply, finance, accounting, and other daily processes at the Bank.

THE FUTURE OF THE BANKING INDUSTRY

The banking industry is currently undergoing a fundamental transition phase with the introduction of modern technologies; which in turn may considerably change the nature and mechanisms with which we operate over the next few years. We at OAB, in line with our vision to strengthen our position as a leading Omani bank within the sector and relying on our local experience spanning over three decades, look forward to a future where we are the first choice for individuals, companies, and investors alike. It is for this purpose we continue to invest in providing a comprehensive and integrated banking experience that meets their every expectation, if not exceed them.

Rashad Al Musafir
Acting Chief Executive Officer

BOARD OF DIRECTORS

Mr. Rashad Al Zubair
Chairman

Mr. Wahbe Tamari
Deputy Chairman

Ms. Randa Sadik
Board Member

Mr. Hani Al Zubair
Board Member

Mr. Mulham Al-Jarf
Board Member

Mr. Abdulaziz Al Balushi
Board Member

Mr. Waleed Samhouri
Board Member

Mr. Imad Sultan
Board Member

Mr. Mohamad Al Masri
Board Member

SENIOR MANAGEMENT

Rashad Al Musafir
Acting Chief Executive Officer

Amin Al Husseini
Advisor

Ali Moosa
Head of Executive Office

Adil Al Rahbi
Head of Human Resources

Salah al Sharji
Head of Internal Audit Group

Lamees Al Baharna
Chief Risk Officer

Abdullah Al Hooti
Head of Legal Affairs and Legal Advisor

Mansoor Al Raisi
Chief Compliance Officer

Al Salt Al Kharusi
Head of Corporate and Institutional Banking Group

Fahd bin Amjad
Head of Retail Banking Group

Sulaiman Al Hinai
Head of Treasury, Investments and Government Relations

Rashad Al Shaikh
Deputy Head of Retail Banking Group

Mustafa Srour
Chief Technology Officer

Hilal Al Siyabi
Head of Corporate Communication

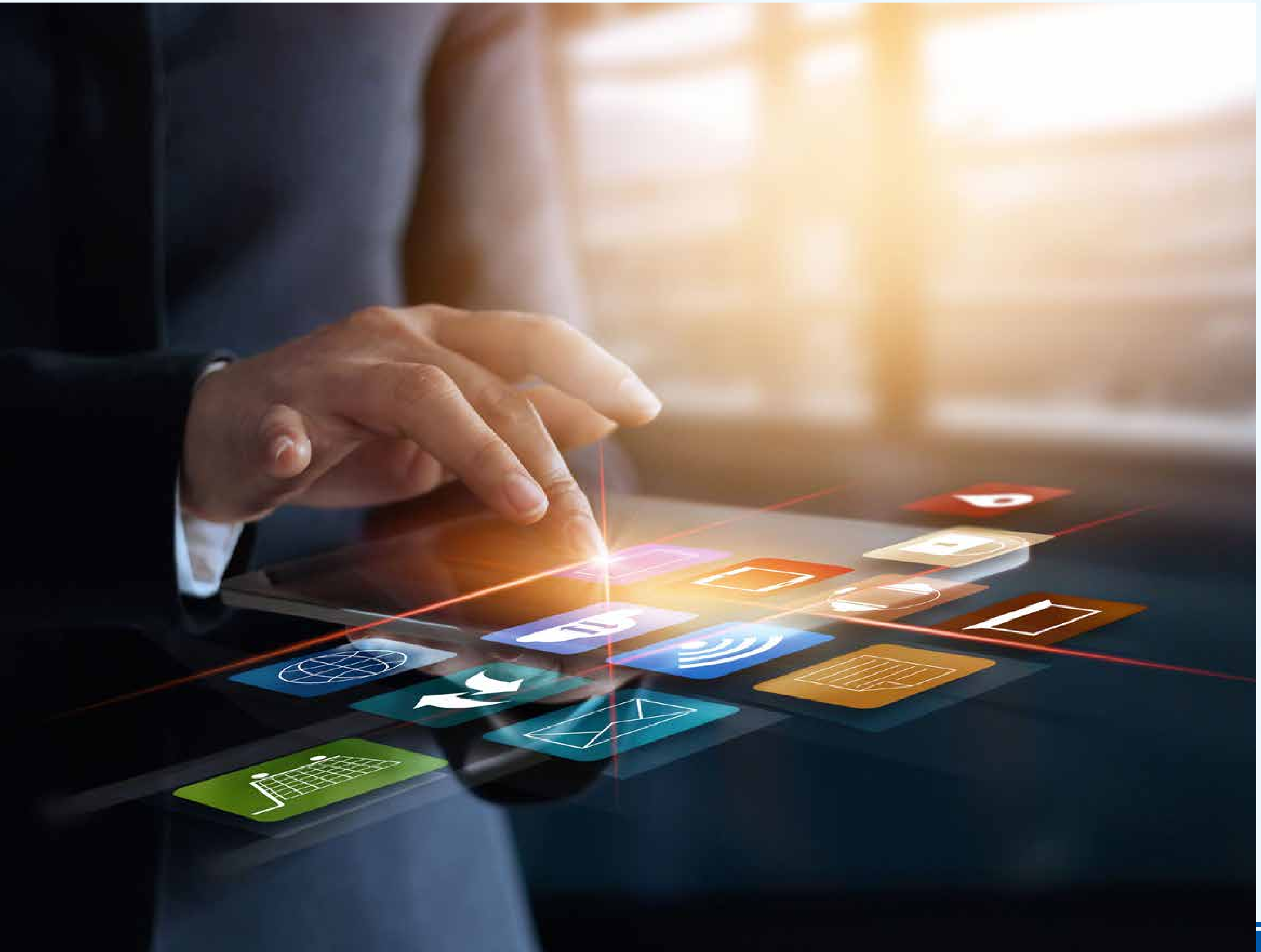
Marwan AlKhouli
Head of Operations Group

Faisal Al Balushi
Head of Logistics

Kartik Natarajan
Chief Financial Officer

Dr. Khalifa al Ghammari
Head of Al Yusr Islamic Banking

2017 HIGHLIGHTS



EVENTFUL YEAR AND PROMISING FUTURE

Digital transformation strategy

Oman Arab Bank has continued its digital transformation strategy which it started years ago. It succeeded in completing several critical phases last year following its success in launching its smartphone application, online banking platform, smart bank cards, e-payment gateway, e-commerce platform, an electronic system for cash management, and another for cheque processing, as well as the Robotic Process Automation System, the first of its kind in the Omani banking sector. These achievements have been accompanied by a promising plan to update the branches with an enhanced brand identity that will strengthen the Bank's brand presence. The Bank has updated six of its branches over the course of 2017, with expectations of transforming eight more branches this year.

Customer Service Development Strategy

Over the past year, the Bank finalised its comprehensive strategy to enhance customer care to entirely new levels in line with its future objectives. This strategy came into effect in January this year. It included the appointment of a Customer Care Manager in each branch who is in charge of following-up on customer services and on the feedback received, both positive and negative. Furthermore, there is contact system in place that allows the customers to contact the management to share their opinions and suggestions. Customers will be notified within 24 hours when their message has been received and corresponding action will be taken to find solutions to address any issues or queries..

New leading products

As part of its future vision for banking services and products that meet the needs of the customers, the Bank launched a new product in 2017 as part of its plan to promote saving for a child's education. This plan allows the parents to open an account for their children which will enable them to save a fixed amount monthly in order to cover education expenses in the future. The Bank will provide an attractive annual interest on the balance of the account with additional interest added after three years, along with a number of other attractive benefits. The product received increasingly positive feedback during the second half of last year.

Direct marketing strategies

As part of its plans to develop effective marketing mechanisms, the Bank began last year offering tailor-made marketing packages for specific clients to meet their needs directly, as well as other joint packages with non-banking entities, offering special services and exclusive offers for the Bank's customers. This strategy has been very successful in enhancing the added value benefits offered by OAB to its customers.

FINANCIAL HIGHLIGHTS

	2017	2016	2015	2014	2013
	RO '000	RO '000	RO '000	RO '000	RO '000
Total Assets	2,138,999	2,065,972	1,982,699	1,816,091	1,456,355
Deposits	1,746,856	1,637,152	1,601,162	1,468,313	1,149,153
Net Loans	1,654,013	1,594,799	1,519,571	1,259,836	1,076,291
Shareholders' Equity	275,548		214,419	201,259	187,152
Net Profit	26,547	24,526	29,011	28,400	25,023
Net interest income	55,599	50,886	49,134	43,843	42,452
Other operating income	22,139	22,112	30,620	27,973	21,376
Net operating income	77,738	72,998	79,754	71,816	63,828
Operating expenses	(45,403)	(45,780)	(43,523)	(37,416)	(33,798)
Impairment of investments available-for-sale	(728)	(2,336)	(406)	-	-
Profit from sale of non-banking asset	-	2	2,400	-	-
Provision for loan impairment	(8,276)	(14,384)	(13,327)	(8,885)	(6,351)
Release/recovery from provision for loan impairment	8,132	6,705	7,977	6,871	4,999
Taxation	(4,916)	(2,561)	(3,864)	(3,986)	(3,655)
Profit after tax for the year from discontinued operations	-	9,882			
Net Profit after taxation	26,547	24,526	29,011	28,400	25,023
Dividend	14,808	7,620	11,600	13,920	11,600
Total Assets	2,138,999	2,065,972	1,982,699	1,816,091	1,456,355
Gross Loans and advances	1,704,472	1,644,862	1,564,384	1,296,826	1,109,045
Provision for loan impairment	(50,459)	(50,063)	(44,813)	(36,990)	(34,315)
Net Loans and advances	1,654,013	1,594,799	1,519,571	1,259,836	1,074,730
Non-performing loans	50,273	47,938	44,842	38,185	36,613
Customer deposits	1,746,856	1,637,152	1,601,162	1,468,313	1,149,153
Shareholders' funds	275,548	245,479	214,419	201,259	187,152
Share Capital	134,620	127,000	116,000	116,000	116,000

FINANCIAL HIGHLIGHTS (CONT'D)

	2017	2016	2015	2014	2013
	RO '000	RO '000	RO '000	RO '000	RO '000
Ratios					
1. Profitability					
Return on shareholders' funds	10.19%	10.67%	13.96%	14.62%	13.91%
Return on Total Assets	1.26%	1.21%	1.53%	1.74%	1.77%
Cost to income	58.41%	62.71%	54.57%	52.10%	52.95%
2. Capital					
Capital Adequacy (BIS standard)	15.69%	15.73%	14.22%	15.14%	16.52%
Shareholders' funds to Total Assets	12.88%	11.88%	10.81%	11.08%	12.85%
3. Asset Quality					
Non-performing loans to Total loans	2.95%	2.91%	2.87%	2.94%	3.30%
Provision coverage	100.37%	104.43%	99.94%	96.87%	93.72%
4. Liquidity					
Net loans to customer deposits	94.69%	97.41%	94.90%	85.80%	93.52%
Net loans to Total Assets	77.33%	77.19%	76.64%	69.37%	73.80%
Liquid Assets to Customer Deposits	22.60%	23.16%	23.25%	31.39%	26.19%
5. Others					
Dividend rate	11.00%	6.00%	10.00%	12.00%	10.00%
Dividends per share in RO	0.011	0.006	0.010	0.012	0.010
Basic Earnings per share in RO	0.019	0.020	0.025	0.025	0.022
Financial Trends					
Net Profit	26,547	24,526	29,011	28,400	25,023
Return on Shareholders' Funds	10.19%	10.67%	13.96%	14.62%	13.91%
Return on Assets	1.26%	1.21%	1.53%	1.74%	1.77%
Cost to income	0.584	0.627	0.546	0.521	0.530
Earnings per Share	0.019	0.020	0.025	0.025	0.022
Loans & Advances(net)	1,654,013	1,594,799	1,519,571	1,259,836	1,076,291
Customer Deposits	1,746,856	1,637,152	1,601,162	1,468,313	1,149,153
Capital Adequacy Ratio	15.69%	15.73%	14.22%	15.14%	16.52%
Comparative Movements:					
Total Assets	3.53%				

FINANCIAL REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Oman Arab Bank SAOC (the "Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN ARAB BANK SAOC (CONTINUED)

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Impairment provision for loans and advances and financing to customers Impairment of loans and advances and financing to customers (loans and receivables) is a highly subjective area due to the level of judgement applied by management in determining the extent of credit losses which is dependent on the credit risk related to such loans and receivables. The judgements applied by the management in determining the level of impairment for loans and receivables include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future cash flows relating to loans and receivables. Due to the material nature of loans and receivables and the related estimation uncertainties involved, including the consideration of prudential requirements, this is considered a key audit matter. The basis of the Bank's impairment provision policy is presented in the accounting policies section and in Note 2.3.9 (a) to the financial statements. Attention is also drawn to the critical accounting estimates and judgements, disclosures of loan receivables and the credit risk management set out in notes 3.1, 9 and 5.1 to the financial statements.	Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of loans and receivables, and the specific and collective impairment provisioning process, including consideration of prudential requirements, to validate the operating effectiveness of the key controls in place, which identify the impaired loans and receivables and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively. In addition to testing the key controls, we selected samples of loans and receivables outstanding as at the reporting date and critically assessed the criteria for determining whether an impairment event had occurred that would require an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing loans and receivables where we assessed management's forecast of recoverable cash flows, the valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing loans and receivables, we assessed whether the borrowers exhibited any possible default risk that may affect meeting their scheduled repayment obligations. For collective impairment provisions, we obtained an understanding of the methodology used by the Bank to determine the collective provisions, assessed the underlying assumptions and sufficiency of the data used by management. We also assessed whether the financial statement disclosures appropriately reflect the requirements of IFRS.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN ARAB BANK SAOC

Report on the audit of the financial statements

Opinion

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Basis for opinion

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC (CONTINUED)

Other information included in the Bank's 2017 Annual Report
Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Bank's 2017 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2017 Annual Report after the date of our auditor's report:

- Corporate governance report
- Management discussion and analysis
- Financial statements of the Islamic Banking Window
- Basel II Pillar III and Basel III Report of the Bank
- Basel II Pillar III and Basel III Report of the Islamic Banking Services

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements
Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

Report on the audit of the financial statements

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements,regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Sanjay Kawatra
Muscat
6 March 2018

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ERNST & YOUNG LLC
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P.O. Box 1750 - P.C. 112, Sultanate of Oman

2017 ANNUAL REPORT

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	2017 RO'000	2016 RO'000
ASSETS			
Cash and balances with the Central Bank of Oman	7	**161,987**	253,106
Due from banks	8	**108,868**	30,080
Loans and advances and financing to customers	9	**1,654,013**	1,594,799
Investment securities	10	**138,421**	113,935
Other assets	11	**46,280**	45,401
Property and equipment	12	**29,430**	28,651
Total assets		**2,138,999**	2,065,972
LIABILITIES			
Due to banks	13	**4,011**	12,056
Deposits from customers	14	**1,746,856**	1,637,152
Other liabilities	15	**57,693**	59,503
Subordinated debt	17	**20,000**	70,000
Taxation	18	**4,891**	4,162
Total liabilities		**1,833,451**	1,782,873
EQUITY			
Share capital	19	**134,620**	127,000
Legal reserve	20	**38,476**	35,821
General reserve	21	**25,560**	25,560
Subordinated debt reserve	22	**8,000**	54,000
Special reserve	23	**2,760**	2,400
Cumulative changes in fair value		**(1,845)**	(72)
Retained earnings		**67,977**	8,390
Total equity attributable to the equity holders of the Bank		**275,548**	253,099
Perpetual Tier 1 capital bonds	24	**30,000**	30,000
Total equity		**305,548**	283,099
Total equity and liabilities		**2,138,999**	2,065,972
Contingent liabilities and commitments	37(a)	**897,448**	821,639

The financial statements were authorised for issue by the Board of Directors on 23 January 2018 and signed by:

Rashad Al-Musafir
Acting Chief Executive Officer

Rashad Muhammed Al Zubair
Chairman

The accompanying notes 1 to 43 form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2017

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RO'000	2016 RO'000
Interest income	26	**88,115**	77,663
Interest expense	27	**(32,516)**	(27,765)
Net interest income		**55,599**	49,898
Fee and commission income - net	28	**14,393**	16,393
Investment income (loss)	29	**1,140**	(265)
Other operating income	30	**6,606**	5,984
Total income		**77,738**	72,010
Operating expenses	31	**(45,403)**	(44,792)
Allowance for loan impairment	9(a)	**(8,276)**	(14,384)
Recoveries/release from allowance for loan impairment	9(a)	**8,132**	6,705
Impairment of investments available-for-sale	10	**(728)**	(2,336)
Profit from sale of non-banking asset		**-**	2
Profit before tax from continuing operations		**31,463**	17,205
Income tax expense	18	**(4,916)**	(2,561)
Profit for the year from continuing operations		**26,547**	14,644
Discontinued operations			
Profit after tax for the year from discontinued operations	32	**-**	9,882
Profit for the year		**26,547**	24,526
Other comprehensive (expense) income that will be reclassified to the profit or loss			
Net change in fair value of available-for-sale investments		**(2,501)**	852
Recycling to profit or loss for impairment on available-for-sale investments		**728**	2,336
Other comprehensive (expense) income for the year		**(1,773)**	3,188
Total comprehensive income for the year		**24,774**	27,714
Earnings per share:			
Basic and diluted (RO)	33	**0.019**	**0.019**

