IMPORTANT NOTICE

THE ATTACHED BASE PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")) AND ARE OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the base prospectus (the "**Base Prospectus**") attached to this electronic transmission and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Base Prospectus. In accessing the attached Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the National Bank of Oman SAOG (the "**Issuer**") as a result of such access.

Restrictions: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT).

THE ATTACHED BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE ARRANGERS (AS DEFINED BELOW) AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

UNDER NO CIRCUMSTANCES SHALL THE ATTACHED BASE PROSPECTUS CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE SECURITIES IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL.

THE ATTACHED BASE PROSPECTUS IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THE ATTACHED BASE PROSPECTUS AS A FINANCIAL PROMOTION IS ONLY BEING MADE TO THOSE PERSONS FALLING WITHIN ARTICLE 12, ARTICLE 19(5) OR ARTICLE 49 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR TO OTHER PERSONS TO WHOM THE ATTACHED BASE PROSPECTUS MAY OTHERWISE BE DISTRIBUTED WITHOUT CONTRAVENTION OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (THE "**FSMA**"), OR ANY PERSON TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE. THIS COMMUNICATION IS BEING DIRECTED ONLY AT PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. NO OTHER PERSON SHOULD RELY ON IT.

Confirmation of Your Representation: By accessing the attached Base Prospectus you confirm to Arab Banking Corporation (B.S.C.), Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Emirates NBD Bank PJSC, First Abu Dhabi Bank PJSC, the National Bank of Oman SAOG and Standard Chartered Bank as arrangers (the "**Arrangers**"), and the Issuer, that: (i) you understand and agree to the terms set out herein; (ii) you are not a U.S. person (within the meaning of Regulation S), or acting for the account or benefit of any U.S. person, and that you are not in the United States, its territories and possessions; (iii) you consent to delivery of the attached Base Prospectus by electronic transmission; (iv) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the prior written consent of the Arrangers; and (v) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Notes.

You are reminded that the attached Base Prospectus has been delivered to you on the basis that you are a person into whose possession the attached Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the attached Base Prospectus, electronically or otherwise, to any other person and in particular to any U.S. person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

If you received the attached Base Prospectus by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive the attached Base Prospectus by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Arrangers or any affiliate of the Arrangers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Arrangers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the attached Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the attached Base Prospectus.

The attached Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Arrangers, the Issuer nor any person who controls or is a director, officer, employee or agent of the Arrangers, the Issuer nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the attached Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Arrangers.

The distribution of the attached Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by the Arrangers and the Issuer to inform themselves about, and to observe, any such restrictions.

BASE PROSPECTUS

THE NATIONAL BANK OF OMAN SAOG

U.S.$1,500,000,000
Euro Medium Term Note Programme

Under this U.S.$1,500,000,000 Euro Medium Term Note Programme (the "**Programme**"), the National Bank of Oman SAOG (whether acting through its principal office in Oman or, if so specified in the applicable Final Terms (as defined below), acting through a specified branch) (the "**Issuer**" or the "**Bank**") may, subject to compliance with all relevant laws, regulations and directives, from time to time issue (as applicable) senior notes (the "**Senior Notes**") or subordinated notes (the "**Subordinated Notes**" and, together with the Senior Notes, the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below).

If a Non-Viability Event occurs, a Write-down shall occur on the relevant Non-Viability Event Write-down Date (each as defined in the Conditions), as more particularly described in Condition 16 (*Write-down at the Point of Non-Viability*). In such circumstances, the rights of the holders of the Subordinated Notes to payment of any amounts under or in respect of the Subordinated Notes shall, as the case may be, be cancelled or written-down pro rata among the holders of the Subordinated Notes and in each case, not restored under any circumstances. See "*Risk Factors – The rights of the holders of the Subordinated Notes to receive repayment of the principal amount of the Subordinated Notes and the rights of the holders of the Subordinated Notes for any further interest may be written-down permanently upon the occurrence of a Non-Viability Event*".

Notes may be issued in bearer or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$1,500,000,000 (or its equivalent in other currencies calculated as provided in the Dealer Agreement (as defined herein)), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the dealers specified under "*Overview of the Programme*" and any additional dealer(s) appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the "**relevant Dealer(s)**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of the principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes, see "*Risk Factors*" beginning on page 1.

This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to The Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU ("**MiFID II**") and/or which are to be offered to the public in any member state of the European Economic Area.

References in this Base Prospectus to Notes being "**listed**" (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Main Securities Market or have been admitted to trading on such further stock exchanges or markets as may be specified in the applicable Final Terms (as defined below). The Main Securities Market is a regulated market for the purposes of MiFID.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes and the issue price of Notes will be set out in a final terms document (the "**Final Terms**") which, with respect to Notes to be listed on Euronext Dublin, will be delivered to the Central Bank of Ireland and Euronext Dublin.

The Notes have not been nor will be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") nor with any securities regulatory authority of any state or other jurisdiction of the United States and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, Notes may be offered or sold solely to persons who are not U.S. Persons (as defined in Regulation S) outside the United States in reliance on Regulation S. Each purchaser of the Notes is hereby notified that the offer and sale of Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

The Issuer has been assigned a long-term credit rating of 'Baa3' with a negative outlook by Moody's Investors Service Cyprus Ltd. ("**Moody's**") and 'BB+' with negative outlook by Fitch Ratings Limited ("**Fitch**") and the Programme has been assigned a long-term credit rating of '(P)Baa3' (senior unsecured) by Moody's.

Both Moody's and Fitch are established in the EU and are registered under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation"). As such, Moody's and Fitch are included in the list of credit rating agencies published by the European Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

The rating of certain Tranches (as defined herein) of Notes to be issued under the Programme and the credit rating agency issuing such rating may be specified in the applicable Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

Arrangers

Bank ABC	Citigroup	Crédit Agricole CIB
Emirates NBD Capital	First Abu Dhabi Bank PJSC	The National Bank of Oman SAOG
	Standard Chartered Bank	

Dealers

Bank ABC	Citigroup	Crédit Agricole CIB
Emirates NBD Capital	First Abu Dhabi Bank PJSC	The National Bank of Oman SAOG
	Standard Chartered Bank	

The date of this Base Prospectus is 7 September 2018

IMPORTANT NOTICES

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the best of the knowledge and belief of the Issuer, the information contained in this Base Prospectus is true and accurate in every material respect and is not misleading in any material respect and this Base Prospectus, insofar as it concerns such matters, does not omit to state any material fact necessary to make such information not misleading. The opinions, assumptions, intentions, projections and forecasts expressed in this Base Prospectus with regard to the Issuer are honestly held by the Issuer, have been reached after considering all relevant circumstances and are based on reasonable assumptions. The Issuer accepts responsibility for the information contained in this Base Prospectus.

Where information has been sourced from a third party, the Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of any third party information contained in this Base Prospectus is stated where such information appears in this Base Prospectus.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") as completed by the applicable Final Terms specific to such Tranche. This Base Prospectus must be read and construed together with any amendments or supplements hereto and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the applicable Final Terms.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, any Arranger (as defined herein) or any Dealer.

Neither the Arrangers, the Dealers nor any of their respective affiliates or the Agents (as defined herein) make any representation or warranty or accept any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus nor any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial position of the Issuer since the date hereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, the Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons (as defined in Regulations S under the Securities Act).

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Arrangers, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed U.S.$1,500,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement)). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Base Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall investment portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal and tax advisers to determine whether and to what extent: (1) the Notes are legal investments for it; (2) the Notes can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules. In addition, potential investors should consult their own tax advisers on how the rules relating to FATCA (as defined herein) may apply to payments they receive under the Notes.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This document may not be distributed in the Kingdom except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Saudi Arabian Capital Market Authority (the "**CMA**").

The CMA does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this document you should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, Notes issued in connection with this Base Prospectus and related offering documents may only be offered in registered form to existing accountholders and accredited investors as defined by the Central Bank of Bahrain ("**CBB**") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or the equivalent amount in any other currency or such other amount as the CBB may determine.

This Base Prospectus does not constitute an offer of securities in the Kingdom of Bahrain pursuant to the terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Base Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Base Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Base Prospectus or related offering documents and it has not in any way considered the merits of the Notes to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Base Prospectus. No offer of securities will be made to the public in the Kingdom of Bahrain and this Base Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

Any Notes to be issued under the Programme will not be offered, sold or delivered, at any time, directly or indirectly, in the State of Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Base Prospectus has not been and will not be reviewed or approved by or registered with the Qatar Central Bank, the Qatar Exchange, the Qatar Financial Centre Regulatory Authority or the Qatar Financial Markets Authority in accordance with their regulations or any other regulations in the State of Qatar. The Notes are not and will not be traded on the Qatar Exchange.

NOTICE TO RESIDENTS OF THE SULTANATE OF OMAN

The information contained in this Base Prospectus does not constitute a public offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Sultani Decree 4/74, as amended) or Article 3 of the Capital Market Law of Oman (Sultani Decree 80/98, as amended). This Base Prospectus will only be made available to investors in Oman in accordance with the provisions of Article 139 of the Executive Regulations of the Capital Market Law (CMA Decision 1/2009) as amended (the Executive Regulations) by an entity duly licensed by the Capital Market Authority to market non-Omani securities in Oman.

This Base Prospectus has not been (and will not be) filed with the Capital Market Authority (except in accordance with Article 139 of the Executive Regulations), the Central Bank of Oman or any other regulatory authority in Oman and neither the Capital Market Authority nor the Central Bank of Oman assumes responsibility for the accuracy and adequacy of the statements and information contained in this Base Prospectus and shall not have any liability to any person for damage or loss resulting from reliance on any statements or information contained herein.

IMPORTANT – EEA RETAIL INVESTORS

If the relevant Final Terms in respect of any Series of Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); (ii) a

customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE)

Unless otherwise stated in the relevant Final Terms, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

MiFID PRODUCT GOVERNANCE RULES

The relevant Final Terms in respect of any Series of Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of any Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made at the time of issue about whether, for the purpose of the MiFID Product Governance Rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This Base Prospectus contains the audited results of operations of the Bank as at and for the financial years ended 31 December 2017 and 31 December 2016 and the unaudited results of operations of the Bank as at and for the six month periods ended 30 June 2018 and 30 June 2017. The financial information presented in this Base Prospectus as at 30 June 2018 and 30 June 2017 is derived from the Bank's unaudited interim condensed financial statements as at and for the six month period ended 30 June 2018 (the "**Interim Financial Statements**"). The financial information presented in this Base Prospectus as at and for the financial years ended 31 December 2017 and 31 December 2016 is derived from the Bank's audited financial statements as at and for the financial years ended 31 December 2017 and 31 December 2016, respectively (together, the "**Annual Financial Statements**", together with the Interim Financial Statements, the "**Financial Statements**"). The financial information presented in this Base Prospectus should be read in conjunction with the Financial Statements and the related notes thereto along with the audit reports to the Annual Financial Statements and the review report to the Interim Financial Statements. The audit report to the annual financial statement for the financial year ended 31 December 2017 and the review report to the Interim Financial Statements each contain an "emphasis of matter" paragraph. For more information, see pages F-35 to F-112. Unless otherwise specified, the financial information presented in this Base Prospectus has been extracted without material adjustment from the Financial Statements and the related notes thereto, as included elsewhere in this Base Prospectus.