The accompanying notes 1 to 43 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Special reserve RO'000	Cumulative changes in fair value RO'000	Retained earnings RO'000	Sub-total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
At 1 January 2017		127,000	35,821	25,560	54,000	2,400	(72)	8,390	253,099	30,000	283,099
Profit for the year		-	-	-	-	-	-	26,547	26,547	-	26,547
Other comprehensive expense, net of tax		-	-	-	-	-	(1,773)	-	(1,773)	-	(1,773)
Total comprehensive income (expense) for the year		-	-	-	-	-	(1,773)	26,547	24,774	-	24,774
Issue of bonus shares	19	7,620	-	-	-	-	-	(7,620)	-	-	-
Transfer to special reserve	23	-	-	-	-	360	-	(360)	-	-	-
Transfer to legal reserve	20	-	2,655	-	-	-	-	(2,655)	-	-	-
Transfer to retained earnings	22			-	(50,000)	-		50,000	-	-	-
Transfer to subordinated debt reserve	22	-	-	-	4,000	-		(4,000)	-	-	-
Interest distribution of Perpetual Tier 1 capital bonds	24	-	-	-	-	-	-	(2,325)	(2,325)	-	(2,325)
At 31 December 2017		**134,620**	**38,476**	**25,560**	**8,000**	**2,760**	**(1,845)**	**67,977**	**275,548**	**30,000**	**305,548**

The accompanying notes 1 to 43 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (CONT'D)

YEAR ENDED 31 DECEMBER 2017

	Notes	Share capital	Legal reserve	General reserve	Subordinated debt reserve	Special reserve	Cumulative changes in fair value	Retained earnings	Sub total	Perpetual Tier 1 capital bonds	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2016		116,000	33,368	26,560	40,000	-	(3,260)	13,351	226,019	-	226,019
Profit for the year		-	-	-	-	-	-	24,526	24,526	-	24,526
Other comprehensive income, net of tax		-	-	-	-	-	3,188	-	3,188	-	3,188
Total comprehensive income for the year		-	-	-	-	-	3,188	24,526	27,714	-	27,714
Issue of share capital	19	11,000	-	-	-	-	-	-	11,000	-	11,000
Transfer to special reserve	23	-	-	-	-	2,400	-	(2,400)	-	-	-
Transfer to legal reserve	20	-	2,453	-	-	-	-	(2,453)	-	-	-
Transfer to retained earnings	21	-	-	(1,000)	-	-	-	1,000	-	-	-
Transfer to subordinated debt reserve	22	-	-	-	14,000	-	-	(14,000)	-	-	-
Issue of Perpetual Tier 1 capital bonds	24	-	-	-	-	-	-	-	-	30,000	30,000
Issue expenses of Perpetual Tier 1 capital bonds		-	-	-	-	-	-	(34)	(34)	-	(34)
Dividend paid	25	-	-	-	-	-	-	(11,600)	(11,600)	-	(11,600)
At 31 December 2016		127,000	35,821	25,560	54,000	2,400	(72)	8,390	253,099	30,000	283,099

The accompanying notes 1 to 43 form part of these financial statements.

2017 ANNUAL REPORT

STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RO'000	2016 RO'000
Operating activities			
Profit before tax from continuing operations		**31,463**	17,205
Profit before tax from discontinuing operations	32	**-**	123
Profit before tax		**31,463**	17,328
Adjustments:			
Depreciation	12	**3,680**	3,810
Impairment for credit losses	9(a)	**8,276**	14,384
Recoveries/release from impairment for credit losses	9(a)	**(8,132)**	(6,705)
Allowance for impairment in available-for-sale investment		**728**	2,336
Income from held-to-maturity investments	26	**(2,211)**	(1,408)
Profit on sale of property and equipment	12	**-**	(2)
Change in fair value of financial assets at fair value through profit or loss	10	**3**	(21)
Operating profit before working capital changes		**33,807**	29,722
Loans and advances and financing to customers		**(59,357)**	(82,907)
Other assets		**(879)**	(4,545)
Deposits from customers		**109,704**	35,990
Other liabilities		**(1,810)**	(12,796)
Cash from (used in) operations		**81,465**	(34,536)
Tax paid		**(4,187)**	(4,108)
Net cash generated from (used in) operating activities		**77,278**	(38,644)
Investing activities			
Proceeds from disposal of IMG	32	**-**	12,000
Held-to-maturity investments matured	10	**326,560**	336,790
Purchase of held-to-maturity investments	10	**(354,484)**	(335,858)
Purchase of investment available-for-sale	10	**(17,037)**	(6,517)
Financial assets at fair value through profit or loss		**9**	18
Proceeds from sale of investment available-for-sale	10	**17,962**	10,652
Income from maturing of held-to-maturity investments	26	**2,211**	1,408
Purchase of property and equipment	12	**(4,460)**	(4,070)
Proceeds from sale of property and equipment		**-**	5
Net cash (used in) from investing activities		**(29,239)**	14,428
Financing activities			
Proceeds from issue of share capital	19	**-**	11,000
Repayment of subordinated debt		**(50,000)**	-
Proceeds from issuance of Perpetual Tier 1 capital bonds	22	**-**	30,000
Interest distribution of Perpetual Tier 1 capital bonds		**(2,325)**	-
Dividends paid		**-**	(11,600)
Net cash (used in) from financing activities		**(52,325)**	29,400
Net (decrease) increase in cash and cash equivalents		**(4,286)**	5,184
Cash and cash equivalents at the beginning of the year		**270,630**	265,446
Cash and cash equivalents at the end of the year	35	**266,344**	270,630

The accompanying notes 1 to 43 form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2017

NOTES TO FINANCIAL STATEMENTS
AT 31 DECEMBER 2017

1. Legal status and principal activities

Oman Arab Bank SAOC ("the Bank" or "OAB") was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. It is principally engaged in commercial banking activities through a network of branches in the Sultanate of Oman. The Bank operates in Oman under a banking licence issued by the Central Bank of Oman ("CBO") and is covered by its deposit insurance scheme. The registered address of the bank is Muttrah Business District, P. O. Box 2010, Ruwi, Postal Code 112, Muscat, and Sultanate of Oman. The Bank's Islamic Banking window under the name – "Al Yusr", commenced operations from 14 July 2013 and operates under the Islamic banking licence granted by the CBO. The principal activities of Al Yusr is providing Shari'a compliant financing, accepting Shari'a compliant deposits and other activities permitted under CBO's regulated Islamic Banking Services as defined in the licensing framework.

2. Summary of significant accounting policies

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the applicable regulations of the CBO and the applicable requirements of the Commercial Companies Law of 1974, as amended.

The Bank prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of CBO. The IBW's financial statements are then converted into IFRS compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

2.2 Basis of preparation

The financial statements are prepared under the historical cost convention, modified to include the measurement at fair value of the financial assets classified as investments available-for-sale, fair value through profit or loss and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Bank presents its statement of financial position in descending order of liquidity, as this presentation is more appropriate to the Bank's operations.

2.3 Financial instruments – initial recognition and subsequent measurement

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and advances, held-to-maturity investments and available-for-sale investments. Management determines the classification of its investments at initial recognition. The Bank classifies its financial liabilities into deposits from customers, subordinated debts and due to banks.

2.3.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2.3.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

2.3.3 Financial assets at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in investment income -net. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the EIR, while dividend income is recorded in investment income –net, when the right to the payment has been established.

2.3.4 Available-for-sale investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the cumulative changes in fair value. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss in other operating income. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss in 'Impairment of investments available-for-sale' and removed from the cumulative changes in fair value of investments available-for-sale.

2.3.5 Held-to-maturity investments

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as 'interest income'. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income. Held to maturity investments are government development bonds and treasury bills.

2.3.6 Loans and advances to customers and due from banks

Loans and receivables to customers and due from banks are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the statement of comprehensive income and is reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'Impairment for credit losses'.

2.3.7 Fair value measurement principles

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents. The Bank also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

2.3.8 De-recognition

a. Financial assets

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

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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the

Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

b. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.3.9 Identification and measurement of impairment of financial assets

a. Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. 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 following loss events as well as considering the guidelines issued by the CBO:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the Bank, or national or local economic conditions that correlate with defaults on the assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

b. Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2.4 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: cash and non-restricted balances with the CBO, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks, amounts due to other banks and short-term government securities. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.5 Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

2.6 Property and equipment

Property and equipment are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on the assets except land is calculated using the straight-line basis to allocate their cost over the estimated useful lives, as follows:

	Years
Building	25
Equipment, furniture and fixtures	5
Motor vehicles	5

The assets' residual values and useful lives are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down to their recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the profit or loss as an expense as incurred.

2.7 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss.

2.8 Collateral pending sale

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

2.9 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.10 Perpetual bonds

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's perpetual bonds are not redeemable by holders and bear an entitlement to distribution that is non-cumulative and at the discretion of the board of directors. Accordingly, they are presented as component within equity.

2.11 Employee terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in other liabilities.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Law 1991 are recognised as an expense in the statement of comprehensive income as incurred.

2.12 Voluntary end of service benefits

Voluntary end of service benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Bank will be accepted, and the number of acceptances can be estimated reliably.

2.13 Deposits from customers

Deposits from banks and customers and subordinated liabilities are the Bank's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the EIR.

2.14 Taxation

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

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

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax assets/liabilities are calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2.15 Discontinued operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

– Represents a separate major line of business or geographical area of operations

– Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or,

– Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in note 32. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

2.16 Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method, unless collectability is in doubt. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest distribution on perpetual bonds, which are classified as equity, are recorded in the statement of changes in equity, when declared.

2.17 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

2.18 Acceptances

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

2.19 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

– hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

– hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

– hedges of a net investment in a foreign operation (net investment hedge).

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Changes in the fair value of any such derivative instruments are recognised immediately in the profit or loss within 'Other operating income'.

2.20 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the profit or loss.

2.21 Dividends on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.22 Repurchase and resale agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

2.23 Foreign currencies

(i) Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences

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on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

2.24 Provisions

A provision is recognised if, as a result of past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

2.25 Directors' remuneration

The Directors' remuneration is governed as set out in the Articles of Association of the Bank, the Commercial Companies Law of the Sultanate of Oman and regulations issued by the Capital Market Authority.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

2.26 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and support and unallocated functions. The Bank sold its Investment Banking unit in 2016 (refer note 32). The segment information is set out in note 42.

3. Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results. Specific fair value estimates are disclosed in note 5.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Bank's significant accounting estimates were on:

3.1 Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets in the Bank. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro-economic conditions.

3.2 Impairment of available-for-sale investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgment, the Bank evaluates among other factors, the volatility in share price. However, any decline in fair value of an equity investment below its cost for a continuous period of more than 12 months is considered as prolonged, by the end of the current financial year. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

3.3 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

3.4 Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3.5 Classification of investments

Management decides on acquisition of an investment whether it should be classified as fair value through profit or loss, available-for-sale or held-to-maturity investments.

a. Available-for-sale investments

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires management's judgement based on its intentions to hold such investments.

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b. Held-to-maturity investments

Management follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgements. In making this judgement, the Management evaluates its intention and ability to hold such investments to maturity. If the Management fails to keep these investments to maturity other than for the specific circumstances-for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would, therefore, be measured at fair value.

4. Adoption of new and revised International Financial Reporting Standards (IFRS)

4.1 New and amended standards and interpretations to IFRS relevant to the Bank

For the year ended 31 December 2017, the Bank has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2017.

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements Cycle - 2014-2016
- Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The adoption of those standards and interpretations has not resulted in significant changes to the Bank's accounting policies and has not affected the amounts reported for the current and prior periods.

4.2 Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2017:

IFRS 9 - Financial Instruments:

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Bank's initial estimate of IFRS 9 is expected to impact equity attributable to the equity holders of the Bank by 1%-2% as of 1 January 2018.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Bank is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to re-assessment and changes upon instructions of the regulatory authority.

a. Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

b. Expected credit losses

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The CBO has issued guidelines relating to implementation of IFRS 9. The relevant requirements relating to transition are set out below:

- Should the existing loan loss impairment computed in accordance with the requirements of IAS 39 and CBO guidelines be higher than the impairment allowance computed under IFRS 9, the related difference (net of tax) be transferred to a loan loss impairment reserve from retained earnings as of 1 January 2018.
- In the subsequent years, where the allowance for loan loss impairment computed in accordance with CBO requirements is higher than the allowance for loan loss impairment loss computed under IFRS 9, the difference (net of tax) should be transferred to the aforementioned loan loss impairment reserve from retained earnings.
- The related impairment reserve will not be available for dividend distribution or for inclusion in the regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

c. Financial liabilities

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

d. Hedge accounting

Hedge accounting requirements of IFRS 9 are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9.

e. (v) Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

IFRS 15 - Revenue from Contracts with Customers: IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date using the modified retrospective approach. The Bank has performed an initial impact assessment and concluded that the impact is not material as in majority of the Bank's facility agreements with customers generally expected to be the only performance obligation and accordingly, adoption of IFRS 15 is not expected to have any impact on the Bank's income and profit or loss.

IFRS 16 – Leases: The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). For lessors, there is little change to the existing accounting in IAS 17 Leases. The Bank will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its financial statements.

5. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the evaluation, analysis, acceptance and management of risk or combination of risks. As taking risk is core to the financial business and operational risks are an inevitable consequence of any business, the Bank's aim is to achieve an appropriate balance between risk and return while minimising the potential adverse effects on the financial performance.

The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk in both the trading and the banking book of the Bank. Risk Management is carried out by the Risk Management Department in accordance with documented policies approved by the Board of Directors.

The principal types of risks that the Bank faces are credit risk, liquidity risk, market risk (price risk, interest rate risk and currency risk) and operational risk.

5.1 Credit risk

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. The details of concentrations of credit risk based on counterparties by industry are disclosed in Note 9 (c) and the geographical concentration is disclosed in Note 40.

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.

The Bank rates its customers into the following categories:

Bank's rating	Past due days Retail and commercial loans
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

5.1.1 Risk mitigation policies

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.

Some other specific control and mitigation measures are outlined below.

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
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured

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by mortgage over the residential property. Credit cards and similar revolving credit facilities are generally 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 relationship managers remain in close contact with the borrowers. 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.

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. The concentration of credit related commitments by industry sector at the year-end is set out in Note 37(a).

An analysis of the loans and advances for which collaterals or other credit enhancements are held is as follows:

	Performing loans (neither past due nor impaired) RO'000	Loans past due but not impaired RO'000	Non performing loans RO'000	Gross Loans RO'000
Loans and advances with collateral available	446,856	107,740	26,421	581,017
Loans and advances with guarantees available	42,595	-	7,958	50,553
Balance as at 31 December 2017	489,451	107,740	34,379	631,570
Balance as at 31 December 2016	454,398	97,674	33,549	585,621

5.1.2 Impairment and provisioning policy

Impairment allowances 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 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 and experienced judgment. The critical estimates used in determining the provision for impairment are explained in Note 3.2.

5.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

Items on the statement of financial position	2017 RO' 000	2016 RO' 000
Cash and balances with Central Bank of Oman	161,987	253,106
Due from banks	108,868	30,080
Loans and advances		
Corporate loans	981,990	919,271
Personal loans	722,482	725,591
Other assets	46,280	45,401
Investments held to maturity		
Government development bonds	85,847	55,633
Treasury bills	38,000	40,290
	2,145,454	2,069,372
Off-Balance sheet items		
Letters of credit	262,250	197,931
Guarantees	481,340	482,070
Financial guarantees	153,858	141,638
Undrawn loan commitments	62,767	97,975
	960,215	919,614

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2017 and 31 December 2016 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition, credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

a. 59% (2016 – 60%) of the inter-bank money market placements is with a local bank rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.

b. Loans and advances represent 77% (2016 – 77 %) of the total on-balance sheet items. Of the total loans and advances 86 % (2016 - 85 %) are neither past due nor impaired.

c. The impaired loans have remain unchanged at 2.9% as at 31 December 2017. The impaired personal loans constitute 0.58 % of the total loans at 31 December 2017 compared to 0.85 % at 31 December 2016.