The percentage or percentage changes in financial information included in this Base Prospectus are based on the amounts reported in the Financial Statements. As a result, percentage or percentage changes stated in this Base Prospectus may not be an exact arithmetical change of the numbers stated in this Base Prospectus. As a result of rounding, the totals stated in the tables and text below may not be an exact arithmetical sum of the numbers in respect of which they are expressed to be a total.

Annual information presented in this Base Prospectus is based upon 1 January to 31 December periods (which is the fiscal year for the Issuer), unless otherwise indicated. Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

The language of the Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Alternative Performance Measures

To supplement the consolidated financial statements presented in accordance with or based on IFRS, the Bank has used certain ratios and measures included in this Base Prospectus that would be considered alternative performance measures ("**APMs**") as defined in the "ESMA Guidelines on Alternative Performance Measures" published by the European Securities and Markets Authority on 5 October 2015. For the Bank, these measures include:

- return on average assets: profit for the period (as annualised) / year divided by average total assets. Average total assets is the monthly average of total assets for the respective periods;
- return on average equity: profit for the period (as annualised) / year divided by average shareholders' equity attributable to the equity holders of the Bank. Average equity is the average of quarterly equity for the respective periods;
- net interest margin: overall effective annual yield less overall effective annual cost of Bank's funds;
- customers' deposits/total assets: the aggregate of all customers' deposits as a percentage of total assets;
- cost to income ratio: total operating expenses divided by operating income;
- non-performing financings ratio: Stage 3 loans (For 30 June 2018) and Non-performing Loans (For 31 December 2017 / 31 December 2016) net of reserved interest divided by gross loans and advances less reserved interest;

- non-performing financings provisions ratio: allowance for credit losses (including credit provisions) divided by Stage 3 loans (For 30 June 2018) and Non-performing loans (For 31 December 2017 / 31 December 2016) net of reserved interest; and
- loans to deposit ratio: loans, advances and financing activities for customers (net) divided by customers' deposits and unrestricted investment accounts.

Exchange Rates

In this Base Prospectus, unless otherwise specified, references to "**U.S.$**", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "**EUR**" or "**euro**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended, references to "**£**" are to United Kingdom pounds sterling and references to "**RO**" and "**Rials**" are to Omani rials.

References to a "**billion**" are to a thousand million.

References to the "**GCC**" are to the states of the Gulf Co-operation Council.

Use of Benchmarks

Amounts payable under the Notes may be calculated by reference to:

- Euro-Zone interbank offered rate (as defined in the Conditions);
- London interbank bid rate (as defined in the Conditions);
- London interbank offered rate (as defined in the Conditions);
- London interbank mean rate (as defined in the Conditions);
- Shanghai interbank offered rate (as defined in the Conditions);
- Hong Kong interbank offered rate (as defined in the Conditions);
- Singapore interbank offered rate (as defined in the Conditions);
- Kuala Lumpur interbank offered rate (as defined in the Conditions);
- Emirates interbank offered rate (as defined in the Conditions);
- Saudi Arabia interbank offered rate (as defined in the Conditions);
- Australia Bank Bill Swap (as defined in the Conditions);
- Australian dollar LIBOR (as defined in the Conditions);
- Japanese Yen LIBOR (as defined in the Conditions);
- Prague interbank offered rate (as defined in the Conditions);
- CNH Hong Kong interbank offered rate (as defined in the Conditions);
- Turkish Lira interbank offered rate (as defined in the Conditions); and
- Tokyo interbank offered rate (as defined in the Conditions);

each such provider together referred to as the "**Administrators**".

As at the date of this Base Prospectus, the Administrators do not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "**Benchmark**

Regulations"). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulations apply, such that the Administrators are not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

PRESENTATION OF OMAN STATISTICAL INFORMATION

The statistical information in the section entitled "*Sovereign Overview*" has been accurately reproduced from a number of different identified sources. All statistical information provided in that section may differ from that produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. GDP data is not final and may be subject to revision in future periods and certain other historical GDP data set out in that section may also be subject to future adjustment.

CERTAIN PUBLICLY AVAILABLE INFORMATION

Certain information contained in "*Risk Factors*", "*Description of the National Bank of Oman SAOG – Competition and Competitive Strengths*", "*Sovereign Overview*" and "*The Sultanate of Oman Banking System and Prudential Regulations*" (as indicated therein) has been extracted from independent, third party sources. The Issuer confirms that all third party information contained in this Base Prospectus has been accurately reproduced and that, as far as it is aware and is able to ascertain from information published by the relevant, third party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of any third party information contained in this Base Prospectus is stated where such information appears in this Base Prospectus.

FORWARD-LOOKING STATEMENTS

This Base Prospectus contains forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "projects", "expects", "intends", "may", "will", "seeks" or "should" or, in each case, their negative or other variations or comparable terminology, or in relation to discussions of strategy, plans, objectives, goals, future events or intentions. Forward-looking statements are statements that are not historical facts, including statements about the Issuer's beliefs and expectations. These statements are based on current plans, estimates and projections and, therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. Although the Issuer believes that beliefs and expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such beliefs and expectations will prove to have been correct.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those expressed in any forward-looking statement. The information contained in this Base Prospectus identifies important factors that could cause such differences, including, but not limited to:

- adverse external factors, such as the global financial crisis, changes in international commodity prices, high international interest rates and recession, international terrorism, changes in policies of international institutions or credit downgrades; and

- other adverse factors that may affect the Middle East and North Africa ("**MENA**") region.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilisation manager(s) in the relevant subscription agreement (the "Stabilisation Manager") (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes during the stabilisation period at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager(s) (or persons acting on behalf of the Stabilisation Manager(s)) in accordance with all applicable laws, regulations and rules.

CONTENTS

Page

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes or to pay any amount in respect of the principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Risks Relating to the Bank

Commercial and market risks

Credit risk

Credit risk is the risk that a customer will fail to meet its obligations in accordance with agreed terms and in doing so will cause the Bank to incur a financial loss. The Bank controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, diversification of lending activities and compliance with internal limits to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses, and by obtaining security when appropriate.

The Bank establishes an allowance for identified and collective impairment losses as prescribed by International Financial Reporting Standards ("**IFRS**") and Central Bank of Oman ("**Central Bank**") guidelines that represent its estimate of incurred and collective losses in its loan portfolio. As at 30 June 2018, the Bank had Stage-3 loans amounting to RO 123.7 million and carried allowance for credit losses including reserved interest of RO 137.4 million to cover potential identified and unidentified loan losses (compared with non-performing loans amounting to RO 112.93 million and allowance for credit losses including reserved interest of RO 116.53 million as at 31 December 2017). In accordance with IFRS, the Bank is required to reflect the impairment calculated as a charge to the income statement. However, the actual loan losses could be materially different from the loan impairment allowances. The Bank's management believes that the levels of allowance for credit losses including reserved interest for Stage 3 loans and loans under stress as at 30 June 2018 are sufficient to cover the Bank's estimated loan losses as at that date. As at 30 June 2018, the total allowance for credit losses covered 121.8 per cent. of the Bank's Stage 3 / non-performing loans (compared to 103.7 per cent. as at 31 December 2017). Collateral held as security against impaired loans primarily relates to commercial and residential property and pledged deposits. In addition, the Central Bank may, at any time, amend or supplement its guidelines and require additional provisions to be made in respect to the Bank's loan portfolio if it determines (acting in its role as the prudential regulator for the Omani banking sector) that it is appropriate to do so. If any additional provisions were required to be made, then depending on the exact quantum and timing, such provisions could have an adverse impact on the Bank's financial performance.

Risks arising from adverse changes in the credit quality and recoverability of loans and amounts due from counterparties are inherent in a wide range of the Bank's businesses, principally in its lending and investment activities. Credit risks could arise from a deterioration in the credit quality of specific borrowers, issuers and counterparties of the Bank, or from a general deterioration in local or global economic conditions, or from systematic risks within the financial systems. Such credit risks could affect the recoverability and value of the Bank's assets and require an increase in the Bank's provisions for the impairment of loans, securities and other credit exposures. Any significant increase in impairment allowances or a significant change in the Bank's estimate of the risk of loss inherent in its portfolio of non-impaired loans, as well as the occurrence of loan losses in excess of the impairment allowance allocated with respect to such losses, could have a material adverse effect on the Bank's business, results of operations, financial condition and its ability to make payments in respect of Notes.

Pursuant to Central Bank regulations in 2015, the Bank is required to maintain impairment provisions amounting to 15 per cent. of restructured accounts. Pursuant to modifications in 2017, the required level of provisions must be accumulated over the first three years of restructuring the relevant account, at a rate of 5 per cent. per year. Given the low levels of liquidity in the banking sector in Oman and higher cost of funds, the regulations could result in the Bank being required to increase specific provisions which, in turn, could have an adverse impact on the Bank's financial performance. Additionally, the Bank has applied the International Financial Reporting Standard *Financial Instruments* ("**IFRS 9**"), which came into effect from 1 January 2018, and impose more stringent requirements on the Bank for the recognition of impairments. This has resulted in the Bank making one-off adjustment for impairments to its opening reserves as at 1 January 2018 which negatively impacts its capital adequacy and increases its provisions for impairments from 1 January 2018. This, in turn, had an adverse impact on the Bank's financial performance.

The Bank's non-performing loan levels have increased since 2016, with a non-performing financings ratio of 2.20 per cent. as at 31 December 2016, 3.53 per cent. as at 31 December 2017 and 3.8 per cent. as at 30 June 2018, the Bank may suffer a deterioration in its portfolio, principally manifested in the form of increasing non-performing loan levels, if it is unable to adequately control credit risk.

Legal and operational risk

Legal risk is the risk of losses occurring due to legal or regulatory action that invalidates or otherwise precludes performance by the Bank or any of its counterparties under the terms of its contractual agreements. The Bank controls legal risk through the use of standardised documentation and obtaining appropriate legal advice in relation to its non-standard documentation. See "*Description of The National Bank of Oman SAOG - Operational risk*" and "*Legal Risk*". However, no assurance can be given as to the impact of any such legal or regulatory action.

Operational risk is the risk of loss resulting from inadequate or ineffective internal controls or from external events. Detailed operational manuals, internal control mechanics, periodic reviews and audits are tools employed by the Bank to assess, monitor and manage the operational risk in its business. However, it is not possible to entirely eliminate any of the operational risks.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. The Bank maintains liquid assets at prudent levels to ensure that cash can be made available quickly to honour its obligations, even under adverse conditions. To further address liquidity risk, the Bank's management has established liquidity monitoring procedures and is diversifying the Bank's funding sources in terms of origin and tenor. In addition, the Bank maintains a statutory deposit with the Central Bank and has a range of credit lines from banks and financial institutions.

An inability on the Bank's part to access funds or to access the markets from which it raises funds may put the Bank's positions in liquid assets at risk and lead to the Bank being unable to finance its operations adequately. A dislocated credit environment compounds the risk that the Bank will not be able to access funds at favourable rates. These and other factors could also lead creditors to form a negative view of the Bank's liquidity, which could result in less favourable credit ratings, higher borrowing costs and less accessible funds. In addition, because the Bank receives a significant portion of its funding from deposits, the Bank is subject to the risk that depositors could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing liquidity strain.

In addition, there are always some timing differences between cash payments the Bank owes on its liabilities and the cash payments due to it on its investments and other assets. The Bank's ability to overcome these cash mismatches and make timely payments in respect of the Notes may be adversely affected if the fixed income markets were to experience significant liquidity problems. Also, under certain market conditions, the Bank could be unable to sell additional products or be unable to sell its portfolio investments in sufficient amounts to raise the cash required to pay all amounts due in respect of the Notes.

Furthermore, in circumstances where the Bank's competitors have ongoing limitations on their access to other sources of funding such as wholesale market derived funding, the Bank's access to funds and its cost of funding may also be adversely affected.

Although the Bank invests substantial time and effort in its risk management strategies and systems, these strategies and systems may nevertheless fail in certain circumstances, particularly when confronted with risks that the Bank did not identify correctly or in a timely fashion. Furthermore, risk methodologies and techniques may not cover the entire spectrum of risks to which the Bank may be subject. If any such risks materialise, the associated losses could be greater than the Bank may have anticipated, which could have a material adverse effect on its business, results of operations, financial condition and ability to make payments in respect of Notes.

Dependence on short-term funding and liquidity

As with most banks, a substantial portion of the Bank's funding requirements is met through short-term funding sources, primarily in the form of customer deposits. As at 30 June 2018, 60.7 per cent. of the Bank's customers' deposits and unrestricted investment accounts had remaining maturities of one year or less or were payable on demand.

Disruptions, uncertainty or volatility in the capital and credit markets may limit the Bank's ability to refinance maturing liabilities and increase the cost of such funding. The availability to the Bank of any additional financing it may need will depend on a variety of factors, such as market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and the Bank's financial condition, credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of the Bank's financial prospects if, for example, the Bank incurs large losses, experiences significant deposit outflows or if the level of the Bank's business activity decreases. In particular, the Bank's access to funds may be impaired if rating agencies downgrade the Bank's debt ratings.

In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with the Bank and, as a result, such deposits have over time been a stable source of funding for the Bank. The Bank cannot assure, however, that customers will continue to roll over or maintain their deposits with the Bank. If a substantial number of the Bank's customers fail to roll over their deposits upon maturity or withdraw their deposits from the Bank, the Bank's liquidity and financial position could be adversely affected and the Bank may be required to seek funding from more expensive sources, which could have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of Notes.

Deposit and borrower concentrations

Further to the Bank's dependence on short-term funding (see "*Dependence on short-term funding and liquidity*"), concentrations in the Bank's deposit and unrestricted investment account portfolio also subject it to risks of exposure to Governmental departments and agencies ("**Government-related entities**") and pension funds and the risk of default by its larger clients.

A substantial portion of the Bank's funding requirements are met through short term and long term deposits by Government-related entities. As at 31 December 2017, Government-related entities and pension funds accounted for 27.0 per cent. of the Bank's customers' deposits and unrestricted investment accounts. Furthermore, the Bank's twenty largest depositors represented 34.7 per cent. of the Bank's total customers' deposits and unrestricted investment accounts as at 31 December 2017.

Although the Bank considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits could have a material adverse effect on its business, results of operation and financial condition, as well as their ability to meet the Central Bank regulations relating to liquidity. Any such withdrawal may require the Bank to seek additional sources of funding (whether in the form of deposits or wholesale funding), which may not be available to the Bank on commercially acceptable terms or at all.

Any failure to obtain any replacement funding may negatively impact the Bank's ability to maintain or grow its loan portfolio or otherwise increase its overall cost of funding, any of which could have a material adverse effect on its business, results of operation and financial condition.

As at 30 June 2018, the Bank's funded exposure to its ten largest corporate borrowers accounted for 17.3 per cent. of its gross loans and advances. A significant default by one or more of these borrowers could have an adverse effect on the Bank's business, financial condition, results of operations or prospects. Retail customer portfolios will remain strongly linked to the economic conditions in Oman, with changes in employment levels and interest rates among the factors that may impact retail credit exposures.

A downturn in the financial position of any of the Bank's depositors or borrowers could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects, and thereby affect its ability to perform its obligations in respect of the Notes.

The Bank is exposed to reputational risks related to its operations and industry

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Bank is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Bank's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it lends money or in which it has invested. In common with other banks, the Bank is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Bank or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Bank's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Bank. Any of these developments could have an adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of Notes.

The soundness or the perceived soundness of other financial institutions and counterparties

Against the backdrop of significant constraints on liquidity and high cost of funds in the interbank lending market, which persisted during the last half of 2008 and into 2009 and given the high level of interdependence between financial institutions that became increasingly evident during the credit crisis and following the bankruptcy of Lehman Brothers, the Bank is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial services institutions. Within the financial services industry the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market -wide liquidity problems and losses or defaults by the Bank or by other institutions. This risk is sometimes referred to as "**systemic risk**" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Bank interacts on a daily basis. The failure of other financial institutions or counterparties could have a material adverse effect on the Bank's ability to raise new funding and on its business, results of operations, financial condition and ability to make payments in respect of Notes.

The Bank may not be able to manage its strategy effectively

The Bank cannot assure prospective investors that it will be able to manage its growth effectively. Challenges that may result from organic growth include the Bank's ability to:

- finance investments;
- manage efficiently the operations and employees of expanding businesses;
- hire and retain enough qualified personnel to staff new or expanded operations; and
- maintain its existing customer base.

The Bank cannot ensure that it will be able to adequately address these concerns, which could prevent it from achieving its strategic objectives and could also have a material adverse effect on its business, results of operations, financial condition and ability to make payments in respect of Notes.

Off-balance sheet credit-related commitments

As part of the Bank's lending and trade-related activities, the Bank provide guarantees, letters of credit and acceptances, which are commitments to make payments on behalf of customers contingent upon the failure of the customer to satisfy its obligations supported by the commitment. Although these commitments are contingent and therefore off-balance sheet, they nonetheless subject the Bank to credit risk. Credit-related commitments are subject to the same credit approval and compliance procedures as loans and advances, and commitments to extend credit are contingent on customers maintaining specific credit standards. As at 30 June 2018, the Bank had RO 635.8 million of contingent liabilities and undrawn commitments outstanding. This amount included an amount of RO 9.4 million (original amount of RO 14.3 million out of which RO 4.9 million was paid to the beneficiary during April 2018 and recorded as loans and advances) in respect of performance and advance guarantee which had been claimed by the related beneficiary during 2017. The Bank anticipates that it will be able to recover these amounts from its customer and therefore has made only a partial provision for impairment loss for these amounts.

Although the Bank anticipates that only a portion of its other obligations in respect of these commitments will be triggered, it may become obliged to make payments in respect of a greater portion of such commitments. If this were to happen, then such payments could have a material adverse effect on its business, results of operations, financial condition and ability to make payments in respect of Notes.

Some of the Bank's debtors are unable or unwilling to provide the quality and quantity of financial data sought by the Bank

Although the Bank requires regular disclosure of its debtors' financial information, some debtors, especially retail customers and small to medium-sized enterprises ("**SMEs**"), do not, or are unable to, provide the quality and quantity of information sought by the Bank. Furthermore, such financial data may not always present a complete and comparable picture of each such debtor's financial condition. For example, the financial statements of the Bank's debtors are not (unless publicly listed) required to be presented in accordance with IFRS or audited in accordance with International Standards on Auditing.

Unavailability of adequate quantity or quality of financial data in respect of some of its debtors may result in the Bank's failure to accurately assess the financial condition and creditworthiness of its debtors, leading to an increase in the rate of default for the Bank's loan portfolio. This could have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of Notes.

Security interests or loan guarantees provided in favour of the Bank may not be sufficient to cover any losses and may not be legally enforceable

The practice of mortgaging or pledging assets (such as share pledges or legal mortgage security over real estate assets) to obtain a bank loan is subject to certain limitations and administrative restrictions under Oman law. As a result, security over certain assets may not be enforced in Omani courts. Furthermore, there are no self-help remedies available to creditors in an enforcement scenario under Oman law and therefore recourse is only available through a formal court process. Accordingly, the Bank may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third party credit support arrangements when debtors default on their loans.

In addition, even if such security interests are enforceable in Omani courts, the time and costs associated with enforcing security interests in the Sultanate of Oman may make it uneconomic for the Bank to pursue such proceedings, adversely affecting the Bank's ability to recover its loan losses. Even in the event that the Bank acquires real estate assets as a result of enforcement of security, the Banking Law of Oman requires the Bank to dispose of the real estate within twelve months of it being acquired unless an extension has been obtained from the Central Bank.

As at 30 June 2018, the Bank had a loan portfolio amounting to RO 2,805.0 million most of which was unsecured, with only 21.9 per cent. secured by residential property and commercial real estate, vehicles and investment securities.

The Bank typically requires additional collateral in the form of cash, investment securities and/or other assets in situations where the Bank may not be able to exercise rights over pledged shares or where it enters into guarantees or other third party credit support arrangements for loans made to individuals and corporations. Any decline in the value or liquidity of such collateral may prevent the Bank from foreclosing on such collateral for its full value or at all in the event that a borrower becomes insolvent and enters bankruptcy, and could thereby adversely affect the Bank's ability to recover any losses.

The occurrence of the foregoing could have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of Notes.

The Bank is exposed to fluctuations in foreign exchange rates

As a financial intermediary, the Bank is exposed to foreign exchange rate risk. In general, the Bank aims to make foreign currency loans on terms that are generally similar to its foreign currency borrowings, thereby naturally hedging its exposure. Where this is not possible, it generally employs cross currency forwards, options and swaps to match the currencies of its assets and liabilities. Any open currency position is maintained within the limits set by the Central Bank. However, where the Bank is not so hedged, it is exposed to fluctuations in foreign exchange rates. Adverse movements in foreign exchange rates also may impact the creditworthiness of its depositors and borrowers negatively, which in turn may impact on its deposit base and the quality of its exposures to certain borrowers. Any volatility in foreign exchange rates, including as a result of the re-fixing of the Omani Rial – U.S. dollar exchange rate (or the elimination of that rate altogether), could have a material adverse effect on its business, results of operations, financial condition and ability to make payments in respect of Notes.

Majority of business in Oman and the United Arab Emirates

The majority of the Bank's operations and assets are located in Oman and the United Arab Emirates ("**UAE**") (as at 30 June 2018, 96.3 per cent. of its assets were located in Oman and 3.1 per cent. of its assets were located in UAE) and accordingly its business, results of operations and financial condition may be affected by the financial, political and general economic conditions prevailing from time to time in Oman and/or the Middle East generally (see "*Economic, political and related considerations*").

The Bank may become subject to increasingly intense competition

The Omani banking sector has become increasingly competitive, driven by factors such as an increase in the number of financial institutions operating or investing in the country. Increasing investment in the sector by Omani financial institutions other than banks (such as trade finance companies), as well as non-Omani financial institutions (particularly with respect to large scale financing, such as project finance), has facilitated the use of a wider range of financing sources by corporate customers (such as bond and share issuances) and increased the range and technological sophistication of products and services being offered to both the corporate and retail banking markets in Oman. Although the Bank offers a wide range of financing and continues to focus on enhancing its product and service offerings, furthering the quality of its customer service and improving its delivery channels, the Bank cannot be certain that some of its customers will not choose to transfer some or all of their business to its competitors or to seek alternative sources of financing from those competitors. Such choices could have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of Notes. Increased competition in UAE where the Bank currently operates could result in similar competition for its operations in UAE.