5.1.4 Loans and advances and due from banks

a) Loans and advances and due from banks are summarised as follows:

31 December 2017	Loans and advances to customers	Due from banks	Total
	RO' 000	RO' 000	RO' 000
Neither past due nor impaired	1,379,392	108,868	1,488,260
Special mention loans	191,508	-	191,508
Past due but not impaired	83,299	-	83,299
Impaired	50,273	-	50,273
Gross loans and advances	1,704,472	108,868	1,813,340
Less: allowance for loan impairment and contractual interest not recognised	(50,459)	-	(50,459)
Net loans and advances	1,654,013	108,868	1,762,881
31 December 2016			
Neither past due nor impaired	1,305,313	30,080	1,335,393
Special mention loans	211,891	-	211,891
Past due but not impaired	79,720	-	79,720
Impaired	47,938	-	47,938
Gross loans and advances	1,644,862	30,080	1,674,942
Less: impairment for credit losses and contractual interest not recognised	(50,063)	-	(50,063)
Net loans and advances	1,594,799	30,080	1,624,879

5.1.4 Loans and advances and due from banks

b) The break-up of the loans and advances to customers in respect of the risk ratings adopted by the Bank are:

31 December 2017	Retail loans	Corporate loans	Total
	RO' 000	RO' 000	RO' 000
Standard loans	709,620	753,071	1,462,691
Special mention loans	2,901	188,607	191,508
Substandard loans	1,834	926	2,760
Doubtful loans	2,438	1,525	3,963
Loss	5,689	37,861	43,550
	722,482	981,990	1,704,472

At 31 December 2016	Retail loans	Corporate loans	Total
	RO' 000	RO' 000	RO' 000
Standard loans	714,922	670,111	1,385,033
Special mention loans	315	211,576	211,891
Substandard loans	1,647	1,263	2,910
Doubtful loans	3,840	2,887	6,727
Loss	4,867	33,434	38,301
	725,591	919,271	1,644,862

c) Age analysis of loans and advances past due but not impaired is set out below:

	2017	2016
	RO' 000	RO' 000
Past due up to 30 days	24,320	78,616
Past due 30-60 days	30,915	567
Past due 60-90 days	28,064	537
Total	83,299	79,720
Fair value of collateral	144,335	49,140

d) Loans and advances individually impaired

Individually impaired loans	50,273	47,938
Fair value of collateral	25,897	25,219

5.1.5 Loans and advances renegotiated

These arrangements include extended payment arrangements, deferral of payments and modification of interest rates. Following restructuring, a previously past due loan account is reclassified as a normal loan and managed with other similar loans which are neither past due nor impaired. The restructuring arrangements are based on the criteria and indicators which in the judgement of the management will indicate that the payment will most likely continue.

The total restructured loans at 31 December 2017 amounted to RO 12,353,105 (2016 - RO 7,122,413).

5.1.6 Debt securities

The Bank's investments in debt securities are mainly in Government Development Bonds or treasury bills denominated in Rial Omani issued by the Government of Oman. The Bank also invests in debt securities issued by other banks based on their individual external credit rating. These investments are made to deploy the surplus liquid funds with maximum return.

5.1.7 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The value of assets obtained by the Bank by taking possession held as collateral as security at 31 December 2017 is RO 183,000 (2016 - Nil).

5.2 Market risk

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.

5.2.1 Price risk

The Bank holds listed securities classified as held-for-trading to take advantage of short-term and capital market movements. All investment securities present a risk of loss of capital. The Bank controls this risk through a careful selection of securities in accordance with Investment Management Policy approved by the Board. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The Bank's market positions are reviewed periodically by the management.

A significant portion of Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank's profits at 31 December 2017 may change by 0.08% (2016 – 0.09%) due to increase by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The Bank's investments have historically performed in line with the MSM - 30 Index.

5.2.2 Interest rate risk

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 its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate with the objective of limiting the potential adverse effects on the Bank's profitability. The table in Note 39 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.

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

5.2.3 Currency risk

Currency risk arises when 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 approved by the Executive Committee of the Board 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). The net open position of the Bank in foreign currency exposures at the yearend is set out below:

Foreign currency

	2017 RO'000	2016 RO'000
Net assets denominated in US Dollars	**36,539**	2,249
Net assets denominated in other foreign currencies	**3,174**	554
	39,713	2,803

Oman operates with a fixed exchange rate, and the Omani Rial is pegged to the US Dollar at $2.6008 per Omani Rial.

5.2.4 Liquidity risk

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.

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 in Note 36 represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

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5.3 Operational risk

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 minimise the impact of operational risks.

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.

5.4 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2017. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

5.4.1 Current account balances due to and from banks

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

5.4.2 Loans and advances

The fair value of non-performing loans approximates to the book value adjusted for allowance for loan impairment. For the performing loans, the fair value is taken as being equivalent to its carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

5.4.3 Investments at fair value through profit or loss and available-for-sale

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. Changes in fair value resulting from these calculations are not material to the financial statements. Details are set out in note 10.

5.4.4 Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which equal to the carrying value of those liabilities. The estimated fair value of fixed rate deposits whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contractual cash flows using the market interest rates currently offered for similar deposits.

5.4.5 Derivatives

The Bank usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

5.5 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per statement of financial position	Fair value through profit or loss RO'000	Held to maturity RO'000	Available-for-sale investments RO'000	Loans and receivables RO'000	Total RO'000
31 December 2017					
Cash and balances with CBO	-	-	-	161,987	161,987
Due from banks	-	-	-	108,868	108,868
Loans and advances and financing to customers	-	-	-	1,654,013	1,654,013
Investment securities	616	123,847	13,958	-	138,421
Other assets	-	-	-	46,280	46,280
	616	123,847	13,958	1,971,148	2,109,569
31 December 2016					
Cash and balances with CBO	-	-	-	253,106	253,106
Due from banks	-	-	-	30,080	30,080
Loans and advances and financing to customers	-	-	-	1,594,799	1,594,799
Investment securities	628	95,923	17,384	-	113,935
Other assets	-	-	-	45,401	45,401
	628	95,923	17,384	1,923,386	2,037,321

Liabilities as per statement of financial position	Other liabilities RO'000	Total RO'000
31 December 2017		
Due to banks	4,011	4,011
Deposits from customers	1,746,856	1,746,856
Other liabilities	57,693	57,693
Subordinated bonds	20,000	20,000
	1,828,560	1,828,560
31 December 2016		
Due to banks	12,056	12,056
Deposits from customers	1,637,152	1,637,152
Other liabilities	59,503	59,503
Subordinated bonds	70,000	70,000
	1,778,711	1,778,711

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6. Capital management

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;
- 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 principal objective of the CBO capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a Bank's statement of financial position, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS).

CBO requires the banks registered in the Sultanate of Oman to maintain the capital adequacy a minimum of 12% based on guidelines of the Basel II accord from December 2010 onwards. In addition, CBO mandated the banks in Oman to maintain a Capital Conservation Buffer (CCB) under Basel III of 0.625% in addition to the minimum capital of 12% from 1 January 2014 to 1 January 2019. Additional CCB of 0.625% must be maintained annually between 1 January 2017 and 1 January 2019.

	2017 **RO'000**	2016 RO'000
Capital		
Common Equity Tier 1 (CET 1)	**260,267**	252,935
Additional Tier 1	**30,000**	30,000
Total Tier 1	**290,267**	282,935
Tier 2	**32,756**	38,687
Total capital base	**323,023**	321,622
Risk weighted assets		
Credit risk	**1,885,048**	1,852,546
Market risk	**30,713**	2,975
Operational risk	**143,438**	141,500
Total risk weighted assets	**2,059,199**	1,997,021
Capital adequacy ratio %	**15.69%**	16.11%

The Tier 1 capital consists of paid-up capital, reserves and perpetual bonds. The Tier 2 capital consists of the subordinated bonds and collective provision made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

7. Cash and balances with the Central Bank of Oman

	2017 **RO' 000**	2016 RO' 000
Cash in hand	**39,299**	37,782
Balances with the Central Bank of Oman:		
- Clearing account	**112,563**	166,699
- Placements	**9,625**	48,125
- Capital deposit	**500**	500
	161,987	253,106

The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns an annual interest at 1% (2016 - 1%).

During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves is RO 52.662 million (2016: RO 49.137 million).

8. Due from banks

	2017 **RO'000**	2016 RO'000
Money market placements	**93,747**	16,659
Current accounts	**15,121**	13,421
	108,868	30,080

At 31 December 2017, 81 % of the Bank's placements were with eight banks rated in the range of Aa3 to Baa3 and 19% of the placements were with Oman Housing Bank SAOC, which is owned by Government (2016– 60 % of the Bank's placements were with Oman Housing Bank SAOC, which is owned by Government).

9. Loans and advances and financing to customers

	2017 RO' 000	2016 RO' 000
Corporate loans		
Term loans	**710,437**	654,920
Overdrafts	**146,469**	143,753
Bills discounted	**74,965**	87,278
Islamic Finance	**50,119**	33,320
	981,990	919,271
Personal loans		
Consumer loans	**431,166**	451,242
Mortgage loans	**249,475**	235,171
Overdrafts	**755**	1,807
Credit cards	**8,052**	4,657
Islamic Finance	**33,034**	32,714
	722,482	725,591
Gross loans and advances	**1,704,472**	1,644,862
Less: allowance for loan impairment and contractual interest not recognised (refer to note (a) below)	**(50,459)**	(50,063)
Net loans and advances	**1,654,013**	1,594,799

Loans and advances and financing to customers (Cont'd)

a) Impairment for credit losses

The movement in the impairment for credit losses is as follows:

2017	Allowance for loan impairment RO' 000	Contractual interest not recognised RO' 000	Total RO' 000
Balance at 1 January 2017	**43,788**	**6,275**	**50,063**
Provided during the year	**8,276**	**3,299**	**11,575**
Amounts written off during the year	**(2,342)**	**(705)**	**(3,047)**
Amounts released/recovered during the year	**(6,575)**	**(1,557)**	**(8,132)**
Balance at 31 December 2017	**43,147**	**7,312**	**50,459**

2016	Impairment for credit losses RO' 000	Contractual interest not recognised RO' 000	Total RO' 000
At 1 January 2016	37,432	7,381	44,813
Provided during the year	14,384	2,943	17,327
Amounts written off during the year	(2,416)	(2,956)	(5,372)
Amounts released / recovered during the year	(5,612)	(1,093)	(6,705)
At 31 December 2016	43,788	6,275	50,063

At 31 December 2017, RO 21,216,990 (2016 - RO 22,964,562) out of the total loan impairment provisions has been made on a portfolio basis against the losses incurred but not identified on the performing portion of the loans and advances.

At 31 December 2017, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 50,272,537 (31 December 2016 - RO 47,937,954).

Loans and advances and financing to customers (Cont'd)

b) Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

2017	**Personal**	**Corporate**	**Total**
	RO'000	**RO'000**	**RO'000**
Musharaka	**24,851**	**22,384**	**47,235**
Murabaha	**4,658**	**8,142**	**12,800**
Ijarah Muntahia Bittamleek	**3,525**	**13,410**	**16,935**
Wakala	**-**	**6,183**	**6,183**
At 31 December	**33,034**	**50,119**	**83,153**

2016	Personal	Corporate	Total
	RO'000	RO'000	RO'000
Musharaka	24,758	15,160	39,918
Murabaha	4,227	12,428	16,655
Ijarah Muntahia Bittamleek	3,729	5,732	9,461
At 31 December 2016	32,714	33,320	66,034

Loans and advances and financing to customers (Cont'd)

c) Concentration of loans and advances

All loans and advances were granted to customers within the Sultanate of Oman. The concentration of gross loans and advances by economic sector is as follows:

	2017	2016
	RO' 000	RO' 000
Personal loans	**722,482**	725,591
Construction	**280,754**	299,485
Manufacturing	**114,990**	112,047
Mining and quarrying	**127,172**	110,621
Services	**89,845**	77,860
Import trade	**50,448**	54,744
Transportation	**76,472**	52,528
Electricity, water and gas	**51,827**	49,112
Wholesale and retail trade	**51,786**	46,089
Financial institutions	**55,401**	35,173
Agriculture and allied activities	**5,492**	4,998
Export trade	**1,066**	663
Lending to non-residents	**1,305**	-
Others	**75,432**	75,951
	1,704,472	1,644,862

Of the above, loans with variable interest rates amount to RO 706,079,194 (2016 - RO 673,931,694), loans carrying fixed interest rates amount to RO 915,239,806 (2016 - RO 904,896,306) and Islamic finance contracts amounts to RO 83,152,563 (2016: 66,034,051).

10. Investment securities

	2017 Carrying value RO'000	2017 Cost RO'000	2016 Carrying value RO'000	2016 Cost RO'000
Available-for-sale				
- quoted	13,100	14,990	16,536	18,915
- unquoted	858	887	848	877
	13,958	15,877	17,384	19,792
Designated as at fair value through profit or loss				
- quoted	431	440	440	378
- unquoted	131	325	131	325
	562	765	571	703
Held-for-trading				
- quoted	54	95	57	95
	54	95	57	95
Held-to-maturity				
Oman Government development bonds and Sukuk	85,847	85,847	55,633	55,633
Treasury bills	38,000	38,000	40,290	40,290
	123,847	123,847	95,923	95,923
Total investment securities	138,421	140,584	113,935	116,513

Refer note 38 for the maturity profile of the investment securities.

Investment securities (Cont'd)

The following table presents the Bank's investment securities along with the movement in the investment securities:

2017	At 1 January 2017 RO'000	Additions RO'000	Disposals (sale & redemption) RO'000	Changes in fair value recorded in profit or loss RO'000	Changes in fair value recorded in equity RO'000	At 31 December 2017 RO'000
Available-for- sale						
Quoted – level 1	16,536	17,027	(17,962)	(728)	(1,773)	13,100
Unquoted – level 3	848	10	-	-	-	858
Designated as at fair value through profit or loss						
Quoted – level 1	440	440	(449)	-	-	431
Unquoted – level 3	131	-	-	-	-	131
Held for trading						
Quoted – level 1	57	-	-	(3)	-	54
Investments held to maturity	95,923	354,484	(326,560)	-	-	123,847
At 31 December 2017	113,935	371,961	(344,971)	(731)	(1,773)	138,421

2016	At 1 January 2016 RO'000	Additions RO'000	Disposals (sale & redemption) RO'000	Changes in fair value recorded in profit or loss RO'000	Changes in fair value recorded in equity RO'000	At 31 December 2016 RO'000
Available-for- sale						
Quoted – level 1	18,596	6,449	(9,365)	(2,336)	3,192	16,536
Unquoted – level 3	2,071	68	(1,287)	-	(4)	848
Designated as at fair value through profit or loss						
Quoted – level 1	438	-	-	2	-	440
Unquoted – level 3	322	-	(210)	19	-	131
Held for trading						-
Quoted – level 1	75	-	(18)	-	-	57
Investments held to maturity	96,855	335,858	(336,790)	-	-	95,923
At 31 December 2016	118,357	342,375	(347,670)	(2,315)	3,188	113,935

Investment securities (Cont'd)

Available-for-sale investments amounting to RO 833,751 (2016: RO 833,751) are recorded at cost. Management believes that the fair value cannot be reliably measured for these unquoted investments.