Impact of competitors' consolidations or mergers

The Oman banking industry is currently dominated by three banks which account for approximately two-thirds of the total credit in the banking system (Source: Central Bank Quarterly Statistical Bulletin March 2018). The Bank was the third largest bank in Oman by total loans, representing approximately 11.18 per cent. of total loans and 11.65 per cent of total deposits (Source: Central Bank Monthly Statistical Bulletin March 2018). Given the overlap in services offered and the customer base in Oman, it is possible that one or more of the Bank's competitors may choose to merge or consolidate their operations. The benefits which may result from such a merger or consolidation may enable the Bank's competitors to significantly enhance their financial resources, access to funding and product offerings. The Bank's future growth, revenue, cash flows and ability to make payments in respect of Notes could therefore be adversely affected if any of its competitors were to merge or consolidate. The Bank’s board of directors (**Board of Directors**) has expressed an interest in and has commenced discussions with Bank Dhofar S.A.O.G. (**Bank Dhofar**) to explore the possibility of a merger between the two banks. For further information on the Bank’s proposed merger with Bank Dhofar, see "*Description of the National Bank of Oman – Recent Developments*".

The Bank depends on complex information technology systems

The Bank is dependent on sophisticated information technology ("**IT**") systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Bank's business and operating data, the failure, ineffectiveness or disruption of which could materially adversely affect it. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Bank's business and ability to compete effectively. The Bank's business activities would be materially disrupted if there is a partial or complete failure of any of the IT systems or communications networks. Such failures can be caused by a variety of factors, including natural disasters, extended power outages, computer viruses, malicious hacking and software and hardware malfunctions.

The Bank relies on third party service providers for certain aspects of its business operations. Any interruption or deterioration in the performance of these third parties or failures or their information systems and technology could impair the quality of the Bank's operations and could impact its reputation. If any of the foregoing were to occur, this could have a material adverse effect on its business, result of operations, financial condition and ability to make payments in respect of Notes.

The proper functioning of the Bank's IT systems also depends on accurate and reliable data and other system input, which are subject to human errors. Any failure or delay in recording or processing the Bank's transaction data could subject it to claims for losses and regulatory fines and penalties. Although the Bank believes it has adequate security and continuity of business programmes and protocols in place, it cannot assure that these will be sufficient to prevent these problems or to ensure that its operations are not significantly disrupted as a consequence. Any such problems or disruptions could have a material adverse effect on its business, result of operations, financial condition and ability to make payments in respect of Notes.

Principal shareholder

The Bank's principal shareholder is The Commercial Bank (P.S.Q.C.) ("**Commercial Bank**" or "**CB**"), holding approximately 34.9 per cent. of the Bank's share capital as at 30 June 2018. By virtue of such shareholding, CB has the ability to influence the Bank's business significantly through its ability to control and/or block actions that require shareholder approval. If circumstances were to arise where the interests of CB conflict with the interests of holders of Notes, holders of Notes could be disadvantaged by any such conflict.

Dependence on key personnel

The success of the Bank depends, in part, on the Bank's ability to continue to attract, retain and motivate qualified and skilled personnel. The Bank relies on its senior management for the implementation of its strategy and its day-to-day operations. There is intense competition in Oman for skilled personnel, especially at the senior management level, due to a disproportionately low number of available qualified and/or experienced individuals compared to current demand. If the Bank were unable to retain key members of its senior management and/or hire new qualified personnel in a timely manner, this could have an adverse effect on the operations of the Bank. The loss of any member of the senior management team may result in: (i) a loss of organisational focus; (ii) poor execution of operations; and (iii) an inability to identify and execute potential strategic initiatives. These adverse results could, among other things, reduce potential revenue, which could have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of Notes.

Employee misconduct or errors could harm the Bank

Employee misconduct and misrepresentation could subject the Bank to financial losses or regulatory sanctions and seriously harm its reputation. It is not always possible to deter employee misconduct, and the precautions the Bank takes to prevent and detect this activity may not be effective in all cases. Misconduct by its employees could include employees hiding unauthorised activities from the Bank, improper or unauthorised activities on behalf of customers or improper use of confidential information or funds. Employee errors in recording or executing transactions for customers can cause the Bank to enter into transactions that customers may disavow and refuse to settle. Although the Bank carries insurance to cover employee misconduct and errors, they expose it to risk of loss, which could have a material adverse effect on its business, results of operations, financial condition and ability to make payments in respect of Notes.

The Bank's business is dependent on its information and technology systems which are subject to potential cyber-attack

In common with other financial institutions based in the GCC and elsewhere in the world, the threat to the security of the Bank's information and customer data from cyber-attacks is real and continues to grow at pace. Activists, rogue states and cyber criminals are among those targeting computer systems around the world. Risks to technology and cyber-security change rapidly and require continued focus and investment to manage. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security. Failure to adequately manage cyber-security risk and continually review and update current processes in response to new threats could disrupt the Bank's business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage the Bank's reputation and/or brands, which could have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank is a highly regulated entity

The Bank is subject to a number of regulations designed to maintain the safety and soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. See "*The Sultanate of Oman Banking System and Prudential Regulations*". These regulations include Omani laws and regulations (particularly those of the Central Bank), as well as the laws and regulations of the other countries in which the Bank operates. These regulations may limit its activities and changes in these regulations may increase its cost of doing business. In addition, a breach of regulatory guidelines could expose the Bank to potential liabilities and sanctions. Changes in these laws and regulations (such as pursuant to Basel III) and the manner in which they are interpreted or enforced may have a material adverse effect on its business, results of operations and financial condition.

The Bank's ability to achieve its strategic objectives could be impaired if it is unable to maintain or obtain required licences, permits, approvals and consents

In order to carry out and expand its businesses, it is necessary for the Bank to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits approvals and consents are often lengthy, complex, unpredictable and costly. If the Bank is unable to maintain or obtain the relevant licences, permits, approvals and consents, the Bank's ability to achieve its strategic objectives could be impaired, which could have a material adverse effect on its business, results of operations, financial condition and ability to make payments in respect of Notes.

Future events may be different than those reflected in the management assumptions and estimates used in the preparation of the Bank's financial statements

Pursuant to IFRS rules and interpretations in effect as at the date of this Base Prospectus, the Bank is required to use certain estimates in preparing its financial statements, including accounting estimates to determine loan loss reserves and the fair value of certain assets and liabilities, among other items. Should the estimated values for such items prove substantially inaccurate, particularly because of significant and unexpected market movements, or if the methods by which such values were determined are revised in future IFRS rules or interpretations, the Bank may experience unexpected reductions in profitability or losses.

The Bank may not be able to fully comply with anti-money laundering regulations

The Bank is required to comply, and it does comply, with applicable anti-money laundering ("**AML**"), anti-terrorism laws, economic sanctions and other regulations in Oman and other jurisdictions where it has operations. These laws and regulations require the Bank, among other things, to adopt and enforce "know your customer" ("**KYC**") policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. The Bank has adopted KYC and AML policies and procedures and reviews them regularly in light of any relevant regulatory and market developments, such as the relaxing of substantial portions of United States and European Union sanctions regimes against Iran. To the extent the Bank fails or is perceived to fail to fully comply with applicable laws and regulations, the regulatory agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank. In addition, the Bank's business and reputation could suffer if customers use the Bank for money laundering or illegal or improper purposes. This may have a material adverse effect on its business, results of operations, financial condition and ability to make payments in respect of Notes.

A downgrade in the Bank's credit ratings

The Bank's credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining the Bank's cost of borrowing funds. The interest rates of the Bank's borrowings are partly dependent on its credit ratings. As at the date of this Base Prospectus, the Bank had been assigned: a Long-term Issuer Default Rating of 'BB+' (negative outlook), a Short-term Issuer Default Rating of 'B', a Viability Rating of 'bb+', a Support Rating of '3' and a Support Rating Floor of 'BB+' by Fitch Ratings Limited ("**Fitch**"); and a Bank Deposits rating of 'Baa3/P-3', a Baseline Credit Assessment of 'ba2', an Adjusted Baseline Credit Assessment of 'ba1' and a Senior Unsecured rating of 'Baa3' with a 'negative' outlook by Moody's Investors Service Cyprus Ltd. ("**Moody's Cyprus**"). A downgrade of the Bank's credit ratings, or being placed on a negative ratings watch, may increase its cost of borrowing and have a material adverse effect on its business, results of operations and financial condition.

A downgrade of the Bank's credit ratings (or announcement of a negative ratings watch) may also limit its ability to raise funding or capital. Moreover, actual or anticipated changes in the Bank's credit ratings or the credit ratings of the Notes (if applicable) generally may affect the market value of the Notes. In addition, ratings assigned to the Notes (if applicable) may not reflect the potential impact of all risks related to the transaction, the market or any additional factors discussed in this Base Prospectus and other factors may affect the value of the Notes. On 16 March 2018, Moody's Investors Service downgraded the long term issuer and senior unsecured bond ratings of the Government of the Sultanate of Oman to Baa3 from Baa2, with the outlook remaining negative.

In addition, a downgrade or potential downgrade of Oman sovereign rating or the credit ratings of the Bank's principal shareholder, Commercial Bank, or a change in rating agency methodologies relating to systemic support provided by Oman could negatively affect the perception by ratings agencies of the Bank's rating. There can also be no assurance that the rating agencies will maintain the Bank's current ratings or outlooks or those of Oman.

A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

Risks Relating to Investments in Oman and the GCC

Emerging markets such as Oman and other GCC markets are subject to greater risks than more developed markets, and financial volatility in emerging markets could negatively impact the Bank's business

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Oman and the GCC are subject to rapid change and that the information set forth in this Base Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect confidence in markets of all emerging market countries as investors move their money to more developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Oman and the GCC and adversely affect those economies. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if those economies remain relatively stable, financial turmoil in any emerging market country could adversely affect the Bank's business, as well as result in a decrease in the price of the Notes. Companies located in countries in the emerging markets may be particularly susceptible to disruptions in the capital markets and the reduced availability of credit or the increased cost of debt, which could result in them experiencing financial difficulty. In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

Specific country and regional risks that may have a material impact on the Bank's business, operating results, cash flows and financial condition include:

- regional political instability, including government or military regime changes, riots or other forms of civil disturbance or violence, including through acts of terrorism;
- military strikes or the outbreak of war or other hostilities involving nations in the region;
- a material curtailment of the industrial and economic infrastructure development that is currently underway across the Middle East and North Africa ("**MENA**") region;
- limited overall market liquidity;
- an increase in inflation and the cost of living;
- cancellation of contractual rights, expropriation of assets and/or inability to repatriate profits and/or dividends;
- increased government regulations, or adverse governmental activities, with respect to price, import and export controls, the environment, customs and immigration, capital transfers, foreign exchange and currency controls, labour policies, land and water use and foreign ownership;
- arbitrary, inconsistent or unlawful government action;
- changing tax regimes, including the imposition or increase of taxes in tax favourable jurisdictions such as Oman;
- difficulties in staffing and managing operations;
- difficulties in enforcing collateral;
- difficulties and delays in obtaining governmental and other approvals for operations or renewing existing ones;
- inability to repatriate profits or dividends;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles;
- potential adverse changes in laws and regulatory practices, including legal structures and tax laws;
- logistical and communications challenges; and
- changes in labour conditions.