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Included under investments held-to-maturity are bonds issued by the Government of Oman amounting to RO 85,845,938 (2016: RO 55,632,542). The bonds are denominated in Rial Omani and US dollars and carry interest rates varying between 3.00% to 5.75% (2016 – 2.75% to 5.5%) per annum. Also included in investments held-to-maturity are treasury bills and Sukuk bonds issued by the Government of Oman amounting to RO 38,000,000 (2016: RO 40,290,000) and RO 636,000 (2016: RO 636,000) respectively. The treasury bills are denominated in Rial Omani and carry yield rates ranging between 0.75% to 1% (2016: 0.46% to 0.86%). The maturity profiles of the held-to-maturity investments, based on the remaining maturity from the reporting date, are as follows:

	2017 RO'000	2016 RO'000
Treasury bills		
Upto 3 months	38,000	40,290
Government bonds		
1 to 5 years	35,151	49,684
Above 5 years	50,060	5,313
Sukuk bonds		
1 to 5 years	636	636
Total	123,847	95,923

11. Other assets

	2017 RO 000	2016 RO 000
Customers' indebtedness against acceptances	25,021	24,133
Fees receivable	3,722	6,634
Interest receivable	8,657	6,155
Prepayments	1,849	2,118
Positive fair value of derivatives (note 36)	321	166
Others	6,710	6,195
	46,280	45,401

12. Property and equipment

2017	Land and buildings RO'000	Computer Equipment RO'000	Furniture & Fixtures RO'000	Motor vehicles RO'000	work in progess RO '000	Total RO'000
Cost						
At 1 January 2017	21,571	19,713	11,406	656	1,341	54,687
Additions	-	1,250	2,941	11	258	4,460
Transfers	-	546	61	-	(607)	-
Disposals	-	(3)	(39)	-	-	(42)
At 31 December 2017	21,571	21,506	14,369	667	992	59,105
Depreciation						
At 1 January 2017	2,163	14,889	8,580	404	-	26,036
Charge for the year	590	1,869	1,146	75	-	3,680
Relating to disposals	-	(2)	(39)	-	-	(41)
At 31 December 2017	2,753	16,756	9,687	479	-	29,675
Net book value						
At 31 December 2017	18,818	4,750	4,682	188	992	29,430

2016	Land and buildings RO'000	Computer equipment RO'000	Equipment, furniture & fixtures RO'000	Motor vehicles RO'000	Capital work in progress RO '000	Total RO'000
Cost						
At 1 January 2016	21,571	18,129	10,620	632	440	51,392
Additions	–	1,784	1,284	84	918	4,070
Transfers	–	17	–	–	(17)	–
Disposals	–	(217)	(498)	(60)	–	(775)
At 31 December 2016	21,571	19,713	11,406	656	1,341	54,687
Depreciation						
At 1 January 2016	1,573	12,988	7,887	380	–	22,828
Charge for the year	590	2,003	1,133	84	–	3,810
Relating to disposals	–	(102)	(440)	(60)	–	(602)
At 31 December 2016	2,163	14,889	8,580	404	–	26,036
Net book value						
At 31 December 2016	19,408	4,824	2,826	252	1,341	28,651

13. Due to banks

	2017 RO'000	2016 RO'000
Current accounts	**4,011**	6,281
Money market acceptances	**-**	5,775
	4,011	12,056

14. Deposits from customers

	2017 RO'000	2016 RO'000
Term deposits	**738,813**	763,794
Demand and call accounts	**736,032**	632,283
Saving accounts	**272,011**	241,075
	1,746,856	1,637,152

The concentration of customers' deposits by Private and Government sector is as follows:

	2017 RO'000	2016 RO'000
Private	**1,351,964**	1,248,389
Government	**394,892**	388,763
	1,746,856	1,637,152

Islamic customers' deposits

Included in the above customers' deposits are the following Islamic customer deposits:

	2017 RO'000	2016 RO'000
Wakala acceptances	**72,008**	58,162
Current account - Qard	**14,679**	6,814
Mudaraba accounts	**3,218**	2,486
	89,905	67,462

15. Other liabilities

	2017 RO'000	2016 RO'000
Liabilities against acceptances	**25,021**	24,133
Interest payable	**17,901**	18,390
Accrued expenses and other payables	**8,610**	8,096
Cheques and trade settlement payable	**3,364**	5,247
Staff terminal benefits (note 16)	**1,158**	1,429
Interest and commission received in advance	**1,349**	1,309
Early retirement benefits	**-**	756
Negative fair value of derivatives (note 36)	**290**	143
	57,693	59,503

16. Staff terminal benefits

	2017 RO'000	2016 RO'000
At 1 January	**1,429**	2,297
Charge for the year	**225**	351
Payment to employees during the year	**(495)**	(1,219)
At 31 December	**1,158**	1,429

17. Subordinated debt

In order to enhance the capital adequacy and to meet the funding requirements, the Bank has raised capital in the form of subordinated bonds and loans.

	2017 RO'000	2016 RO'000
Subordinated bonds (i)	**-**	50,000
Subordinated loans (ii)	**20,000**	20,000
	20,000	70,000

i) Subordinated bonds

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. The bonds matured in May 2017.

ii) Subordinated loans

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.

18. Taxation

	2017 RO'000	2016 RO'000
Statement of profit or loss:		
Current year	4,725	3,908
Prior years	120	256
Deferred tax	71	(256)
	4,916	3,908
Disclosed in statement of comprehensive income as follows:		
Tax on profit for the year from continuing operations	4,916	2,561
Tax on profit for the year from discontinued operations (note 32)	-	1,347
	4,916	3,908
Statement of financial position		
Current year	4,798	4,140
Deferred tax	93	22
	4,891	4,162
Deferred tax liability		
At 1 January	22	278
Movement for the year	71	(256)
At 31 December	93	22

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 15% (2016: 12%). For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 15.02% (2016 – 13.66%). The deferred tax liability has been recognised at the effective rate of 15% (2016 - 12%).

	2017 RO'000	2016 RO'000
Profit before tax	31,463	28,434
Tax at the applicable rate of 15% (2016: 12%)	4,719	3,408
Tax effect of temporary differences	74	(256)
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	(68)	1,012
deductible in determining taxable profit		
Prior year	120	-
Less: Deferred tax liability created during the year	71	(256)
Tax expense for the year	4,916	3,908

Status of tax assessments

The assessments for the years up to 2013 are complete. The assessments for 2014 to 2016 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the Bank on completion of the pending tax assessments as compared to the existing provision established.

19. Share capital

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 (2016: 1,270,000,000 fully paid shares of RO 0.100 each). The paid up share capital of the Bank was increased during 2017 by RO 7.62 million through the issuance of bonus shares to existing shareholders at RO 0.100 baizas per share.

RO 14 million has been assigned as capital for the Islamic Banking services of the Bank (2016: RO 14 million)

	Country of incorporation	Share holding %	2017 RO'000	2016 RO'000
Oman International Development & Investment Co. SAOG	Oman	50.99	68,643	64,758
Arab Bank Plc	Jordan	49.00	65,964	62,230
Oman Real Estate Investment Services SAOC (formerly Oman Investment Services SAOC)	Oman	0.01	13	12
			134,620	127,000

20. Legal reserve

In accordance with Article 106 of the Commercial Companies Law of 1974, as amended of the Sultanate of Oman, the Bank is required to transfer 10% of its profit after tax for the year to legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. This reserve is not available for distribution.

21. General reserve

The Bank has established a policy to set aside a portion of the profit each year to a 'General reserve' in order to meet any unforeseen contingencies. An amount of RO 1 million was transferred in 2016 from general reserve to retained earnings in order to create the special reserve as required by CBO. No transfers were made from / to general reserve during the year 2017.

22. Subordinated debt reserve

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 and loans which are due to mature within five years (refer note 17). The reserve is available for transfer back to retained earnings upon maturity of the subordinated bonds and loans. During the year, the subordinated bonds amounting to RO 50 million matured in May 2017 and accordingly, the reserve amounting to RO 50 million was released to retained earnings.

23. Special reserve

During 2015, the Bank sold its old head office premises at Ruwi since the head office operations have moved to the new premises at Al Ghubrah. The profit on sale of the premises amounting to RO 2.4 million has been set aside as a special reserve, which requires prior approval of the Central Bank of Oman for any distribution.

On 20 June 2017, the CBO issued a circular in relation to the reserve requirements for restructured accounts. In accordance with the circular, a reserve should be computed at 10% for all the restructured accounts. Accordingly, the Bank has transferred an amount of RO 360,489 (2016: RO Nil) from retained earnings to special reserve.

24. Perpetual Tier 1 Capital Bonds

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 constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 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.

25. Dividend proposed and paid

The Board of Directors proposed a cash dividend of RO 0.011 per share totalling to RO 14.81 million for the year ended 31 December 2017 (2016 - stock dividend of RO 0.006 per share totalling to RO 7.62 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

During the year, a stock dividend of RO 0.006 per share totalling to RO 7.620 million was paid as approved by shareholders in their annual general meeting held on 28 March 2017.

26. Interest income

	2017 RO'000	2016 RO'000
Loans and advances	**84,320**	75,524
Oman Government development bonds and sukuk	**2,211**	1,408
Treasury bills	**540**	427
Placements with banks and other money market placements	**1,044**	304
	88,115	77,663

27. Interest expense

	2017 RO'000	2016 RO'000
Time deposits	**23,522**	18,387
Subordinated debt	**2,087**	3,861
Call accounts	**1,826**	1,373
Borrowings	**2,801**	2,854
Savings accounts	**2,280**	1,290
	32,516	27,765

28. Fee and commission income – net

	2017 RO'000	2016 RO'000
Fee and commission income	**15,331**	17,966
Fee and commission expense	**(938)**	(1,573)
	14,393	16,393

29. Investment income – net

	2017 RO'000	2016 RO'000
Fair value changes	**(3)**	21
Profit (loss) on sale of investments	**495**	(940)
Dividend income	**648**	654
	1,140	(265)

30. Other operating income

	2017 RO'000	2016 RO'000
Exchange income	**5,763**	5,335
Other income	**843**	649
	6,606	5,984

31. Operating expenses

	2017 RO'000	2016 RO'000
Staff costs (refer below)	**27,190**	28,671
Other operating expenses	**14,399**	12,239
Depreciation from continuing operations	**3,680**	3,752
Directors' remuneration	**134**	130
	45,403	44,792

Details of staff costs are as follows:

	2017	2016
Salaries	**18,366**	19,392
Allowances	**3,912**	4,103
Social security costs	**1,898**	1,971
End of service benefits relating to continuing operations (note 16)	**225**	299
Early retirement benefits	**-**	756
Other costs	**2,789**	2,150
	27,190	28,671

32. Profit from sale of discontinued operations

During 2016, the Bank signed a Memorandum of Understanding with OMINVEST, Arab Bank Switzerland and Oman Investment Fund to sell its investment banking activities, which were under the Bank's Investment Management Group (IMG). The Board of Directors determined that IMG was a non-core business of the Bank and that selling it would permit the Bank to focus on its core business. The sale includes all the existing systems, human resources, licences, assets and liabilities of IMG. The sale was approved by the Bank's shareholders in an Extraordinary General Meeting held on 15 December 2016.

A new company, Ubhar Capital SAOC, was incorporated by OMINVEST, Arab Bank Switzerland and Oman Investment Fund. The Business Sale Purchase Agreement was signed between Oman Arab Bank and Ubhar Capital SAOC. The sale of IMG business was completed on 31 December 2016 for a consideration of RO 12 million and a net gain on sale of RO 11.1 million was recorded during the year 2016. As at 31 December 2016, IMG was classified as a discontinued operation and following assets were sold to Ubhar Capital SAOC and liabilities related to discontinued operations amounted to RO 514,000 were settled by the Bank.

(i) Property and equipment sold amounting to RO 170,000; and

(ii) Investment in FSGF amounting to RO 210,000.

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During 2016, the results of IMG for the year were presented below:

	2016 RO'000
Income	
Brokerage and other investment income -net	1,822
Expenses	
Salaries and related costs	(1,241)
General and administrative expenses	(400)
Depreciation on equipment	(58)
Total expenditure	(1,699)
Profit before tax for the year from discontinued operations	123
Gain on disposal	11,106
	11,229
Income tax expense (including tax on gain on disposal)	(1,347)
Profit after tax for the year from discontinued operations	9,882

IMG was part of Oman Arab Bank and was not a taxable entity. The taxation in accordance with the income tax law of the Sultanate of Oman is recorded in the Bank's accounting records.

The net cash flows incurred by the discontinued operations were as follows:

	2016 RO'000
Operating	(572)
Investing	380
	(192)
Earnings per share for profit for the year from discontinued operations	
Basic and diluted (RO)	0.080

33. Earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to the ordinary shareholders as follows:

	2017	2016
Profit for the year (RO'000)	**26,547**	24,526
Less: Issue expenses of Perpetual Tier 1 capital bonds (RO'000)	**-**	(34)
Less: Interest distribution of Perpetual Tier 1 capital bonds	**(2,325)**	-
Profit for the period attributable to equity holders of the bank after issuance expenses of Tier 1 capital bonds	**24,222**	24,492
Weighted average number of shares outstanding during the year	**125,799,454**	125,799,454
Basic earning per share (RO)	**0.019**	0.019

The basic earnings per share is the profit for the period divided by the weighted average number of shares outstanding. No figure for diluted earnings per share has been presented, as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

During the year 2016, the Bank issued stock dividend amounting to RO 7.62 million at RO 0.100 per share. As the issue was without any consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

34. Related party transactions

Management service agreement with a shareholder

The Bank has a management agreement with Arab Bank Plc Jordan, a shareholder. During the year ended 31 December 2017, the management fees as per the agreement amounted to RO 79,641 (2016: RO 73,578).

Disposal of IMG

During 2016, the Bank has sold its investment banking activities to Ubhar Capital SAOC, which is owned by Ominvest, Arab Bank Switzerland and Oman Investment Fund. Details are set out in note 32.

Other related parties transactions

In the ordinary course of business, the Bank conducts transactions with certain of its Directors and / or shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

2017	**Major shareholders**	**Others**	**Total**
	RO'000	**RO'000**	**RO'000**
Loans and advances	**11,500**	**56,007**	**67,507**
Customers' deposits	**619**	**22,566**	**23,185**
Due from banks	**35,725**	**-**	**35,725**
Due to banks	**1,538**	**-**	**1,538**
Stand by line of credit	**48,125**	**-**	**48,125**
Letters of credit, guarantees and acceptances	**153,179**	**16,090**	**169,269**

2016	Major shareholders	Others	Total
	RO'000	RO'000	RO'000
Loans and advances	4,000	54,060	58,060
Customers' deposits	1,352	12,273	13,625
Investments	-	440	440
Due from banks	14,739	-	14,739
Due to banks	3,615	-	3,615
Stand by line of credit	48,125	-	48,125
Letters of credit guarantees and acceptances	192,729	4,129	196,858

Movement of loans and advances given to related parties:

	2017	2016
	RO'000	RO'000
At 1 January 2016	**58,060**	66,449
Disbursed during the year	**258,055**	234,737
Paid during the year	**(248,608)**	(243,126)
At 31 December 2016	**67,507**	58,060

None of the loans and advances given to related parties were identified as impaired and no provision for any impairment has been recognised (2016: none identified or recognised)

Related party transactions (Cont'd)

The statement of comprehensive income includes the following amounts in relation to the transactions with related parties:

31 December 2017	Major shareholders	Others	Total
	RO'000	RO'000	RO'000
Interest and commission income	937	2,397	3,334
Interest expense	561	152	713

31 December 2016	Major shareholders	Others	Total
	RO'000	RO'000	RO'000
Interest and commission income	760	1,610	2,370
Interest expense	578	7	585

Key management compensation

The Directors' remuneration is set out in Note 31. The remuneration of other members of key management during the year was as follows:

	2017	2016
	RO'000	RO'000
Salaries and other short-term benefits	1,261	1,086
End of service benefits	174	33
	1,435	1,119

35. Cash and cash equivalents

	2017	2016
	RO'000	RO'000
Cash and balances with the CBO (note 7)	161,987	253,106
Due from banks (note 8)	108,868	30,080
Less: due to banks (note 13)	(4,011)	(12,056)
Restricted deposits included under balances with the CBO	(500)	(500)
	266,344	270,630

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36. Derivative financial instruments

At the reporting date, there were outstanding forward foreign exchange contracts, all maturing within one year, entered into on behalf of customers for the sale and purchase of foreign currencies.

These financial instruments have been recognised at prices in active markets for identical assets or liabilities. These fair values and the notional contracted amounts are summarised below:

	Positive fair value RO'000 (note 11)	Negative fair value RO'000 (note 15)	Notional amount RO'000	Within 3 months RO'000	3 - 12 months RO'000
31 December 2017					
Purchase contracts	321	-	33,548	26,104	7,444
Sale contracts	-	(290)	(33,516)	(26,085)	(7,431)
	321	(290)	32	19	13

31 December 2016	Positive fair value RO'000 (note 11)	Negative fair value RO'000 (note 15)	Notional amount RO'000	Within 3 months RO'000	3 - 12 months RO'000
Purchase contracts	166	-	13,199	7,193	6,006
Sale contracts	-	(143)	(13,176)	(7,176)	(6,000)
	166	(143)	23	17	6

Derivative financial instruments are fair valued as level 2.

37. Contingent liabilities and commitments

(a) Letters of credit and guarantees

The Bank is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and acceptances.

The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount. In addition, some commitments to extend credit can be cancelled or revoked at any time at the Bank's option.

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements as for customers applying for loans and advances.

Contingent liabilities and commitments (Cont'd)

Letters of credit and guarantees (Cont'd)

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	2017 RO'000	2016 RO'000
Letters of credit	**262,250**	197,931
Guarantees	**481,340**	482,070
Financial guarantees	**153,858**	141,638
	897,448	821,639

Letters of credit and guarantees amounting to RO 557,458,987 (2016: RO 510,559,661) were counter guaranteed by other banks.

Letters of credit and guarantees include RO 311,868 (2016: RO 467,951) relating to non-performing loans.

The concentration of letters of credit and guarantees by industry sector is as follows:

	2017 RO'000	2016 RO'000
Construction	**322,321**	287,085
Utilities	**236,007**	235,761
Export trade	**235,188**	152,983
Government	**45,064**	70,014
Import trade	**25,303**	40,319
Transportation	**16,046**	17,801
Wholesale and retail trade	**11,711**	10,670
Services	**2,823**	4,462
Manufacturing	**2,929**	2,544
Mining and quarrying	**56**	-
	897,448	**821,639**

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 4,645,780 (2016: RO 1,944,717).

(c) Undrawn loan commitments

At the reporting date, outstanding undrawn loan commitments amounted to RO 62,767,000 (2016: RO 97,975,000). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

The commitments set out in (b) to (c) above are expected to crystallise in the following periods:

	Up to 1 year RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
2017				
Capital commitments	**4,645**	**-**	**-**	**4,645**
Undrawn loan commitments	**-**	**62,767**	**-**	**62,767**

	Up to 1 year RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
2016				
Capital commitments	1,945	-	-	1,945
Undrawn loan commitments	-	97,975	-	97,975

(d) Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had certain unresolved legal claims which are not expected to have any significant implication on the Bank's financial statements.

38. Assets and liabilities maturity profile

The Bank has established policies to manage the liquidity risk arising from the mismatch in the final maturity of the assets and liabilities on the statement of financial position as explained in note 5.2.4. 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 reporting date.

2017	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the CBO	124,132	15,460	139,592	12,449	9,946	161,987
Due from banks	108,868	-	108,868	-	-	108,868
Loans and advances and financing to customers	198,126	216,046	414,172	436,272	803,569	1,654,013
Investment securities	37,613	19,000	56,613	28,667	53,141	138,421
Other assets	37,562	8,700	46,262	-	18	46,280
Property and equipment	-	-	-	-	29,430	29,430
	506,301	259,206	765,507	477,388	896,104	2,138,999
Liabilities						
Due to banks	4,011	-	4,011	-	-	4,011
Deposits from customers	435,823	539,644	975,467	435,949	335,440	1,746,856
Other liabilities	40,275	10,982	51,257	5,951	485	57,693
Subordinated bond	-	-	-	20,000	-	20,000
Taxation	4,798	93	4,891	-	-	4,891
	484,907	550,719	1,035,626	461,900	335,925	1,833,451
Net assets	**21,394**	**(291,513)**	**(270,119)**	**15,488**	**560,179**	**305,548**
Forward exchange contracts at notional amounts (note 36)						
Purchase contracts	26,104	7,444	33,548	-	-	33,548
Sale contracts	**(26,085)**	**(7,431)**	**(33,516)**	**-**	**-**	**(33,516)**
	19	**13**	**32**	**-**	**-**	**32**

Assets and liabilities maturity profile (Cont'd)

2016	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the CBO	214,279	17,564	231,843	11,585	9,678	253,106
Due from banks	30,080	-	30,080	-	-	30,080
Loans and advances	234,796	129,967	364,763	421,011	809,025	1,594,799
Investment securities	57,797	20,641	78,438	30,210	5,287	113,935
Other assets	36,750	8,361	45,111	265	25	45,401
Property and equipment	-	-	-	-	28,651	28,651
Total assets	573,702	176,533	750,235	463,071	852,666	2,065,972
Liabilities						
Due to banks	12,056	-	12,056	-	-	12,056
Deposits from customers	414,278	561,178	975,456	365,541	296,155	1,637,152
Other liabilities	42,888	9,745	52,633	5,476	1,394	59,503
Subordinated bond	-	50,000	50,000	20,000	-	70,000
Taxation	3,927	235	4,162	-	-	4,162
Total liabilities	473,149	621,158	1,094,307	391,017	297,549	1,782,873
Net assets	100,553	(444,625)	(344,072)	72,054	555,117	283,099
Forward exchange contracts at notional amounts (note 36)						
Purchase contracts	7,193	6,006	13,199	-	-	13,199
Sale contracts	(7,176)	(6,000)	(13,176)	-	-	(13,176)
	17	6	23	-	-	23

Assets and liabilities maturity profile (Cont'd)

The following table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. For issued guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

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
Letters of guarantee	277,811	169,699	187,688	-	458,248
Letters of credit	255,688	6,562	-	-	439,200
Total commitments and contingencies	533,499	176,261	187,688	-	897,448
2016					
Letters of guarantee	231,792	213,770	178,131	15	623,708
Letters of credit	183,100	14,653	178	-	197,931
Total commitments and contingencies	414,892	228,423	178,309	15	821,639

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The details of Bank's capital commitments, operating lease commitments and undrawn loan commitments are disclosed in note 37.

39. Assets and liabilities re-pricing profile

The re-pricing profile is based on contractual re-pricing or maturity dates, whichever dates are earlier. The Bank's assets and liabilities are included at carrying amounts.

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**

Assets and liabilities re-pricing profile (Cont'd)

2016	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	252,606	253,106
Due from banks	0.36	16,659	-	-	-	13,421	30,080
Loans and advances	4.66	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

40. Geographical distribution of assets and liabilities

2017	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total RO'000
Assets						
Cash and balances with the						
Central Bank of Oman	161,987	-	-	-	-	161,987
Due from banks	55,395	38,427	13,380	779	887	108,868
Loans and advances	1,654,013	-	-	-	-	1,654,013
Investment securities	132,977	4,134	-	-	1,310	138,421
Other assets	46,280	-	-	-	-	46,280
Property and equipment	29,430	-	-	-	-	29,430
Total assets	2,080,082	42,561	13,380	779	2,197	2,138,999
Liabilities						
Due to banks	680	2,261	430	-	640	4,011
Deposits from customers	1,746,856	-	-	-	-	1,746,856
Other liabilities	57,693	-	-	-	-	57,693
Subordinated bonds	20,000	-	-	-	-	20,000
Taxation	4,891	-	-	-	-	4,891
Total liabilities	1,830,120	2,261	430	-	640	1,833,451

Geographical distribution of assets and liabilities (Cont'd)

2016	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total RO'000
Assets						
Cash and balances with the						
Central Bank of Oman	253,106	-	-	-	-	253,106
Due from banks	10,314	10,508	8,126	388	744	30,080
Loans and advances	1,594,799	-	-	-	-	1,594,799
Investment securities	108,723	3,901	-	-	1,311	113,935
Other assets	45,401	-	-	-	-	45,401
Property and equipment	28,651	-	-	-	-	28,651
Total assets	2,040,994	14,409	8,126	388	2,055	2,065,972
Liabilities						
Due to banks	4,345	4,613	764	-	2,334	12,056
Deposits from customers	1,637,152	-	-	-	-	1,637,152
Other liabilities	59,503	-	-	-	-	59,503
Subordinated bonds	70,000	-	-	-	-	70,000
Taxation	4,162	-	-	-	-	4,162
Total liabilities	1,775,162	4,613	764	-	2,334	1,782,873

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41. Customer concentrations

	Assets			Liabilities		
2017	**Due from banks RO'000**	**Gross loans and advances RO'000**	**Investment securities RO'000**	**Deposits from customers RO'000**	**Due to banks RO'000**	**Contingent liabilities RO'000**
Personal	**-**	**722,482**	**-**	**506,106**	**-**	**511**
Corporate	**108,868**	**981,990**	**14,574**	**845,859**	**4,011**	**888,446**
Government	**-**	**-**	**123,847**	**394,891**	**-**	**8,491**
	108,868	**1,704,472**	**138,421**	**1,746,856**	**4,011**	**897,448**

	Assets			Liabilities		
2016	Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
Personal	-	725,591	-	459,813	-	200
Corporate	30,080	919,271	18,012	788,576	12,056	672,536
Government	-	-	95,923	388,763	-	148,903
	30,080	1,644,862	113,935	1,637,152	12,056	821,639

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2017

42. Segment information

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2017. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2017 and 2016 is set out in note 40.

For management purposes, the conventional operations of the Bank is organised into four operating segments based on products and services. The Islamic banking services are offered under the brand name – "Al Yusr". The operating segments are as follows:

Retail banking	Individual personal loan, overdraft, credit card and funds transfer facilities.
Corporate banking	Loans and other credit facilities for corporate and institutional customers.
Support and unallocated functions	Treasury and other central functions.
Islamic Banking	Sharia' compliant Islamic banking products and services including Ijarah, Murabaha, Mudarbah and Diminishing Musharakah.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Cash and balances with Central Bank of Oman, Certificate of deposits, due from banks, property and equipment and other assets are unallocated assets. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2017 or 2016.

Segment information (Cont'd)

	Continued Operations					Discontinued Operations	
	Retail banking	Corporate banking	Support and unallocated functions	Al-Yusr	Sub-Total	Investment banking	Total
2017	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Interest income	**37,558**	**46,762**	**3,795**	**-**	**88,115**	**-**	**88,115**
Interest expense	**(5,268)**	**(10,560)**	**(16,688)**	**-**	**(32,516)**	**-**	**(32,516)**
Other operating income	**7,753**	**8,499**	**3,885**	**2,002**	**22,139**	**-**	**22,139**
Total operating income	**40,043**	**44,701**	**(9,008)**	**2,002**	**77,738**	**-**	**77,738**
Assets	**671,204**	**900,640**	**484,987**	**82,168**	**2,119,165**	**-**	**2,138,999**
Liabilities	**488,072**	**1,168,879**	**86,595**	**89,905**	**1,813,617**	**-**	**1,833,451**
Allowance for impairment	**17,707**	**31,769**	**-**	**983**	**50,459**	**-**	**50,459**
2016							
Interest income	35,058	40,467	2,138	-	77,663	-	77,663
Interest expense	(3,067)	(17,980)	(6,718)	-	(27,765)	-	(27,765)
Other operating income	9,051	9,253	1,719	2,089	22,112	1,822	23,995
Total operating income	41,042	31,740	(2,861)	2,089	72,010	1,822	73,893
Assets	679,605	850,164	451,341	65,028	2,046,138	19,834	2,065,972
Liabilities	450,585	1,118,807	125,887	67,760	1,763,039	19,834	1,782,873
Allowance for impairment	16,311	32,748	-	1,004	50,063	-	50,063

43. Comparative figures

No material corresponding figures for 2016 included for comparative purposes were reclassified.

CORPORATE GOVERNANCE REPORT

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C.R. No. 1224013
PR No. HMH/15/2015; IMA/9/2015

Building a better working world

REPORT OF FACTUAL FINDING
TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Oman Arab Bank SAOC (the "Bank") as at and for the year ended 31 December 2017 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance Issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Bank's compliance with the Code as issued by the CMA and are summarised as follows:

1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Bank includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2) We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2017. The Bank's Board of Directors has identified certain areas of non-compliance with the Code, which are included in the Bank's report.

We have no exceptions to report in respect of the procedures performed.

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 corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report 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. This report relates only to the accompanying corporate governance report of Oman Arab Bank SAOC to be included in its annual report for the year ended 31 December 2017 and does not extend to any financial statements of Oman Arab Bank SAOC, taken as a whole.

Ernst & Young LLC

Muscat
6 March 2018

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C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

OAB'S APPROACH TO CORPORATE GOVERNANCE

Framework and Approach to corporate governance and responsibility

The Board is committed to maintaining the highest standards of corporate governance.

The Board believes that corporate governance is about having a set of values and behaviors that governs the Bank's everyday activities - values and behaviors that ensure transparency, fair dealing and protection of the interest of the Bank's stakeholders namely customers, shareholders, employees and the community. In line with this belief, the Board's approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

The business case for good governance is compelling. A Bank's level of governance and responsibility has emerged as a significant indicator of its overall health as a business. The genuine commitment to good governance is fundamental to the sustainability of the Bank's business and its performance.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- review and improve our governance practices
- monitor global developments in best corporate governance practice and
- contribute wherever we can to local debates on what represents best corporate governance practice.

Our Governance Standards – Principles and Processes

We believe that the best approach is to be guided by the principles and practices that are in our stakeholders' interests. However, as a minimum we ensure compliance with legal requirements, in particular to the letter and spirit of the local governance practices issued by the Capital Market Authority (CMA), guidelines issued by the Central Bank of Oman and the Corporate Governance regulations issued by the Ministry of Commerce and Industry for closed joint stock companies.

What is in this statement?

This corporate governance statement is divided in two Parts. Part 1 discusses the broad principles of corporate governance adopted by the Bank. Part 2 provides specific disclosures.

In the Directors' opinion, Part 1 and Part 2 together as a minimum comply with the requirements of the Code of Corporate Governance issued by the CMA.

Date of this statement

This statement reflects the Bank's corporate governance policies and procedures as at 31 December 2017.

CORPORATE GOVERNANCE - PART 1

In this part we set out the following contents as required under the Code of Corporate Governance issued by CMA:

1. **The Board – putting governance into practice**
2. **Board Committees and their role**
3. **Audit governance and independence**
4. **Executive pay and reward scheme**
5. **Controlling and managing risk**
6. **Communication with Shareholders, regulators and wider market**

1. The Board – putting governance into practice

Role of the Board

The Board of Directors is accountable to the shareholders. The Board's specific responsibilities include:

- ensuring our business is conducted ethically and transparently;
- providing strategic direction and approving corporate strategies;
- ensuring maintenance of adequate risk management controls and reporting mechanisms;
- monitoring management and financial performance;
- reviewing and approving the Bank's quarterly and annual financial reports;
- approving the business plan and budgets;
- selecting and evaluating the Chief Executive Officer (CEO) and senior management;
- planning for executive succession; and
- setting Chief Executive Officer's remuneration and recommending the Directors' remuneration to the shareholders for approval in the Annual General Meeting.

Board size and Composition

The Directors of the Bank are elected by the two major shareholders namely Oman International Development and Investment Company (OMINVEST) and Arab Bank Plc Jordan subject to the limits imposed by our constitution. The Bank's constitution requires a minimum of seven and a maximum of nine Directors. In accordance with the Central Bank of Oman's regulations, we do not have an executive Director in the Board.

Currently, there are nine Directors of whom four are independent Directors and two are nominated Directors representing OMINVEST and Arab Bank Plc.

The current composition of the Board and Board Committees is set out in Part 2.

Selection and Role of the Chairman

The Chairman is a non-executive Director, appointed by the Board. The Chairman's role includes:

- ensuring that, when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities;
- providing effective leadership on formulating the Board's strategy;
- representing the views of the Board to the public;
- ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors; and
- reviewing the contributions made by the Board members.

Board Independence

Having an independent Board is a key to good corporate governance. The Bank has structures and procedures in place to ensure that the Board operates independently of executive management. These include appointing an independent, non-executive Director as chairman and ensuring that there are non-executive Directors who can bring special professional expertise to the Board. There are four independent directors as per the definition of 'independent director' in the circular issued by CMA on 22 July 2015.

Meetings of the Board and their Conduct

The Board meets formally at least four times a year. In addition, it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. Meeting agendas are established by the Chairman in consultation with the CEO to ensure adequate coverage of financial, strategic and major risk areas throughout the year. Copies of Board papers are circulated in advance of meetings.

Meetings attended by the Directors for the past financial year are reported in Part 2.

Attendance at Annual General Meeting

The Directors attend, and are available to answer questions at, the Annual General Meeting.

Avoidance of Conflicts of Interest of Directors

In accordance with the constitution of the Bank, any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered, and may not vote on the matter.

Expertise of our Board

The Board has a broad range of expertise and experience to meet its objectives. The current Board composition is set out in Part 2, with details of each member's expertise and experience and other current Directorships, is set out in the annual report.

Succession Planning

The Board is responsible for CEO succession planning taking into account the skills and experience required.

Nomination and Appointment of New Directors

Recommendations for nominations of new Directors are made by the shareholders. When Directors are nominated, the shareholders assesses them against a range of criteria including background, experience, professional skills, personal qualities, whether their skills and experience will augment the existing Board, and their availability to commit themselves to the Board's activities. If these criteria are met then the shareholders appoint a new Director.

When appointed to the Board, all new Directors receive an induction appropriate to their experience to familiarize them with matters relating to the Bank's business, strategy and current issues before the Board.

The Board is appointed for a period of three years. The term of the current Board expires in March 2019.

Review of Board Performance

The Board regularly reviews its overall performance, as well as the performance of individual Directors. The Board is in the process of reviewing the appointment of an independent consultant to assess its performance.

Board Access to Information

The Board needs high quality, unfiltered information on which to base decisions. All Directors have unrestricted access to the Bank's records and information, and receive regular detailed financial and operational reports from senior management to enable them to carry out their duties.

2. Board Committees

The Board Committees' authorities and responsibilities are governed by the relevant Committee's terms of reference, as approved by the Board. During 2014 the Board reviewed the composition of the committees after the appointment of new directors in order to enhance the role of the Board and also segregate certain functions to adopt best practice in corporate governance. Accordingly the Audit and Risk Management Committee has been reconstituted into two separate committees - Audit committee and Risk & Compliance Committee. The Executive committee has been replaced by Credit Committee. The Board may establish any other committee to consider matters of special importance as deemed necessary.

Operation of the Committees

Each committee is entitled to the resources and information it requires, including direct access to employees and advisers. Senior managers and other employees are invited to attend committee meetings as necessary. All Directors receive minutes of the committee meetings and can attend all committee meetings.

Composition and Independence of the Committees

Committee members are chosen for the skills, experience and other qualities they bring to the committees. All committees are currently composed of only non-executive Directors. In addition, the Head of Internal Audit is the secretary of the Audit, Risk & Compliance and Selection & Remuneration committees.

How the Committees report to the Board

Minutes of every meeting of the Board Committees are included in the agenda for the first full Board meeting scheduled to be held after the committee meeting. When necessary the chairman of the respective committee may also provide a verbal report.