There can be no assurance that either the economic performance of, or political stability in, Oman or other countries in which the Bank may in the future operate can or will be sustained. Investors should note that a worsening of current financial market conditions, instability in certain sectors of the Omani economy or a major political upheaval in Oman could lead to decreased investor and consumer confidence, market volatility, economic disruption, and declines in real estate markets and, as a result, could have an adverse effect on the Bank's business and prospects.

Economic and political considerations

His Majesty Sultan Qaboos bin Said Al Said has ruled Oman since 1970. His Majesty has focused successfully on widespread economic and political reform, resulting in significantly increased stability and economic growth in the country. However, there can be no assurance that such stability and growth will continue. Notwithstanding this modernisation and advancement, there has always been the concern that a shift in the political priorities within Oman or strife within the region could have a material adverse effect on the Bank's business, financial condition or results of operations.

The Bank's business, results of operations and financial condition depend on the condition of the economy in Oman. Customers' ability to pay their obligations on time is significantly affected by gross domestic product ("**GDP**") growth, which in turn is substantially dependent on the success of key sectors of the Omani economy. Hydrocarbon sector revenues accounted for approximately 30.1 per cent. of nominal GDP compared to 27.1 per cent in 2016.

Oil prices fluctuated considerably and the average price for Omani crude oil increased by 27.8 per cent to U.S.$51.3 per barrel in 2017 from U.S.$40.1 per barrel in 2016. During 2017 the average price of crude oil ranged from U.S.$44.54 in January to its peak level of U.S.$55.59 in December (Source: Central Bank Annual Report 2017). The fluctuations have continued since then, and the average price of the Organisation of Petroleum Exporting Countries ("**OPEC**") Reference Basket averaged U.S.$69.28 per barrel in 2018 compared to U.S.$52.43 a year before. As of 13 August 2018, the OPEC reference basket stood at U.S.$70.97 per barrel (Source: OPEC data obtained on 15 August 2018).

Oil prices remain volatile and have the potential to adversely affect the economy of the GCC countries in the future which could in turn adversely affect the economy of Oman.

As a result of the lower oil prices since 2014, Oman's central government budget position has deteriorated, with the IMF estimating that general government revenue as a percentage of GDP has fallen from 34.5 per cent. in 2015 to 33 per cent. in 2017, that the estimated current account balance was a deficit of 14.3 per cent. of GDP in 2017 and with the real GDP growth rate being 4.2 per cent. in 2015, 3.0 per cent. in 2016 and estimated at 3.6 per cent. in 2017.

In connection with Oman's Article IV IMF Consultation concluded in June 2018, the IMF noted that the Omani banking system remains sound and features high capitalisation, low non-performing loans as well as strong liquidity buffers. Moreover, private sector credit growth has somewhat moderated meaning that interest rates are expected to increase as U.S monetary policy normalisation continues, credit growth is expected to remain healthy.

If historically low crude oil prices are sustained for a significant period, this will be likely to have a significant adverse impact on Oman's economy and its revenues and financial condition. These effects would be likely to materially adversely affect the Bank by:

- reducing the demand from its customers for financing and by adversely affecting the quality of its outstanding financing, thus potentially increasing its impairment losses and so reducing profitability; and/or
- causing certain large depositors of the Bank to withdraw their deposits (in whole or in part) to address their own liquidity needs, resulting in the Bank having to source alternative and more expensive sources of funding.

In addition, to the extent that low oil prices have a negative impact on the government's spending, this could affect the Bank's financial condition indirectly through its impact on the oil and gas, banking, trade, construction, real estate and tourism sectors in particular. Further, any reduction in Oman's revenues would reduce the likelihood and/or extent of government financial support being available to Omani banks, including the Bank, should such support be needed in the future.

In addition, any negative change in one or more macroeconomic factors, such as interest rates (which are influenced by U.S. interest rates given the fixed exchange rate between the Omani Rial and the U.S. dollar), inflation, wage levels, unemployment, foreign investment and international trade, could have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of Notes.

The Bank's results of operations and financial condition also depend on the conditions of the economy in UAE where the Bank has two branches. As at the date of this Base Prospectus, the Bank also has operations in Egypt, although these operations are insignificant, accounting for 0.09 per cent. of the Bank's total assets as at 31 December 2017. As at 31 December 2017, the international assets constitute 7.88 per cent. of the Bank's total assets.

No assurance can be given that the Government will not implement regulations or fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on the Bank's business, financial condition, results of operations or ability to make payments due under the Notes, or which could adversely affect the market price and liquidity of the Notes.

The Bank's business may also be adversely affected if there are geo-political events in or affecting Oman that prevent the Bank from delivering its services. Since early 2011 there has been political unrest in a range of countries in the **MENA** region.

Also since 2011, the prospect of a nuclear Iran has been at the centre of international geopolitical discourse. The comprehensive agreement between the U.N. Security Council's five permanent members plus Germany and Iran that was reached in July 2015 (the "**Joint Comprehensive Plan of Action**") conditions international economic sanctions relief, mainly United States and E.U. sanctions, on Iranian nuclear capabilities reduction and supervision by the International Atomic Energy Agency (the "**IAEA**"). After the IAEA confirmed that Iran met the relevant requirements of the Joint Comprehensive Plan of Action, certain economic sanctions were lifted on 16 January 2016 with a view to improving Iran's position in the international community. However, certain other sanctions remain in place and the United States imposed certain additional sanctions on Iran in July 2017 relating to Iran's ballistic missile programme, human rights matters, arms sales and Iran's Revolutionary Guard Corps. Any continuation or increase in international or regional tensions regarding Iran could have a destabilising impact on the Gulf region.

On 5 June 2017, the Kingdom of Saudi Arabia, the United Arab Emirates, the Kingdom of Bahrain and Egypt officially cut diplomatic ties with the State of Qatar, cut trade and transport links and imposed sanctions, attributing the move to the State of Qatar's relations with various terrorist and sectarian Banks aimed at destabilising the GCC region. Measures taken by the affected countries included the closure of land, sea and air links to the State of Qatar, and requesting certain Qatari officials, residents and visitors to leave the territories of the affected countries. In order to resolve the situation, the affected countries have expressed a willingness to discuss a restoration of ties and the lifting of the other boycott measures on the condition that the State of Qatar commits to agreements it signed, cease support of terrorist and extremist organisations and stop interfering in other countries' affairs. Diplomatic efforts to end the crisis are being undertaken by the State of Kuwait and several other countries. The rift remains at a stalemate fueling speculation towards the future of the GCC Banking as an entity.

Oman also experienced unrest although to a lesser extent. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and civil war and has given rise to increased political uncertainty across the region and, in certain cases, regime changes. The Bank does not have operations in any countries other than Oman, UAE and Egypt (see "*Description of The National Bank of Oman SAOG - Branch Network and Product Distribution*").

It is not possible to predict the occurrence of regional events or circumstances such as, or similar to, a war or the impact of such occurrences and no assurance can be given that the Bank would be able to sustain its current profit levels if such events or circumstances were to occur. A general downturn or sustained deterioration in the economy of Oman, instability in certain sectors of Oman or regional economy, or major political upheaval therein could have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of Notes.

Investors should also note that the Bank's business and financial performance and the Bank's ability to make payments due under the Notes could be adversely affected by political, economic and related developments both within and outside the countries in which it operates because of such countries' interrelationships with global financial markets.

The Oman and GCC legal systems continue to develop and this may create an uncertain environment for investment and business activity

Oman and many of the GCC countries are in various stages of developing their legal and regulatory institutions that are characteristic of more developed markets. As a result, procedural safeguards as well as formal regulations and laws may not be applied consistently. In some circumstances it may not be possible to obtain the legal remedies provided under the relevant laws and regulations in a timely manner. As the legal environment remains subject to continuous development, investors in Oman and the GCC countries may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in Oman and the GCC may have a material adverse effect on the rights of holders of the Notes or the investments that the Bank has made or may make in the future, which may in turn have a material adverse effect on the Bank's business, operating results, cash flows, financial condition and ability to make payments in respect of Notes.

Enforcement under Omani Law

Choice of Law

If any proceedings were brought in Oman in relation to the Notes (whether in connection with the enforcement of an English judgment or otherwise), pursuant to the Civil Transactions Law of Oman (SD 29/3013) (the "**Civil Code**"), the Omani court would recognise and give effect to the choice of English law as the governing law of the Notes, unless any provision of English law was considered to be contrary to public order or morality of Oman or Islamic Shari'a principles.

Enforcing foreign judgments in Oman

Under the Notes the Bank has submitted to the exclusive jurisdiction of the courts of England. However, since the Bank is incorporated in and has the majority of its operations and assets in Oman, there may be insufficient assets of the Bank located outside Oman to satisfy in whole any English judgments obtained in relation to the Notes.

Foreign judgments may be enforced in Oman pursuant to: (i) treaty obligations; or (ii) the Oman Civil Procedure Law. The only treaties of note are the AGCC Protocol and the Riyadh Convention.

Although Omani Law provides for the enforcement of foreign judgments in Oman subject to the conditions set out in Articles 352 to 355 of the Oman Civil Procedure Law being met, the Bank is not aware of a foreign (i.e. non Omani and non Arab GCC) judgment ever having been enforced in Oman. In the absence of the conditions set out in Articles 352 to 355 of the Oman Civil Procedure Law being met, an English judgment against the Bank would not be enforced by the Omani Courts without a reexamination of the merits and the English or U.S. judgment may be of evidential value only in any such proceedings filed before the Omani Courts.

If enforcement of the Notes were sought before the Omani Courts, it is difficult to forecast in advance with any degree of certainty how some of the provisions relating to the Notes would be interpreted and applied by those courts and whether all of the provisions of the Notes would be enforceable.

Oman is a civil law jurisdiction. Court judges enjoy much greater freedom to interpret agreements in any way which, in their opinion, correctly reflects the intention of the parties if the terms of the relevant agreement are ambiguous. The judge's interpretation can extend to amending the contract, if the judge feels that to do so would better reflect the original intention of the parties. It is to be noted that no established system of precedent is adhered to by the Omani Courts although decisions of the Supreme Court of Oman should be persuasive.

No binding precedent

There is no established system of precedent that would be binding on the courts in Oman. If it was sought to enforce the Notes before the courts in Oman, it is difficult to forecast in advance with any degree of certainty how some of the provisions relating to the Notes would be interpreted and applied by those courts and whether all of the provisions of the Notes would be enforceable.

Enforcing foreign arbitral awards in Oman

Foreign arbitral awards may be enforced in Oman pursuant to: (i) treaty obligations or (ii) the Oman Civil Procedure Law. Oman has acceded to the New York Convention, and ratified the Riyadh Convention. Although Oman has been a party to the New York Convention since 1998, the Bank is aware of only one case which has come before the Supreme Court of Oman in 2011 in relation to the enforcement of a foreign arbitral award issued by a contracting state. Whilst in that case the Supreme Court of Oman held that the arbitral award was recognised and enforceable in Oman, it should be noted that there is no doctrine of binding precedent under Omani Law, although decisions of the Oman Supreme Court may be persuasive. The Bank has no reason to believe, however, that the Omani Courts would not enforce an arbitral award passed in a contracting state (without the need to re-examine or re-litigate), subject only to no valid argument being raised that the enforcement of that arbitral award should be refused on one or more of the grounds set out in Article V of the New York Convention or that the subject matter of the award is against public order or morality in Oman. However, the enforcement in Oman of any of the obligations of any party under any of the Notes will ultimately require an order for enforcement by the Omani Courts, which order is subject to discretion, including as to the manner in which such court would interpret and apply the New York Convention.