Brief Terms of Reference of Board Committees

a. Credit Committee

The purpose of the Board Credit Committee (BCC) is to assist the Board in fulfilling its responsibilities in lending and credit activities within BCC's delegated authorities taking into consideration the Bank's credit policies, strategic and business plans. The Committee

- reviews and approves policies with regard to credit risk limits and controls
- reviews the Bank's credit portfolio on regular basis in coordination with the Board Risk Committee
- reviews and approves credit facilities above the executive management's approval limits
- review the Management Credit Committee recommendations with respect to debt write-off or write-down and take the appropriate decision within the BCC's delegated authorities or escalate to the Board for a decision
- considers matters of special importance as delegated by the Board.

b. Board Audit Committee

The Board Audit Committee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to the external reporting of financial and non-financial information, the internal control, and the independence and effectiveness of external and internal audit activities, plus any other matters referred to it by the Board. The Board Audit Committee:

- approves the scope of internal audit work planned for the year.
- reviews and approves the scope of the external audit work planned for the year.
- reviews accounting policies to ensure compliance with relevant laws, regulations and accounting standards, and recommend any changes to the Board for approval.

- approves protocols governing the provision of non-audit services by the external auditor, that are outside of the scope of the external audit work to be undertaken, to ensure auditor independency.
- oversees and annually, reviews the performance of the Internal Audit Function
- ensures that the recommendations of the external and internal auditors are well addressed and implemented
- ensures the external and internal audit role in reviewing and auditing the IT systems/applications and the IT security
- ensures that the Back-up and Disaster Recovery Plans are in place
- ensures compliance with international accounting standards implemented in the Sultanate of Oman
- ensures that the Bank's financial statements were prepared according to the Central Bank of Oman regulations and other applicable standards

c. Compliance and Risk Management Committee

The Board Compliance and Risk Committee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to risk management strategy and frameworks (covering credit, liquidity, market, operational and other risks) in addition to compliance and regulatory issues. The Committee

- assists the Board with the formulation of the Bank's Risk Appetite Statement.
- establishes and reviews the framework for risk management throughout the Bank covering all risks including strategic, market, liquidity, credit, operational and reputation risks on an ongoing basis
- Ensure the, risk management frameworks, including policies, procedures and monitoring, accurately reflects the Bank's Strategy, Risk Appetite, accepted practices and legal and regulatory requirements.
- promotes and ensures a high level of awareness of risk management throughout the Bank
- reviews the strategy, plan and budget of risk management function
- reviews the assessment of the Bank's risk profile to understand the key risks affecting the Bank and recommend to the Board for approval.
- reviews and recommends the ICAAP for Board approval consistent with the Board determined risk appetite
- reviews regulators' reports on the adequacy of the Bank's Risk Management Frameworks
- reviews the adequacy of the Bank's general insurance policies established by management, and for Directors' and Officers' (D&O) insurance recommending to the Board D&O insurance for approval
- reviews the effectiveness of the process for monitoring compliance with all applicable laws and regulations.
- reviews the Bank's compliance arrangements to ensure they are in accordance with the Bank's objectives and strategies, as well as any regulatory or legislative requirements
- reviews any proposed legislative or regulatory changes, the impact such changes may have on the Bank's business and the internal policies and controls which will be introduced to address these changes
- approves the Compliance Department/ Function's Charter and review the same on annual basis to update as appropriate

d. Selection and Remuneration Committee

The purpose of the Board Selection and Remuneration Committee is to assist the Board in fulfilling its responsibilities relating to remuneration and people matters, and compliance with related employment laws and regulations. It does this by ensuring that the Bank has appropriate remuneration and people systems in place and by monitoring their effectiveness. The Committee

- recommends the appointment of Chief Executive Officer to the Board.
- Sets up the Key Performance Indicators of the Bank's Chief Executive Officer (CEO) and review the same on annual basis in order to review and recommend to the Board the CEO's total remuneration
- approves the appointment of the executive management team based on the Chief Executive Officer's nomination/recommendation except for the Head of Internal Audit, the Chief Compliance Officer, the Chief Risk Officer and the Bank's Legal Counsel whom appointment falls within the responsibility of other Board Committees and/or the Board of Directors'
- approves remuneration of executive management team include the salaries and other benefits.
- ensures that the Bank has a proper remuneration policy, reviews and recommends amendments in policy to the Board.
- reviews and monitors the human resource plan and aligns the plan to achieve the Bank's strategies.
- ensures that the Bank has proper training, career development and succession plans.
- reviews and monitors the "Omanisation" plan and identifies the positions that should be occupied by Omanis with the time table to achieve the plan.

Shari'a Supervisory Board

Oman Arab Bank has appointed a Shari'a Supervisory Board (SSB) to oversee the Shari'a compliance of its Islamic Banking window "Al Yusr". As per the requirements of Islamic Banking Framework (IBRF), each licensee must appoint a three member independent Board to oversee its Islamic banking operations from Shari'a perspective.

Composition of Shari'a Supervisory Board

Shari'a Supervisory Board of Al Yusr consists of three prominent Shari'a scholars in line with the requirements of IBRF.

Name of SSB Member	Board Membership	Date of Appointment
Dr. Esam Khalaf Al Enzi	Chairman	January 2013
Dr. Ahmed Sobhi Ahmed Al Ayadi	Member	January 2013
Dr. Abdulaziz Khalifa Al Qassar	Member	July 2014

Composition of the Committee and Meetings

The current committee memberships together with dates of meetings held are set out in Part 2.

3. Audit Governance and Independence

The Board is committed to three basic principles:

- the Bank must produce true and fair financial reports;
- the Bank must have independent auditors who serve shareholder interests by ensuring shareholders know the Bank's true financial position; and
- the accounting and auditing standards are comprehensive and relevant and comply with applicable accounting standards and policies.

Engagement of Auditors

The Bank's independent external auditors are Ernst & Young LLC for the financial year ended at 31 December 2017. They were appointed by shareholders at the Annual General Meeting held on 28 March 2017.

Certification and Discussions with Auditors on Independence

The Board Audit Committee require the Bank's external auditors to confirm that they maintained their independence at the commencement and during the audit. Board Audit Committee also meets with the external auditors to discuss their audit and any concerns they may have.

Rotation of External Auditors

Subject to applicable regulatory requirements, the Bank will require rotation of the external auditor every four years and a minimum two years' 'cooling off' period before an auditor is reappointed.

Restrictions on Non-Audit Work by the Audit Firm

The Bank's external auditors will not be able to carry out the following types of non-audit work for the Bank:

- preparation of accounting records and financial statements;
- IT systems design and implementation;
- valuation services and other corporate finance activities;
- internal audit services;
- temporary senior staff assignments, management functions;
- broker or dealer, investment adviser or investment banking;
- legal services and
- litigation services.

For all other non-audit related services that are required, if our external audit firm were selected then the need for that will be assessed and approved by the Audit and Risk Management Committee.

Attendance at Annual General Meeting

The Bank's auditors attend, and are available to answer questions at, the Annual General Meeting.

4. Executive Pay and Reward Schemes

Overview

The Bank's goal in rewarding the CEO and other executives is to provide base pay plus performance-linked rewards and other benefits that will attract and retain key executives. The Bank's policy is to provide individual performers with a level of income that:

- recognizes the market value of each position in a competitive market;
- rewards the individual's capabilities and experience;
- recognizes the performance of individuals and
- assists in executive retention.

To do this, the Bank has designed a fair and transparent structure for rewarding the Bank's executives that matches comparable remuneration in the marketplace.

Who decides how individuals should be paid and rewarded?

The Board recommends the remuneration and the sitting fee for individual Directors to be approved in the Annual General meeting. The remuneration of the CEO is recommended by the Board Selection and Remuneration Committee and approved by the Board of Directors.

The CEO recommends the pay and reward packages for key senior management staff consistent with the market practice and this is approved by the Board Selection and Remuneration Committee.

Fees paid to each Director during the 12 month period ended 31 December 2017 together with pay and rewards for the Bank's key management personnel are set out in Part 2.

5. Controlling and Managing Risk

Approach to Risk Management

Risk is inherent in banking business. Risk management is a strategic issue in today's competitive environment. Taking and managing risk are central to the Bank's business and to building shareholder value. To do this effectively the Bank needs to optimize its level of risk. The Bank's risk approach links its vision and values, objectives and strategies, and procedures and training.

The Bank recognizes three main types of risk:

- Credit risk, being the risk of financial loss from the failure of customers to honor fully the terms of their contract with us;
- Market risk, being the risk to earnings from changes in market factors such as interest and foreign exchange rates, or liquidity and funding profiles; and
- Operational risk, being the risk of unexpected financial, reputation or other damage arising from the way our organization pursues its business objectives.

We recognize that these risk categories are interlinked and therefore we take an integrated approach to managing them. We have comprehensive risk principles that apply to each category of risk.

The risk management function aims at ensuring that:

- the Bank operates its key risk activities within acceptable risk/reward parameters through establishment as well as maintenance of policies and procedures
- the trend and quality of risk is adequately monitored and controlled; and
- all the attendant risks are adequately monitored.

Risk Management Roles and Responsibilities

The Board is responsible for approving and reviewing the Bank's risk management strategy and policy. Executive management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of our activities.

In order to effectively manage various risks in the business, the Bank has set up a Risk Management department. The head of this department is responsible for independently evaluating and managing the risks. He reports directly to the Compliance and Risk Management Committee of the Board.

Internal Review and Risk Evaluation

Based on Board approved policies the Bank has established appropriate procedures to manage and monitor the risks. Broadly the Asset and Liability Committee is responsible for monitoring market risks arising from the Bank's core lending and deposit-taking activities. Similarly, the Investment management Committee is responsible for monitoring market risk and related credit and operational risk exposures arising from trading activity. Internal Audit is responsible for independently evaluating the adequacy and effectiveness of management's control of operational risk.

6. Communication with Shareholders, Regulators and Wider Market

The Bank is committed to giving all shareholders comprehensive and equal access to information about the Bank's activities, and to fulfilling our continuous disclosure obligations to the Central Bank of Oman.

The Bank's website includes annual reports, quarterly financial statements, briefings and presentations given by CEO and other executives, public announcements and economic updates. Further details on means of communications, including website address, are set out in Part 2.

CORPORATE GOVERNANCE - PART 2

In this part, we set out the disclosures specifically required under the Code of Corporate Governance issued by CMA. The contents are as follows:

1. Board of Directors
2. Board Committees
3. Process of nomination of Directors
4. Remuneration matters
5. Details of non-compliance by the Bank
6. Means of communication with the shareholders and investors
7. Cash dividend policy
8. Market price data
9. Profile of the statutory auditors
10. Areas of non-compliance with the provisions of Corporate Governance

1. Board of Directors

The current composition of the Board and Board Committees are set out in table 1, with further details on each Director provided in the annual report.

2. Board Committees

The terms of references of the Committees are set out in Part 1.

Table 1

Director	Board Membership	Appointed from	Status	Committee Membership			
				Credit Committee	Audit Committee	Compliance and Risk Management Committee	Selection and Remuneration Committee
Rashad Bin Muhammed Al Zubair	Chairman Chairman of Credit Committee and Selection & Remuneration Committee	1-Oct-89	Independent	√	-	-	√
Wahbe Tamari	Deputy Chairman	25-Aug-16	Representing Arab Bank Plc	-	√	-	√
Hani Bin Muhammed Al Zubair	Director Chairman of Risk Management & Compliance Committee	1-Jun-99	Independent	-	-	√	-
Mulham Bashir Al Jaraf	Director Chairman of Audit Committee	1-Sep-07	Independent	-	√	-	-
Randa Sadik	Director	1-Jun-10	-	√	-	-	√
Abdulaziz Al Balushi	Director	19-Mar-14	Representing OMINVEST	√	-	√	√
Walid Samhouri	Director	19-Mar-14	-	√	-	√	-
Imad Sultan	Director	16-Jun-14	Independent	√	-	-	-
Mohammed Masri	Director	16-Nov-15	-	-	√	-	-

The members of the Committees together with the number of meetings held in 2016 and attended by each member are set out in the Table 2.

Table 2

Director	Board Meetings (Note 1)		Credit Committee (Note 2)		Audit Committee (Note 3)		Compliance and Risk Management Committee (Note 4)		Selection and Remuneration Committee (Note 5)	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Rashad Bin Muhammed Al Zubair	6	4	4	3	-	-	-	-	2	2
Wahbe Tamari	6	6	-	-	4	3	-	-	2	2
Hani Bin Muhammed Al Zubair	6	5	-	-	-	-	4	4	-	-
Abdul Aziz Al Balushi	6	6	4	4	-	-	4	3	2	2
Walid Samhouri	6	6	4	4	-	-	4	4	-	-
Randa Sadik	6	6	4	4	-	-	-	-	2	2
Mohammed Masri	6	6	-	-	4	4	-	-	-	-
Imad Sultan	6	5	4	3	-	-	-	-	-	-
Mulham Bashir Al Jaraf	6	6	-	-	4	3	-	-	-	-

Directors' attendance record:

Note 1 Board Meetings were held on - 23-January, 18-March, 11-May, 24-July, 02-October, 11-December and during 2017

Note 2 Credit Committee meetings were held on - 23-January, 23-April, 23-August, 11-December and during 2017

Note 3 Audit Committee meetings were held on - 22-January, 30-April, 19-July and 31-October during 2017

Note 4 Compliance Committee meetings were held on - 02-April, 18-June, 22-November and 11-December during 2017

Note 5 Selection and Remuneration Committee meetings were held on - 02-October and 11-December during 2017

Composition of Shari'a Supervisory Board

Shari'a Supervisory Board

Oman Arab Bank has appointed a Shari'a Supervisory Board (SSB) to oversee the Shari'a compliance of its Islamic Banking window "Al Yusr". As per the requirements of Islamic Banking Framework (IBRF), each licensee must appoint a three member independent Board to oversee its Islamic banking operations from Shari'a perspective.

Composition of Shari'a Supervisory Board

Shari'a Supervisory Board of Al Yusr consists of three prominent Shari'a scholars in line with the requirements of IBRF.

Name of SSB Member	Board Membership	Date of Appointment
Dr. Esam Khalaf Al Enzi	Chairman	January 2013
Dr. Ahmed Sobhi Ahmed Al Ayyadi	Member	January 2013
Dr. Abdulaziz Khalifa Al Qassar	Member	July 2014

Terms of Reference for the SSB

The SSB is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic banking unit in order to ensure that they are in compliance with Shari'a principles. The main duties and responsibilities of the SSB are as follows:

a. The SSB shall advise the BOD and management on Shari'a matters in order to ensure that the day to day Islamic business operations comply with Shari'a principles at all times.

b. The SSB shall conduct Shari'a reviews post products launch to ensure implementation of the related guidelines as approved by the SSB.

c. To ensure that the Islamic products comply with Shari'a principles in all aspects, the SSB must review the following:

- The policies, procedures, products, processes, systems
- The terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions; and
- The product manual, marketing advertisements, sales illustrations and brochures used to describe the product.

d. The legal counsel or consultant of the Islamic banking may seek advice on Shari'a matters from the SSB. The SSB is expected to provide assistance to them so that compliance with Shari'a principles can be assured completely.

e. The SSB is required to review and approve the work carried out by Shari'a compliance and Shari'a audit functions.

f. The Islamic banking unit shall have a Shari'a Audit Manual. The objective of the Manual is to examine the right implementation and application of the products. It will be used as a reference for the audit team.

g. The SSB is required to submit a report to the Shareholders on the compliance of the institution with Shari'a in order to be published as part of its annual report. The SSB shall also publish as an appendix to the annual Shari'a compliance report all the Shari'a rulings (Fatwa) issued during a year along with their bases (religious evidences).

h. The SSB is responsible for supervising the inflows and outflows of the charity fund which is created by the Bank to place the income generated from Shari'a non-compliant sources or penalties and late payment charges received from clients in default or overdue cases.

i. With respect to funds, SSB is responsible for the following:

   i. Ensure that the Fund is managed and administered in accordance with Shari'a principles.

   ii. Provide expertise and guidance in all matters relating to Shari'a principles, including the Fund's deed and prospectus, its structure and investment process and other operational and administrative matters.

   iii. Consult the SSB where there is any ambiguity or uncertainty as to an investment, instrument, system, procedure and/or process.

   iv. Prepare a report to be included in the Fund's interim and annual reports certifying whether the Fund had been managed and administered in accordance to Shari'a principles for the period concerned.

   v. To prepare a report to be included in the Fund's interim and annual reports certifying whether the Fund had been managed and administered in accordance to Shari'a principles for the period concerned.

Shari'a Supervisory Board Meetings

The members of the SSB together with the number of meetings held in 2017 and attended by each member are set out in the table below.