If the foreign arbitral award is not enforceable pursuant to a treaty obligation (for example, an award is passed in a country that is not a signatory to the New York Convention or Riyadh Convention), then such award may still be enforceable in Oman subject to the satisfaction of the conditions set out in Articles 352 to 355 of the Oman Civil Procedure Law. In accordance with Article 352 of the Oman Civil Procedure Law, the Omani Courts possess an inherent jurisdiction to enforce foreign awards. When considering the enforcement of arbitral awards in the above circumstances, the Omani Courts will need to be satisfied that the following conditions have been met (reading "**judgment**" as "**award**"):

(a) it is passed by a competent judicial authority in accordance with the international jurisdiction rules applicable in the country in which the judgment or order is passed, and becomes final according to that law and was not grounded on deception;

(b) the parties to the dispute were summoned to appear and were properly represented;

(c) it does not include any requests, the basis of which breaches the laws enforced in Oman;

(d) it does not contradict any judgment or order previously issued by the Omani Courts, and it does not include anything contravening public order or morals;

(e) the country in which the said judgment or award was signed accepts the execution of judgments of Omani Courts within its territories; and

(f) the matter that has been arbitrated upon in the foreign jurisdiction is capable of being determined by arbitration under Omani Law (Article 353).

In the event that the conditions of Articles 352 to 355 of the Oman Civil Procedure Law are not met by a foreign arbitral award, such foreign arbitral award may be of evidentiary value only in a full hearing before the Omani Court and the matter may have to be litigated de novo before the Omani Courts.

Regulation of Interest Rates under Omani Law

The Central Bank and the Omani Ministry of Commerce and Industry (the "**MOCI**") each have the power to regulate interest rates in Oman. It is not clear whether interest on the Notes would fall to be regulated by the Central Bank or the MOCI and (if the latter) what maximum rate of interest would apply to the Notes. There is a current maximum interest rate of 6 per cent. on personal and housing loans imposed by the Central Bank. Ministerial Decision 172/2017 (Determining Return in Exchange of Procurement of Loan or Commercial Debt), which is issued pursuant to Article 80 of the Oman Commercial Law (Royal Decree 55/99, as amended) (the "**Ministerial Decision**"), specifies that the maximum rate of "return" that a creditor has the right to receive on a loan or commercial debt is 6.5 per cent.

There may be a possibility that the Oman courts, pursuant to a Sultani Decree 2/2013 (the Civil Transactions Law), decide not to enforce provisions of a contract governed by foreign law or a judgment from a foreign court or arbitral award in relation to such provisions which are deemed contrary to Islamic Shariah principles, such as the charging of interest, even if it is permitted by the chosen governing foreign law, although this is at odds with the current practice of the courts in Oman which regularly enforce contracts charging interest and the fact that the charging of interest is expressly permitted under Omani law.

In addition to the regulations of the MOCI and the Central Bank, Omani courts will not enforce interest claims in excess of what the courts of Oman consider just and reasonable. Accordingly, no assurance can be given as regards the enforceability of interest in excess of such amounts to the extent that the matter fell to be considered by Omani courts.

The Bank is exposed to increased tax burden as a result of changes in the Omani Tax Law

In connection with certain changes to Income Tax Law (Sultani Decree No. 28/2009, as amended) and its Executive Regulations (MD 30/2012, as amended) (the "**Omani Tax Law**"), which came into force on 27 February 2017, withholding tax is to be levied on the gross amount of certain categories of income (as specified under "*Taxation — Omani Tax Law*" below) paid or credited to the account of any non-resident person, being foreign companies that do not have a permanent establishment in Oman and those that carry on business through a permanent establishment but do not include the accrued income in the gross income of that permanent establishment. Companies in Oman, including the Bank, making payment to foreign based companies of the nature specified above are obliged to deduct withholding tax at source at the rate of 10 per cent. on the gross amount paid or credited and to remit it to the Secretariat General for Taxation in Oman. Any obligation to gross up payments is expected to increase the Bank's finance costs in connection with its borrowings, including the Notes.

In addition, with effect from 27 February 2017, the threshold below which income is not taxed was eliminated (from RO 30,000), and the rate of tax to which the Bank is subject was increased to 15 per cent. (from 12 per cent.). Any increase in the Bank's tax burden could have a material adverse effect on the Bank's business, results of operations and financial condition and, if continued, adversely affect the Bank's ability to fulfil its obligations in respect of the Notes.

Risks relating to the Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

The Issuer may issue Notes which entitle the Issuer to redeem such Notes prior to their maturity date at its option and at a price which may be less than the current market price of those Notes. An optional redemption feature of the Notes is likely to limit their market value. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments that may be available at that time.

Notes may be subject to early redemption for tax reasons

Pursuant to Condition 12(b) (*Redemption for tax reasons*), the Issuer may, at any time (if the Floating Rate Note provisions are specified in the applicable Final Terms as being not applicable) or on any Interest Payment Date (if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable) having given not less than 30 nor more than 60 days' prior notice to Noteholders in accordance with Condition 23 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Notes at their Early Redemption Amount (Tax).

Any such redemption of the Notes is subject to the requirements set out in Conditions 12(b) (*Redemption for tax reasons*).

There is no assurance that the holders of the Notes will be able to reinvest the amount received upon such redemption at a rate that will provide the same rate of return as their investment in the Notes. During any period when the Issuer may redeem the Notes, the market value of the Notes generally will not rise substantially above the Early Redemption Amount (Tax) (as defined in the Conditions) payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

Subordinated Notes may be subject to early redemption for regulatory reasons

Pursuant to Condition 12(c) (*Redemption or Variation following a Regulatory Redemption Event*), on the occurrence of a Regulatory Redemption Event (as defined in the Conditions), the Issuer shall, at any time (if the Floating Rate Note provisions are specified in the applicable Final Terms as being not applicable) or on any Interest Payment Date (if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable) having given not less than 30 nor more than 60 days' prior notice to Noteholders in accordance with Condition 23 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Subordinated Notes at their Regulatory Redemption Amount.

There is no assurance that the holders of the Subordinated Notes will be able to reinvest the amount received upon such redemption at a rate that will provide the same rate of return as their investment in the Subordinated Notes. During any period when the Issuer redeems the Subordinated Notes, the market value of the Subordinated Notes generally will not rise substantially above the Regulatory Redemption Amount payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as London inter-bank offered rate. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/floating rate notes (respectively, "**Fixed Rate Notes**" and "**Floating Rate Notes**") may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate, as the case may be. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Risks related to Notes which are linked to "benchmarks"

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The interest rate on Reset Notes will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of Reset Notes

Reset Notes will initially bear interest at the Initial Rate of Interest until (but excluding) the Reset Date (or, if there is more than one Reset Period, the first Reset Date occurring after the relevant Interest Commencement Date). On the Reset Date and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Subsequent Reset Reference Rate and the applicable Reset Margin as determined by the Calculation Agent on the relevant Reset Determination Date (each such interest rate, a "**Subsequent Reset Rate of Interest**"). The Subsequent Reset Rate of Interest for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate of Interest for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

The Subordinated Notes are subordinated and unsecured obligations of the Issuer

Prospective investors should note that the payment obligations of the Issuer in respect of a Series of Subordinated Notes issued under the Programme are subordinated to the Senior Obligations (as defined in the Conditions), rank *pari passu* with the Pari Passu Obligations (as defined in the Conditions) and rank in priority only to all Junior Obligations (as defined in the Conditions). Accordingly, the payment obligations of the Issuer in respect of a Series of Subordinated Notes rank junior to all unsubordinated payment obligations of the Issuer (including depositors of the Issuer in respect of their due claims) and all subordinated payment obligations of the Issuer to which the payment obligations in respect of the Subordinated Notes rank or are expressed to rank junior, and *pari passu* with all subordinated payment obligations of the Issuer which rank or are expressed to rank *pari passu* with the payment obligations in respect of the Subordinated Notes.

No limitation on issuing Notes which are senior or pari passu to the Subordinated Notes

There is no restriction on the amount of Notes which the Issuer may issue, nor on the amount of any other obligations it may assume, which rank senior to, or *pari passu* with any Subordinated Notes of the Issuer. The issue of any such Notes and/or the assumption of any such other obligations may reduce the amount recoverable by holders of Subordinated Notes on a winding-up of the Issuer. Accordingly, in the winding-up of the Issuer and after payment of the claims of creditors in respect of Senior Obligations, there may not be a sufficient amount to satisfy the amounts owing to the holders of the Subordinated Notes. See also *"— The Subordinated Notes are subordinated and unsecured obligations of the Issuer*".

Holders of Subordinated Notes will have limited remedies

Payment of principal and accrued but unpaid interest on the Subordinated Notes may only be accelerated in the event of the occurrence of a Winding-up (as defined in the Conditions) in respect of the Issuer. There is no right of acceleration in the case of non-payment of principal or interest on the Subordinated Notes.

The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of any amount that has become due and payable under the Subordinated Notes is, subject to certain conditions and to the provisions set forth in Condition 17(b) (*Events of Default for Subordinated Notes*), for any holder of the Subordinated Notes to institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment.

Basel regulatory framework as implemented in Oman may have an effect on the Subordinated Notes

The Basel Committee on Banking Supervision (the "**Basel Committee**") has adopted a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued guidance on the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions ("**Basel III**"). The international implementation of the Basel III reforms began on 1 January 2013; however, the requirements are subject to a series of transitional arrangements that will be phased in over a period of time. The Basel Committee's press release dated 13 January 2011 entitled "*Minimum requirements to ensure loss absorbency at the point of non-viability*" (the "**January 2011 Press Release**") included an additional qualification requirement for additional Tier 1 and Tier 2 capital instruments under Basel III.

This requirement (the "**Non-Viability Requirement**") requires contractual or legislative provisions for the writing-off of the principal amount of additional tier 1 instruments and tier 2 instruments or the conversion of such additional tier 1 instruments and tier 2 instruments into ordinary shares upon the occurrence of the earlier of: (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority (a "**Basel III Non-Viability Event**"). This definition is for illustrative purposes only and may not necessarily reflect the meaning ascribed to the term "Basel III Non-Viability Event" (or any term equivalent thereto) pursuant to any law or regulation implementing Basel III in Oman.

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet the Non-Viability Requirement in order to be recognised as additional tier 1 or tier 2 instruments for regulatory capital purposes.

On 17 November 2013, the Central Bank published its guidelines on regulatory capital under Basel III through Central Bank Circular BM1114 (the "**Guidelines**"). The Central Bank has provided the Bank with a letter of no objection to the issuance of the Subordinated Notes as Tier 2 Capital in accordance with the Guidelines. To the extent that the relevant statutory and/or regulatory authorities in Oman introduce any amendments to the Guidelines, or introduce a statutory resolution regime to implement loss absorbency upon the occurrence of a Basel III Non-Viability Event, either through the writing-off of the principal amount of the instruments or the conversion of such instruments into ordinary shares, it is possible that such amendments or statutory regime, if applicable to the Subordinated Notes of the Issuer, could: (i) supersede the write-down provisions contained in Condition 16 (*Write-down at the Point of Non-Viability*); or (ii) give rise to a Regulatory Redemption Event as a consequence of which the Subordinated Notes may be redeemed or varied pursuant to Condition 12(c) (*Redemption or Variation following a Regulatory Redemption Event*). The introduction (or anticipation) of any such amendments or new statutory resolution regime, could, therefore materially adversely affect the value of the Subordinated Notes.

The rights of the holders of the Subordinated Notes to receive repayment of the principal amount of the Subordinated Notes and the rights of the holders of the Subordinated Notes for any further interest may be written-down permanently upon the occurrence of a Non-Viability Event

If a Non-Viability Event occurs at any time, the Subordinated Notes will be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) and all rights of any holder of Subordinated Notes for payment of any amounts under or in respect of the Subordinated Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) shall, as the case may be, be cancelled or written-down *pro rata* among the holders of the Subordinated Notes and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares of the Issuer should absorb losses prior to the Subordinated Notes, a Write-down in full or in part of the Subordinated Notes could occur prior to the ordinary shares of the Issuer absorbing losses in full or at all. A Write-down shall not constitute an Event of Default. As a result, holders of the Subordinated Notes may lose the entire amount or, as the case may be, a material amount of their investment in the Subordinated Notes. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 16 (*Write-down at the Point of Non-Viability*) has not been tested in Oman and therefore some degree of uncertainty may exist in its application.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside the Issuer's control.

The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Regulator in circumstances that may be beyond the control of the Issuer and with which the Issuer or the holders of the Subordinated Notes may not agree.

Risks related to Notes generally

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

The Issuer may issue Notes which entitle the Issuer to redeem such Notes prior to their maturity date at its option and at a price which may be less than the current market price of those Notes. An optional redemption feature of the Notes is likely to limit their market value. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments that may be available at that time.

Notes may be subject to early redemption for tax reasons

Pursuant to Condition 12(b) (*Redemption for tax reasons*), the Issuer may, at any time (if the Floating Rate Note provisions are specified in the applicable Final Terms as being not applicable) or on any Interest Payment Date (if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable) having given not less than 30 nor more than 60 days' prior notice to Noteholders in accordance with Condition 23 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Notes at their Early Redemption Amount (Tax).

Any such redemption of the Notes is subject to the requirements set out in Conditions 12(b) (*Redemption for tax reasons*).

There is no assurance that the holders of the Notes will be able to reinvest the amount received upon such redemption at a rate that will provide the same rate of return as their investment in the Notes. During any period when the Issuer may redeem the Notes, the market value of the Notes generally will not rise substantially above the Early Redemption Amount (Tax) (as defined in the Conditions) payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

Subordinated Notes may be subject to early redemption for regulatory reasons

Pursuant to Condition 12(c) (*Redemption or Variation following a Regulatory Redemption Event*), on the occurrence of a Regulatory Redemption Event (as defined in the Conditions), the Issuer shall, at any time (if the Floating Rate Note provisions are specified in the applicable Final Terms as being not applicable) or on any Interest Payment Date (if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable) having given not less than 30 nor more than 60 days' prior notice to Noteholders in accordance with Condition 23 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Subordinated Notes at their Regulatory Redemption Amount.

There is no assurance that the holders of the Subordinated Notes will be able to reinvest the amount received upon such redemption at a rate that will provide the same rate of return as their investment in the Subordinated Notes. During any period when the Issuer redeems the Subordinated Notes, the market value of the Subordinated Notes generally will not rise substantially above the Regulatory Redemption Amount payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as London inter-bank offered rate. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/floating rate notes (respectively, "**Fixed Rate Notes**" and "**Floating Rate Notes**") may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate, as the case may be. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Risks related to Notes which are linked to "benchmarks"

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The interest rate on Reset Notes will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of Reset Notes

Reset Notes will initially bear interest at the Initial Rate of Interest until (but excluding) the Reset Date (or, if there is more than one Reset Period, the first Reset Date occurring after the relevant Interest Commencement Date). On the Reset Date and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Subsequent Reset Reference Rate and the applicable Reset Margin as determined by the Calculation Agent on the relevant Reset Determination Date (each such interest rate, a "**Subsequent Reset Rate of Interest**"). The Subsequent Reset Rate of Interest for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate of Interest for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

The Subordinated Notes are subordinated and unsecured obligations of the Issuer

Prospective investors should note that the payment obligations of the Issuer in respect of a Series of Subordinated Notes issued under the Programme are subordinated to the Senior Obligations (as defined in the Conditions), rank *pari passu* with the Pari Passu Obligations (as defined in the Conditions) and rank in priority only to all Junior Obligations (as defined in the Conditions). Accordingly, the payment obligations of the Issuer in respect of a Series of Subordinated Notes rank junior to all unsubordinated payment obligations of the Issuer (including depositors of the Issuer in respect of their due claims) and all subordinated payment obligations of the Issuer to which the payment obligations in respect of the Subordinated Notes rank or are expressed to rank junior, and *pari passu* with all subordinated payment obligations of the Issuer which rank or are expressed to rank *pari passu* with the payment obligations in respect of the Subordinated Notes.

No limitation on issuing Notes which are senior or pari passu to the Subordinated Notes

There is no restriction on the amount of Notes which the Issuer may issue, nor on the amount of any other obligations it may assume, which rank senior to, or *pari passu* with any Subordinated Notes of the Issuer. The issue of any such Notes and/or the assumption of any such other obligations may reduce the amount recoverable by holders of Subordinated Notes on a winding-up of the Issuer. Accordingly, in the winding-up of the Issuer and after payment of the claims of creditors in respect of Senior Obligations, there may not be a sufficient amount to satisfy the amounts owing to the holders of the Subordinated Notes. See also *"— The Subordinated Notes are subordinated and unsecured obligations of the Issuer*".

Holders of Subordinated Notes will have limited remedies

Payment of principal and accrued but unpaid interest on the Subordinated Notes may only be accelerated in the event of the occurrence of a Winding-up (as defined in the Conditions) in respect of the Issuer. There is no right of acceleration in the case of non-payment of principal or interest on the Subordinated Notes.

The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of any amount that has become due and payable under the Subordinated Notes is, subject to certain conditions and to the provisions set forth in Condition 17(b) (*Events of Default for Subordinated Notes*), for any holder of the Subordinated Notes to institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment.

Basel regulatory framework as implemented in Oman may have an effect on the Subordinated Notes

The Basel Committee has adopted a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued guidance on the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions ("**Basel III**"). The international implementation of the Basel III reforms began on 1 January 2013; however, the requirements are subject to a series of transitional arrangements that will be phased in over a period of time. The Basel Committee's press release dated 13 January 2011 entitled "*Minimum requirements to ensure loss absorbency at the point of non-viability*" (the "**January 2011 Press Release**") included an additional qualification requirement for additional Tier 1 and Tier 2 capital instruments under Basel III.

This requirement (the "**Non-Viability Requirement**") requires contractual or legislative provisions for the writing-off of the principal amount of additional tier 1 instruments and tier 2 instruments or the conversion of such additional tier 1 instruments and tier 2 instruments into ordinary shares upon the occurrence of the earlier of: (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority (a "**Basel III Non-Viability Event**"). This definition is for illustrative purposes only and may not necessarily reflect the meaning ascribed to the term "Basel III Non-Viability Event" (or any term equivalent thereto) pursuant to any law or regulation implementing Basel III in Oman.

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet the Non-Viability Requirement in order to be recognised as additional tier 1 or tier 2 instruments for regulatory capital purposes.

On 17 November 2013, the Central Bank published its guidelines on regulatory capital under Basel III through Central Bank Circular BM1114 (the "**Guidelines**"). The Central Bank has provided the Bank with a letter of no objection to the issuance of the Subordinated Notes as Tier 2 Capital in accordance with the Guidelines. To the extent that the relevant statutory and/or regulatory authorities in Oman introduce any amendments to the Guidelines, or introduce a statutory resolution regime to implement loss absorbency upon the occurrence of a Basel III Non-Viability Event, either through the writing-off of the principal amount of the instruments or the conversion of such instruments into ordinary shares, it is possible that such amendments or statutory regime, if applicable to the Subordinated Notes of the Issuer, could: (i) supersede the write-down provisions contained in Condition 16 (*Write-down at the Point of Non-Viability*); or (ii) give rise to a Regulatory Redemption Event as a consequence of which the Subordinated Notes may be redeemed or varied pursuant to Condition 12(c) (*Redemption or Variation following a Regulatory*

Redemption Event). The introduction (or anticipation) of any such amendments or new statutory resolution regime, could, therefore materially adversely affect the value of the Subordinated Notes.

The rights of the holders of the Subordinated Notes to receive repayment of the principal amount of the Subordinated Notes and the rights of the holders of the Subordinated Notes for any further interest may be written-down permanently upon the occurrence of a Non-Viability Event

If a Non-Viability Event occurs at any time, the Subordinated Notes will be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) and all rights of any holder of Subordinated Notes for payment of any amounts under or in respect of the Subordinated Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) shall, as the case may be, be cancelled or written-down *pro rata* among the holders of the Subordinated Notes and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares of the Issuer should absorb losses prior to the Subordinated Notes, a Write-down in full or in part of the Subordinated Notes could occur prior to the ordinary shares of the Issuer absorbing losses in full or at all. A Write-down shall not constitute an Event of Default. As a result, holders of the Subordinated Notes may lose the entire amount or, as the case may be, a material amount of their investment in the Subordinated Notes. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 16 (*Write-down at the Point of Non-Viability*) has not been tested in Oman and therefore some degree of uncertainty may exist in its application.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside the Issuer's control.

The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Regulator in circumstances that may be beyond the control of the Issuer and with which the Issuer or the holders of the Subordinated Notes may not agree.

Risks related to Notes generally

Modification

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Change of law

The Conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus nor whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

Notes where denominations involve integral multiples: Definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination.

In such a case a holder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination would need to purchase an additional amount of Notes such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Notes. Noteholders should be aware that Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Noteholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, such Noteholder may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a Definitive Note.

If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Notes of each Tranche will be represented on issue by a Global Note that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in each Global Note held through it. While the Notes of any Tranche are represented by the Global Note, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Notes of any Tranche are represented by a Global Note, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial ownership interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in a Global Note.

Holders of ownership interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

The Notes may not be suitable as an investment for all investors

Prospective investors must determine the suitability of an investment in the Notes in each Series in the light of their own circumstances. In particular, prospective investors should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes in each Series and the merits and risks of investing in such Notes;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of such investor's particular financial situation, an investment in the Notes in each series and the impact that such Notes will have on such investor's overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from such investor's currency;
- understand thoroughly the terms of the Notes in each Series and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for currency, economic, interest rate and other factors (including an analysis of the impact of the global financial crisis) that may affect such investor's investment and ability to bear the applicable risks.

The secondary market generally

Notes issued under the Programme will (unless they are to be consolidated into a single Series with any Notes previously issued) be new securities which may not be widely distributed and for which there is currently no active trading market. Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for the Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors.

These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of the Notes.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Base Prospectus), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. Such lack of liquidity may result in investors suffering losses on the Notes in secondary re-sales even if there is no decline in the performance of the assets of the Issuer. The Issuer cannot predict if any of these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency as set out in the applicable Final Terms. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency.