	2017 RO	2016 RO
Meetings held during the year / period	**4**	4
Meetings attended:		
Dr. Esam Khalaf Al Enzi	**4**	4
Dr. Ahmed Sobhi Ahmed Al Ayadi	**4**	4
Dr. Abdulaziz Khalifa Al Qassar	**3**	4

3. Process of nomination of Directors

The nomination process is explained in Part 1 paragraph 1.

4. Remuneration Matters

The processes and procedures of the Bank to reward and remunerate the Directors and senior executives are set out in Part 1, paragraph 4. The Directors' remuneration is governed as set out in the Memorandum of Association of the Bank, the Commercial Companies Law and regulations issued by the Central Bank of Oman.

The Annual General Meeting approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit (subject to specified deductions) and subject to an overall limit of RO 200,000. The sitting fees for each Director shall not exceed RO 10,000 in one year.

In the Annual General Meeting held on 28 March 2017 the shareholders approved the Directors' remuneration as well as the sitting fees of RO 500 per meeting for 2016. The remuneration of RO 79,000 and sitting fees of RO 48,500 for 2017 will be presented in the upcoming Annual General Meeting of the shareholders.

The remuneration and sitting fees paid to each Director for 2016 were as follows:

Table 3

Director's Name	Remuneration RO	Total Sitting Fees RO	RO Total
Rashad Bin Muhammed Al Zubair	15,000	6,500	21,500
Riad Kamal	6,000	500	6,500
Wahbe Tamari	2,000	2,000	4,000
Hani Bin Muhammed Al Zubair	8,000	4,000	12,000
Abdul Aziz Al Balushi	8,000	8,500	16,500
Walid Samhouri	8,000	8,000	16,000
Randa Sadik	8,000	7,000	15,000
Mohammed Masri	8,000	5,500	13,500
Imad Sultan	8,000	5,000	13,000
Mulham Bashir Al Jaraf	8,000	4,000	12,000
Total	**79,000**	**51,000**	**130,000**

The remuneration paid to the key management personnel of the Bank for 2017 is RO 1,434,638 (2016: RO 1,118,644)

No stock options are available to Directors or the executives of the Bank. The Executives are required to provide 30-60 days' notice should they wish to resign. No severance fees are payable to the key management personnel in the event of termination of employment.

Remuneration of Shari'a Supervisory Board

The remuneration and sitting fees for 2016 were paid during 2017. A resolution to approve the proposed remuneration of RO 30,800 and sitting fees of RO 4,235 for 2017 will be presented in the upcoming Annual General Meeting of the shareholders.

The remuneration and sitting fees paid to each member for 2016 were as follows:

Name of SSB Member	2016 Annual Fee	2016 Meeting Fee	2016 Total Fee
	RO	RO	RO
Dr. Esam Khalaf Al Enzi	11,550	1,540	13,090
Dr. Ahmed Sobhi Ahmed Al Ayadi	9,625	1,540	11,165
Dr. Abdulaziz Khalifa Al Qassar	9,625	1,540	11,165
Total	**30,800**	**4,620**	**35,420**

5. Non-Compliance of Corporate Governance and Penalties

During the last three years the Bank complied with all regulatory requirements except for few instances for which RO 120 thousand was imposed by Central Bank of Oman (CBO) for non-compliance. The Bank has taken necessary corrective action to ensure compliance in future.

Areas of Non-Compliance with the Provisions of Corporate Governance

i. The chairman of Credit Committee is also the chairman of the Selection and Remuneration Committee.

ii. The Board Audit Committee does not have a majority of independent members.

6. Means of Communicating with the Shareholders

We confirm the following:

– Half-yearly results were sent to the shareholders.

– Quarterly results and the annual report are posted on the Bank website www.oman-arabbank.com.

– The website displays all official Bank information releases.

– Management Discussion and Analysis (MD&A) forms part of the annual report.

Our policy with regard to communication with shareholders, regulators and wider market is set out in Part 1, paragraph 6.

7. Acknowledgment by the Board

The Board of Directors acknowledges its responsibilities and confirms that:

– The audited financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the applicable regulations of the Central Bank of Oman, and the applicable requirements of the Commercial Companies Law of 1974, as amended.

– The Bank has adequate internal controls and procedures which are reviewed regularly through internal audit and overseen by the Audit Committee of the Board.

8. Dividend Policy

The Bank's Dividend Policy complies with CBO's guidance and adopted to achieve:

– Establish provisions that support the Bank's financial position.

– Pay cash dividend to the shareholders appropriate to their investment.

– Retain sufficient provisions that support the future growth of the Bank operations and strengthen its position in case of any unexpected crisis.

– Strike a balance between the retention of some earnings appropriate to the economic conditions and the understandable desire of shareholders for immediate and high returns.

9. Market Price Data

The Bank is a closed joint stock company and its shares therefore are not listed for trading on the Muscat Securities Market.

The two single largest shareholders of Oman Arab Bank are OMINVEST and Arab Bank Plc Jordan who hold 50.99 % and 49 % of the share capital respectively. OMINVEST is a public joint stock company listed at the Muscat Securities Market and Arab Bank Plc is a publicly held company and is listed at the Amman Stock Exchange, Jordan.

10. Profile of the Statutory Auditors

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 6,700 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,500 partners and approximately 1,06,079 professionals. Globally, EY operates in more than 150 countries and employs 256,500 professionals in 728 offices. Please visit ey.com for more information about EY.

11. Audit fees

The Bank paid RO 62,500 to the external auditors for their audit and related services for the year ended 2017.

Rashad Mohammad Al Zubair
Chairman

Rashad Al Musafir
Acting Chief Executive Officer

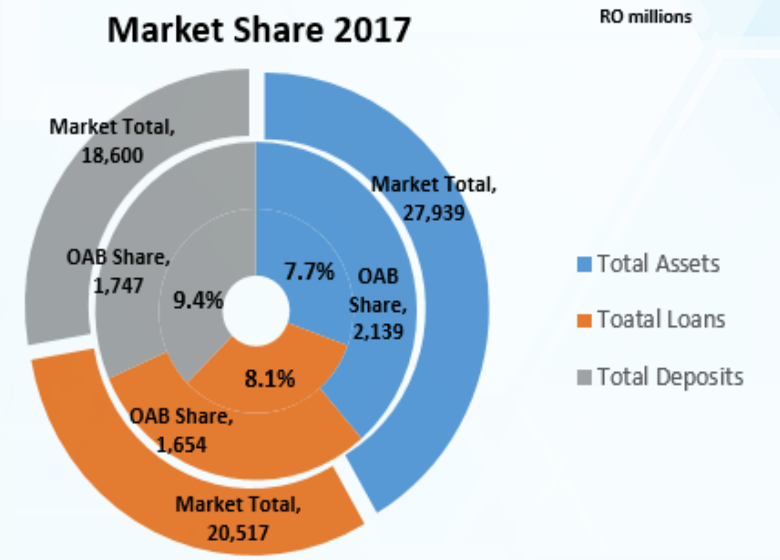
MANAGEMENT DISCUSSION ANALYSIS

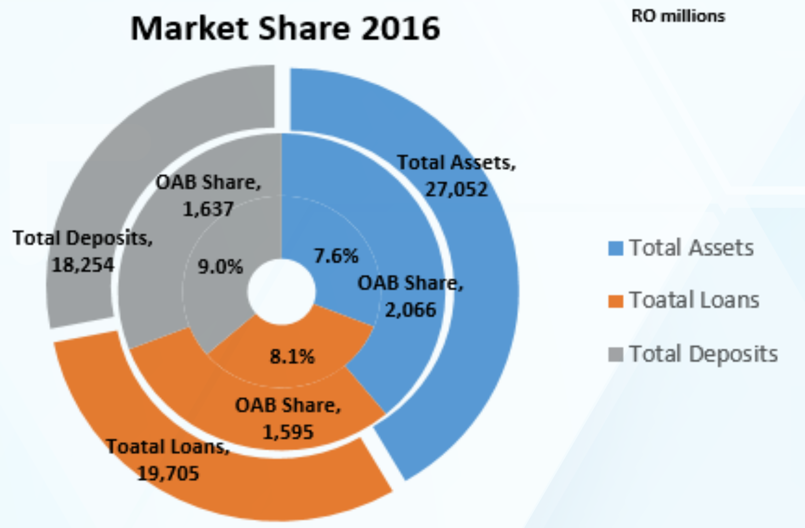
MANAGEMENT DISCUSSION AND ANALYSIS REPORT 2017

INDUSTRY STRUCTURE & DEVELOPMENT

The banking industry in Oman is governed by the Banking Law issued by Royal Decree 114/2000, and the regulations issued by the banking regulatory authority, the Central Bank of Oman (CBO). In addition the banks must also comply with the requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority. A summary of the banking sector performance for the year 2016 based on the latest publications and statistics issued by the Central Bank of Oman is as follows:

1. The total assets of the commercial banks increased by 3.3% from RO 27 billion as at 31-Dec-2016 to reach RO 28 billion at 31-Dec-2017.
2. Loans and advances recorded a growth of 6% reaching RO 23.6 billion at 31-Dec-2017 from RO 22 billion at 31-Dec-2016.
3. Customer deposits increased by 6% to RO 21.6 billion at 31-Dec-2017 from RO 20.4 billion as at 31-Dec-2016. The private sector deposits constituted 67.3% of the total customer deposits at 31-Dec-2017 which was 66.8% as at 31-Dec-2016.
4. The loans to deposit ratio in Conventional banks increased to 110% as compared to 108% as at end of 2016.
5. Average deposit interest rate on Rial Omani deposits is 1.67% as at December 2017 increasing by 0.17% from 2016.
6. Average Rial Omani lending rates increased to 5.20% at December 2017 from 5.08% at December 2016.





ECONOMIC OUTLOOK

The total fiscal deficit of Oman ending 2017 declined 34% YoY to RO 3.5 billion as compared to deficit of RO 5.3 billion in the same period last year amid improvement in oil prices (oil revenue increased 24% YoY, Gas revenues has declined 2.9% YoY and non-oil revenues also declined by 19% YoY)

As per World Economic Outlook by IMF, the GDP of Oman for 2017 stood at US$ 71.9 billion increased from USD$ 66.3 billion in 2016 with a consistent growth trend in the range of US$75-US$92 billion in 2018-2022. The current account deficit for 2017 is at 14.3% of the GDP (2016 18.6%). The daily average oil production of Oman during 2017 remained at 971K barrels a day, decline of 3.4% YoY and in line with its OPEC commitments. While the average oil price during the year has increased to USD 51.3 / barrel as compared to USD 40.1/ barrel during the previous year, an increase of 27.8% YoY.

The Government is taking necessary steps to boost non-oil revenue through increase of corporate tax, enhanced tax collections, revising power tariff, revising fees for real estate and municipal transactions. UAE has been the first nation to implement VAT starting 2018, it is expected that Oman will soon have it policy in place for implementing the same.

GDP Billion US$ (Compared with other GCC economies)

Current Account Balance: + Surplus / - Deficit (% of GDP)

(Source: IMF World Economic Outlook – Oct 2017)

The IMF has estimated real GDP growth of 0.38 in 2017. The economy is expected to return to higher growth from 2018. IMF forecasts a growth of 3.8 per cent in 2018, with an average growth of 2.4 per cent over the period 2018-2022.

The World Bank's Global Economic Prospects – Forecast also re-assures Oman's growth rate to be 2.4% for 2018 with upside potential in 2019. Below chart highlights the Economic Prospects for Oman:

The government deposits in commercial banks declined a little of RO 37 million which constitutes 26.5% in 2017 from 26.8% in 2016 as a percentage of total deposits. It is expected that this percentage to reduce further down to meet the fiscal needs of the government in coming years, which would eventually result in higher cost of deposits.

On the other hand the planned external borrowings announced by the government could ease the market liquidity by increasing the money supply. The banks in Oman will be increasing their foreign interbank borrowings.

The growth forecasts have been revised for 2018 for both the US and the Eurozone on the back of recent Q4 GDP prints and the momentum going into Q1 2018. US FED is still trying to stimulate faster economic growth as one of the longest expansions in American history neared the end of its ninth year.

The Fed's economic outlook remained relatively upbeat, setting the stage for a rate hike at its next meeting in March. But the decision to hold steady in January, while widely expected, underscored that the Fed still regards the economic expansion as fragile and in need of assistance.

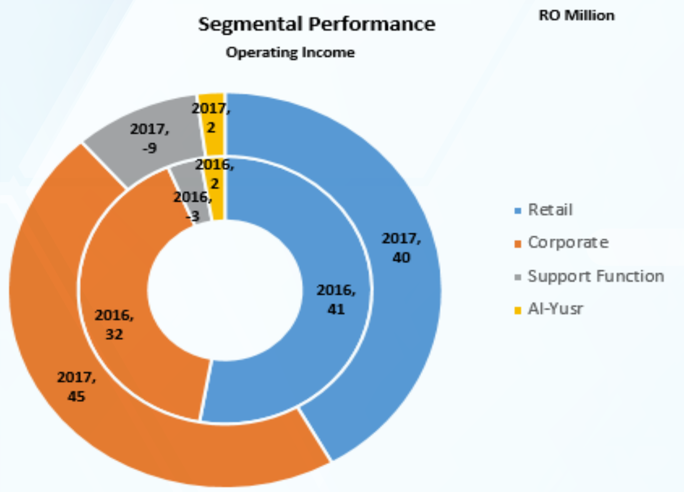
With the US Federal Reserve rates likely to move up in Q1 2018 and this could result in the increase in the Rial Omani rates too though not at the same pace. The Government released 2018 budget plan that projected a smaller deficit but included fresh austerity steps and tight curbs on spending. The external monetary reserves held by Oman will provide the necessary time to take the necessary fiscal measures.

BRANCH NETWORK

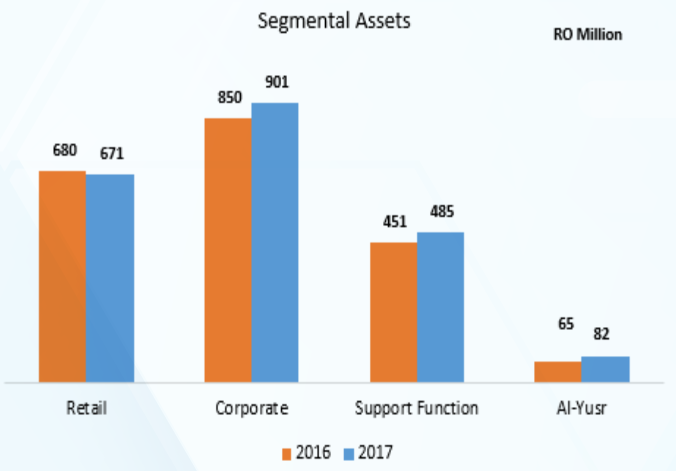
Today, the bank operates a nationwide network of 64 branches (57 Conventional banking and 7 Islamic banking) and 7 representative offices and 147 ATMs spread across the Sultanate of Oman. OAB provides complete range of financial products and services for personal banking, corporate banking and treasury. The Bank has embarked on a transformation of its branches to complement its digital banking channels with the aim to provide an enhanced customer experience.

ANALYSIS AND PERFORMANCE OF SEGMENTS

The Bank reports its performance under four segments namely Retail, Corporate, Al Yusr and Support function (including Treasury).



During 2017, total income of the corporate segment seen healthy growth of RO 13 million (40%) leading to overall increase in the Bank's profitability. Corporate loans grew by 6% contributing to the net interest income. Income from retail banking reduced by RO 1 million as the loans decreased YoY by 1% with the focus on improving the Bank's CASA book. .



Al Yusr has shown a Net profit after tax and has become a profitable segment for the Bank in 2017. The total income of Yusr has remained at RO 2 million similar to 2016 while the costs and provisions have been controlled during 2017.

The income from Treasury, which is included in the "Support Function" has improved significantly by 68% mainly due to income generated out of the liquid funds through inter-bank money market placements and interest on Oman Government Development Bonds.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Management of OAB has established and maintains internal controls supplemented by a program of internal audits. The internal controls are designed to provide reasonable assurance that assets are safeguarded and transactions are executed, recorded and reported in accordance with management's intentions and authorizations and to comply with applicable laws and regulations. The internal control system includes an organizational structure that provides appropriate delegation of authority and segregation of duties, established policies and procedures, and comprehensive internal audit and loan review programs.

To enhance the reliability of internal controls, management recruits and trains qualified personnel, and maintains sound risk management practices. There are inherent limitations in any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time. The Internal Audit Department of OAB reviews, evaluates, monitors and makes recommendations on policies and procedures, which serves as an integral, but independent component of internal control.

OAB's financial reporting and internal controls are under the general oversight of the Board of Directors, acting through the Audit Committee. The Audit Committee is composed entirely of independent non-executive directors. The Audit Committee meets periodically with management, internal auditors and external auditors to determine that each is fulfilling its responsibilities and to support actions to identify measure and control risks and augment internal controls.

DISCUSSION ON FINANCIAL AND OPERATIONAL PERFORMANCE

Net Profit

Net profit for the year ended 31 December 2017 is RO 26.5 million (2016 24.6 million), which is 8% higher than the previous year. The operating profit at RO 32.3 million (2016 27.3) is 18% higher than previous year.

The significant changes in income and expenses during 2017 are as follows:

- Net interest income increased during the period by RO 5.7 million, which is a growth of 11%. The main driver for this healthy growth is the increase in interest income by 13.5% achieved with a moderate growth in loan portfolio re-priced effectively. The yield on loans increased significantly at 5.21% compared to 4.80% for 2016. This is offset by the increased interest expense of 17%. The interest rates on deposits followed the same pattern like 2016 and increased on account of liquidity factor resulting in the cost of deposits at 1.60% (2016 1.23%). Yield on interest bearing assets also seen similar increase at 4.67% compared to 4.29% for 2016 and the total cost of funds is 1.74% compared to 1.55% for 2016. This resulted in increase of net interest margin to 2.93% from 2.74% in 2016.
- Commission and fee income decreased by RO 1.8 million compared with previous year mainly due to the reduction in the fee income from retail banking and partly due to the lower income from corporate banking as a result of economic slowdown.
- Various measures taken by management towards controlling cost resulted in substantial reduction in operating expenses including the discontinued operations which decreased by 2% compared to an increase of 6.8% in 2016. The staff costs in 2017 is lower by RO 2.7 million as compared to 2016 as the number of staff has decreased from 1,229 to 1,173. There was an increase of RO 1 million in occupancy costs due to higher rental expenses for the Bank's premises and the IT costs increased as the Bank is upgrading its IT systems partly to comply with CBO requirements and supporting the Bank's digital banking initiatives.
- Provision for loan impairment of RO 8.3 million (2016 14.4 million) is substantially lower than 2016 by RO 6.1 million mainly due to control of NPL, which is at 2.9% of the total loans. General provision for the year was also lower due to the lower growth in loans. Recoveries of RO 8.1 Million is higher than RO 6.7 Million in 2016, due to the enhanced Remedial and Collection team.
- The Earnings Per Share (EPS) is 19 Baizas is same as 2016. The paid-up share capital increased to RO 134.6 million (2016 127 million) with the bonus shares of RO 7.6 million during 2017.

2017 ANNUAL REPORT

MANAGEMENT DISCUSSION ANALYSIS

ASSETS

Total assets of RO 2.1 Billion as at December 31 2017 are RO 73 Million (4%) higher than RO 2.07 Billion as at December 31 2016. The significant changes are as follows:

Loans and advances

Gross loans at RO 1.7 Billion are RO 60 Million (3.7%) higher than RO 1.64 Billion as at December 2016. The growth in loans is moderate and is slightly lower than the total growth in the market of 4%.

YoY growth of RO 60 Million (3.7%) which is RO -3 Million decrease (0.4%) in the Personal loans and RO 63 Million (7%) in Corporate loans.

Non-Performing Loans (NPL) as at 31-Dec-17 is at RO 50.3 Million (2.95% of total loans) which is marginally higher than the RO 47.9 Million (2.91% of total loans) as at 31-Dec-16. Retail NPL is at 1.38% of the total retail loans compared to 1.49% as at 31-Dec-16 while the corporate loans is 4.1% of the total corporate loans compared to 4% as at 31-Dec-16. The non-performing loans include corporate loans of RO 8 million granted under the Government Soft Loan scheme, the principal amount of which are guaranteed and a part of the interest is paid by the Government of Oman.

The total provision coverage is at December 31 2017 is 102% of the non-performing assets compared to 104% at December 31 2016. The specific provision is at 56% of the NPL as the provision requirement is lower after considering the collaterals available for these loans. The provision levels are considered adequate and have been determined in accordance with the Central Bank of Oman and International Financial Reporting Standards.

Investments

Investments in securities of RO 138 million (2016 114 million) comprises mainly of Oman Government Bonds of RO 86 million (2016 RO 56 million) and Treasury Bills of RO 38 million (2016 RO 40 million) issued by the Central Bank of Oman. The investment in equities is at RO 14 million compared to RO 18 million as at 31-Dec-16. In 2017 the Bank has recognized an impairment of RO 0.7 million (2016 RO 2.3 million) in the equity investment due to the adverse markets in Oman and GCC.

LIABILITIES

The customer deposits constitute 95% (2016 92%) of the liabilities. Customer deposits at RO 1.75 Billion as at December 2017 are 6.7% higher than the RO 1.64 Billion as at 2016. This is higher than the growth in the banking sector of 5.6%. The growth comprises of an increase of RO 103 Million (16%) in Demand deposits while the savings deposits increased substantially by RO 30 million (2016 RO 2 million), however Term Deposits decreased by RO -25 million (-3%) (2016 increase of 70 million which was 10%). The Bank launched a campaign in Q3 2016 to mobilize savings deposits revamping its Hassad scheme and has laid greater emphasis on building its CASA book, which has resulted in the growth in demand deposits.

The Bank repaid the subordinated bonds of RO 50 million which were issued in April 2012 with a tenor of 61 months.

SHAREHOLDER'S FUNDS

Shareholders' funds increased to RO 276 million from RO 253 million in the previous year. The paid-up share capital increased to RO 134.62 million with the stock dividends of RO 7.62 during 2017. Out of the total paid-up capital RO 14 million has been assigned to the Bank's Islamic Banking Window, Al Yusr.

The subordinated bonds of RO 50 million issued in April 2012, which matured in May 2017 was repaid in full and the reserve created for this purpose has been transferred to the retained earnings. The subordinated debt reserve RO 8 million is for the remaining subordinated debt of RO 20 million.

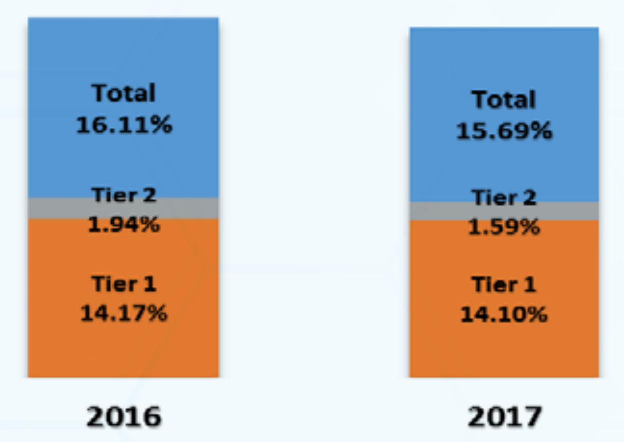
CAPITAL ADEQUACY

Capital adequacy ratio calculated in accordance with the guidelines issued by Bank for International Settlement (BIS) is 15.69% (2016: 16.11%) as a result of the growth in assets. The Tier-1 Capital consisting mainly of Common Equity Tier1 (CET1) is 14.10% (2016:14.17%).

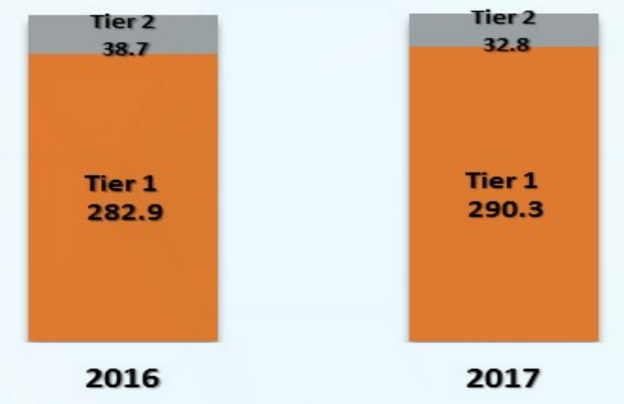
The details of the calculation and the Bank's policy for capital management are provided in notes to the financial statements and the disclosure as per Pillar 3 of the Basel II guidelines.

During 2017 the Bank maintained the capital base higher than the regulatory requirements, including Capital Conservative Buffer (CCB).

Capital Adequacy Ratio



Capital



HUMAN RESOURCES

Omanisation at 31 December 2017 was 96% (2016: 95%), which is higher than the minimum regulatory requirement of 90%.

The total number of staff as at 31 December 2017 is 1,173 (2016: 1,229) of which 65% of staff are with experience of above 3 years in the Bank.

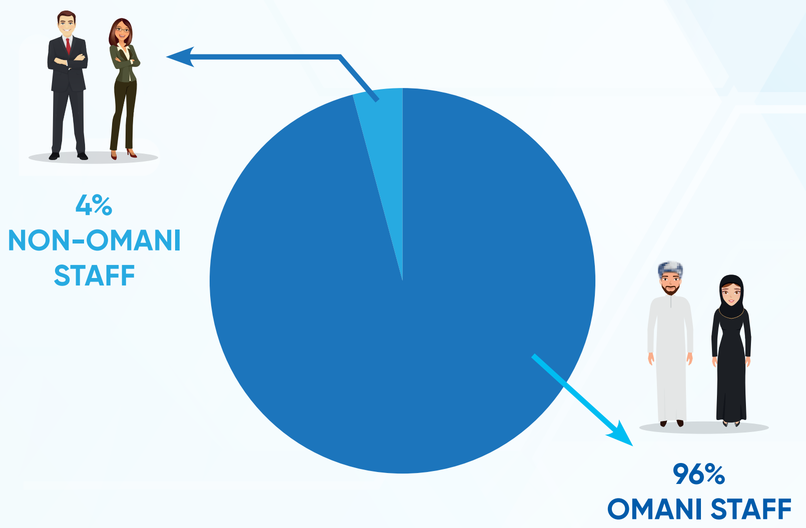


Table below highlights the experience of existing staff:

Yrs	Below 3 Yrs	4 to 6 Yrs	7 to 9 Yrs	10 to 14 Yrs	15 Yrs & above	Total
No of Staff	404	275	167	135	191	1,173

EVENTS AFTER END OF FINANCIAL YEAR

We are not aware of any matter or circumstance that has arisen since 31 December 2017 which has significantly affected, or may significantly affect the operations of the Bank.

Kartik Natarajan
Chief Financial Officer

Date of the Statement: 15 February 2018

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

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Building a better working world

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C.R. No. 1224013
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

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P.O. Box 1750 - P.C. 112 Sultanate of Oman

Muscat
6 March 2018

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

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**

Tier 1 Capital

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.

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

1. 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 short-er-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.

Quantitative disclosure

2. Gross credit risk exposures

Table-2 - 2017

Sl.No	Type of credit exposure	Average Gross Exposure		Total Gross Exposure as at	
		2017	2016	31-Dec-17	31-Dec-16
		RO'000	RO'000	RO'000	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**

3. Geographic distribution of exposures

Table-3 - 2017

Sl. No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	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	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	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**

4. Industry or counterparty type distribution of exposures

Table-4 - 2017

Sl. No	Economic Sector	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	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**

2016

Sl. No	Economic Sector	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	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**

5. 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**

6. Loans and provisions by major industry or counterparty type

Table-6 - 2017

Sl. NO	Economic Sector	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrec-ognized 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.

2016

Sl. NO	Economic Sector	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrec-ognized 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.

7. Geographic distribution of impaired loans

Table - 7 - 2017

Sl. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment RO'000	Specific Provision Held RO'000	Unrecog-nized con-tractual 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

Sl. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment RO'000	Specific Provision Held RO'000	Unrecog-nized con-tractual 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**

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8. 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 (+/-)	9,689	1,424	(7,642)	(4,566)	1,095	**-**
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	1,462,692	191,508	2,760	3,963	43,550	**1,704,472**
7	Provisions held	19,095	2,122	805	1,632	19,493	**43,147**
8	Reserve Interest	-	-	77	141	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**

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DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES

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%.

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% RO '000	20% RO' 000	35% RO' 000	50% RO' 000	100% RO' 000	Total 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 RO '000	2016 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%).

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	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	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**

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**

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.

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.

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**

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**

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

2017

Sl. No	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

Sl. No	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**

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	-

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	-

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	-
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	20,756
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	-
51	**Tier 2 capital before regulatory adjustments**	**32,756**
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-

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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)	-
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)	-

CORPORATE SOCIAL RESPONSIBILITY

Oman Arab Bank has always maintained close bonds with society, understanding the social obligations to responsibly serve the nation and the communities in which it operates. In this regard, the Bank is fully committed towards promoting and supporting the initiatives and day-to-day activities of institutions and individuals who play an effective role in helping nurture and grow society in Oman. From helping the underprivileged, preserving the cultural heritage of Oman, to promoting environmental awareness, the Bank considers it a privilege to be associated with organisations who work tirelessly to achieve such admirable goals.

OAB believes that there is much more to corporate social responsibility than providing financial support to various social activities; the Bank's commitment includes the engagement of employees with the local community, which reflects positively on both parties. The Bank places a strong emphasis on promoting a culture of sharing and collaboration in volunteer work among OAB family members, encouraging all staff to participate and make each initiative a success. The goal is to instil a feeling of joy and satisfaction among employees when joining hands with the local community.

OAB also believes in the importance of maintaining a close partnership between the Bank and the community it operates in as well as in the importance of promoting sports and encouraging a healthy lifestyle in Oman. This is why OAB has always been keen to support sporting tournaments; even encouraging its own employees and their family to play sports and maintain a healthy and active lifestyle.

In line with this philosophy, OAB supported as well as organised a number of initiatives and events over the course of 2017. Here is a quick overview of each of these activates.

'LET'S KEEP OMAN BEAUTIFUL'

Early in the year, Oman Arab Bank (OAB) organised a clean-up initiative at Wadi Al Khoud. The event, which carried the theme 'Let's keep Oman Beautiful', saw the participation of OAB employees and their families, together with a number of visitors to Wadi Al Khoud willing to join the Bank's CSR initiative. This event marked OAB's first CSR initiative of the year and saw OAB employees and their families, together with visitors that visited the Wadi on the day, joining hands to help clean the Wadi.

GOLDEN SPONSOR OF MINISTRY OF HOUSING FOOTBALL TOURNAMENT 2017

OAB, for the third consecutive year, proudly sponsored the Ministry of Housing Football Tournament 2017, as a gold sponsor. For the 2017 edition, six teams representing the General Directorates of the Ministry participated in the football tournament. With strong competitiveness, the tournament saw the Undersecretary

and planning team and the Ghala office team qualify for the finals from the first group. As with the second group, Minister's office team and Muscat office team were gained entry into the finals. The Bank's sponsorship of the Ministry of Housing Football Tournament 2017 falls within its framework of maintaining a close partnership between the Bank and the community it operates in.

DAR AL ATTA'A HONOURS OMAN ARAB BANK

OAB, in May, was honoured by Dar Al Atta'a at a Gala Dinner hosted by the organization at the Al Bustan Palace – A Ritz Carlton Hotel. The event was held under the patronage of His Highness Sayyid Taimur bin As'ad bin Tariq Al Said. OAB was honoured at the ceremony in appreciation of its continuous support of the charitable organization and its various activities across the Sultanate. The Bank was represented at the event by Amin Al Husseini, the Bank's Chief Executive Officer, together with members of Bank's senior management and a number of staff from the Marketing and Corporate Social Responsibility departments.

'SAVING ACCOUNTS FOR ORPHAN CHILDREN'

In conjunction with the holy month of Ramadan, OAB unveiled a new initiative; opening special fee-free savings accounts for orphaned children in need. This was done in cooperation with the Ministry of Social Development, represented by the Childhood Care Centre. The community initiative was aimed at offering the Bank's customers and those who wish to help orphaned children an easier channel through which they can provide their support. The 'Accounts for Orphan Children' initiative provides a channel where anyone in the community can help support orphaned children registered with the Ministry of Social Development and help enhance their lives. The fee-free savings accounts help orphaned children save money they receive till they reach the legal age where they can manage their accounts by themselves. Furthermore, the money can also be used earlier if required to cover any of their expenses; but can be done only with the approval of the Ministry of Social Development.

OAB SPONSORS IFTAR EVENTS FOR CANCER PATIENTS

OAB sponsored two Iftar events for cancer patients in conjunction with the 'Sanubader' volunteer group, the Royal Hospital, Sultan Qaboos University Hospital, and the National Oncology Centre. The first event was held in the Royal Hospital and saw the attendance of cancer patients in the hospital, together with the medical staff working in the department. The second iftar event was held at Sultan Qaboos University Hospital and was attended by patients together with the medical staff working there. In addition to the two events at the hospitals. OAB also distributed more than 500 food packages to limited-income families around the Sultanate. Volunteer members from the Bank's staff, over the course of two days, distributed packages that contained long lasting food that is necessary during Ramadan. Staff Blood

STAFF BLOOD DONATION DRIVE

OAB organised an internal Staff Blood Donation Drive at its head office on. The event was organised by the Social Committee of OAB in collaboration with the Ministry of Health and saw a good number of OAB employees volunteer to donate blood. This Blood Donation Drive was aimed at raising awareness on the importance of blood donation, as well as providing an avenue through which the Bank's staff could donate; especially for those whose otherwise tight schedules would not allow them to participate.

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