These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls.

An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in any Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of such Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Issuer and to Notes issued under the Programme. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the relevant rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency being included in such list as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, as completed by the applicable Final Terms.

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.

Words and expressions defined in "*Terms and Conditions of the Notes*" and in "*Forms of the Notes*" shall have the same meanings in this overview.

Issuer:	The National Bank of Oman SAOG, acting through its principal office in Oman or, if so specified in the applicable Final Terms, acting through a specified branch.
Issuer Legal Entity Identifier (LEI):	549300D3B4GI1CT73Z02
Description:	Euro Medium Term Note Programme.
Risk Factors:	There are risks relating to the Notes, which investors should ensure they fully understand. These include the fact that the Notes may not be suitable investments for all investors, and risks relating to the Issuer and the market. See "*Risk Factors*".
Arrangers:	Arab Banking Corporation (B.S.C.), Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Emirates NBD Bank PJSC, First Abu Dhabi Bank PJSC, the National Bank of Oman SAOG and Standard Chartered Bank.
Dealers:	Arab Banking Corporation (B.S.C.), Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Emirates NBD Bank PJSC, First Abu Dhabi Bank PJSC, the National Bank of Oman SAOG and Standard Chartered Bank and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Fiscal Agent:	Citibank N.A., London Branch
Transfer Agent:	Citibank Europe PLC
Registrar:	Citigroup Global Markets Europe AG
Final Terms:	Notes issued under the Programme may be issued pursuant to this Base Prospectus and the applicable Final Terms. The terms and conditions applicable to any particular Tranche of Notes will be the Conditions as completed by the applicable Final Terms.
Listing and Trading:	Application has been made to Euronext Dublin for Notes to be admitted to the Official List and to be admitted to trading on the Main Securities Market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer(s) in relation to the relevant Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

	The Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Clearing Systems:	Euroclear (as defined herein) and/or Clearstream, Luxembourg (as defined herein).
Initial Programme Amount:	Up to U.S.$1,500,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Issuance in Series:	Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the date of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will comprise, where necessary, the relevant terms and conditions and, save in respect of the issue date, issue price, date of the first payment of interest and nominal amount of the Tranche), will be identical to the terms of other Tranches of the same Series and will be completed in the applicable Final Terms. Notes may be either unsubordinated in the manner described in Condition 5(a) (*Status of the Senior Notes*) (a "**Senior Note**") or subordinated in the manner described under Condition 5(b) (*Status of the Subordinated Notes*) (a "**Subordinated Note**"), depending upon the status specified in the applicable Final Terms.
Forms of Notes:	Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). In respect of each Tranche of Notes issued in bearer form, the Issuer will initially deliver a Temporary Global Note or (if so specified in the applicable Final Terms in respect of Notes to which the TEFRA C Rules or the TEFRA D Rules apply (as so specified in such Final Terms)) a Permanent Global Note (each as described herein). Such Global Note will be deposited on or around the relevant issue date therefor with Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Interests in each Temporary Global Note will, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership, be exchangeable for interests in a Permanent Global Note or, if so specified in the applicable Final Terms, for Definitive Notes (as described herein) in bearer form. Interests in each Permanent Global Note will be exchangeable for Definitive Notes in bearer form. Definitive Notes in bearer form will, if interest-bearing, have Coupons attached and, if appropriate, Talons (each as described herein). In respect of each Tranche of Registered Notes, the Issuer will deliver to each holder Registered Notes which will be recorded in the register which the Issuer shall procure to be kept by the Registrar. A Global Registered Note may be registered in the name of a nominee for one or more clearing systems. Registered Notes will not be represented upon issue by a Temporary Global Note and may not be exchanged for Bearer Notes.
Currencies:	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements, as agreed between the Issuer and the relevant Dealer(s). Payments in respect of Notes may, subject to

	such compliance, be made in any currency or currencies other than the currency in which such Notes are denominated.
Status of the Senior Notes:	The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 6 (*Negative Pledge*)) unsecured obligations of the Issuer and will rank at all times *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, save for such obligations as may be preferred by provisions of law.
Status of the Subordinated Notes:	The Subordinated Notes will constitute: (i) Tier 2 Capital of the Issuer; and (ii) direct, unsecured, unconditional and subordinated obligations of the Issuer and will rank at all times *pari passu* among themselves. The rights and claims of holders of Subordinated Notes will be subordinated as described in Condition 5(b) (*Status of Subordinated Notes*).
Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the applicable Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Maturities:	The Notes may have any maturity as agreed between the Issuer and the relevant Dealer(s), subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed at par on such dates and in such manner as may be specified in the applicable Final Terms.
Optional Redemption:	Notes may be redeemed before their stated maturity at the option of: (a) the Issuer (either in whole or in part) (subject, in the case of Subordinated Notes only, to the prior approval of the Central Bank of Oman or any successor entity having primary bank supervisory authority with respect to the Issuer in Oman (the "**Regulator**") where required); and/or (b) in the case of the Senior Notes only, the Noteholders, to the extent (if at all) specified in the applicable Final Terms
Tax Redemption:	Except as described in "*Optional Redemption*" above, early redemption will also be permitted (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) for tax reasons as described in Condition 12(b) (*Redemption and Purchase – Redemption for tax reasons*).
Regulatory Redemption:	On the occurrence of a Regulatory Redemption Event (as defined in the Conditions), the Subordinated Notes will be redeemed at their Regulatory Redemption Amount in whole, but not in part, as described in Condition 12(c) (*Redemption and Purchase – Redemption or Variation following a Regulatory Redemption Event*).
Reset Notes:	Reset Notes will bear interest:

(a) in respect of the period from (and including) the Interest Commencement Date to (but excluding) the Reset Date (or, if there is more than one Reset Period, the first Reset Date occurring after the Interest Commencement Date), at the rate per annum equal to the Initial Rate of Interest; and

(b) in respect of the Reset Period (or, if there is more than one Reset Period, each Reset Period thereafter), at such rate per annum as is equal to the relevant Subsequent Reset Rate, as determined by the Calculation Agent on the relevant Reset Determination Date in accordance with Condition 11,

payable, in each case, in arrear on the Interest Payment Dates(s) (as specified in the applicable Final Terms).

Non-Viability Event: If a Non-Viability Event (as defined in the Conditions) occurs, with respect to any Subordinated Notes, a Write-down (as defined in the Conditions) shall occur on the relevant Non-Viability Event Write-down Date (as defined in the Conditions), as more particularly described in Condition 16 (*Write-down at the Point of Non-Viability*). In such circumstances, the rights of the holders of the Subordinated Notes to payment of any amounts under or in respect of the Subordinated Notes shall, as the case may be, be cancelled or written-down permanently *pro rata* among the holders of the Subordinated Notes. See "*Risk Factors – Factors which are material for the purpose of assessing the risks associated with the Subordinated Notes- The rights of the holders of the Subordinated Notes to receive repayment of the principal amount of the Subordinated Notes and the rights of the holders of the Subordinated Notes for any further interest may be written-down permanently upon the occurrence of a Non- Viability Event*".

Interest: Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.

Denominations: The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as specified in the applicable Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. The minimum denomination of each Note shall be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as at the date of the issue of the Notes).

Negative Pledge: The Senior Notes will have the benefit of a negative pledge as described in Condition 6 (*Negative Pledge*).

Cross Default: The Senior Notes will have the benefit of a cross-default provision as described in Condition 17(a)(iii) (*Events of Default for Senior Notes – Cross-default*).

Rating: The Programme has been assigned a long-term senior unsecured rating of (P)Baa3 (senior unsecured) by Moody's. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject

	to suspension, reduction or withdrawal at any time by the assigning rating agency.
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of Oman (or, where a specified branch of the Issuer is specified in the applicable Final Terms, the jurisdiction in which such specified branch is located) unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 15 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Governing Law:	The amended and restated agency agreement (the "**Agency Agreement**"), the Notes (except for Condition 5(b) (*Status of the Subordinated Notes*)) and any non-contractual obligations arising out of or in connection with the Agency Agreement and the Notes shall be governed by, and construed in accordance with, English law. Condition 5(b) (*Status of the Subordinated Notes*) is governed by, and shall be construed in accordance with, the laws of Oman
Enforcement of Notes in Global Form:	In the case of Global Notes and Global Registered Notes, individual investors' rights against the Issuer will be governed by the Deed of Covenant (as defined herein), a copy of which will be available for inspection at the specified office of each of the Fiscal Agent and the Registrar.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering materials in the United States of America, the European Economic Area, the United Kingdom, Hong Kong, Japan, Malaysia, Singapore, the Kingdom of Saudi Arabia, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Bahrain, the State of Qatar (excluding the Qatar Financial Centre), the Qatar Financial Centre, Oman and the State of Kuwait and such other restrictions as may be required in connection with the offering and sale of the Notes, see "*Subscription and Sale*" below.

DOCUMENTS INCORPORATED BY REFERENCE

The Terms and Conditions of the Notes contained in the Base Prospectus dated 27 June 2016 (the "**2016 Terms and Conditions**"), pages 28 to 54 (inclusive) (an electronic copy of which is available at http://www.ise.ie/debt_documents/Base%20Prospectus_44b7a357-b3f3-4d05-ad39-8c58b26a0228.PDF) prepared by the Issuer in connection with the Programme, which have previously been published and have been filed with the Central Bank of Ireland shall be incorporated in, and form part of, this Base Prospectus.

Copies of the 2016 Terms and Conditions incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being in London.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

If at any time the Issuer shall be required to prepare a supplement to the Base Prospectus pursuant to Part 8, Paragraph 51 of the Prospectus (Directive 2003/71/EC) Regulations 2005 of the Republic of Ireland (S.I. No. 324 of 2005) (the "**Irish Prospectus Regulations**"), the Issuer will prepare and make available a supplement to this Base Prospectus or a further base prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Main Securities Market, shall constitute a supplemental base prospectus as required by Part 8, Paragraph 51 of the Irish Prospectus Regulations. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

FORMS OF THE NOTES

Words and expressions defined in "Terms and Conditions of the Notes" herein shall have the same meanings in this section.

Form of Bearer Notes

Each Tranche of Bearer Notes will initially be in the form of either a temporary bearer global note (the "**Temporary Global Note**") without interest coupons, or a permanent bearer global note (the "**Permanent Global Note**") without interest coupons, in each case as specified in the applicable Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and/or any other relevant clearing system as may be specified in the applicable Final Terms.

The applicable Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any substantially identical successor United States Treasury Regulation section) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the applicable Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless, upon due certification, exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and

(ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership, within seven days of the bearer requesting such exchange.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Fiscal Agent; provided that in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

(a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or

(c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under a deed of covenant dated 7 September 2018 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Temporary Global Note exchangeable for Definitive Notes

If the applicable Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the applicable Final Terms specifies the form of Note as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the applicable Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

For the avoidance of doubt, if Notes are to be issued with a minimum Specified Denomination and in integral multiples of another smaller amount in excess thereof as specified in the applicable Final Terms, the Notes cannot be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

Permanent Global Note exchangeable for Definitive Notes

If the applicable Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes.

The Permanent Global Note will be exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**"):

(i) on the expiry of such period of notice as may be specified in the applicable Final Terms; or

(ii) at any time, if so specified in the applicable Final Terms; or

(iii) if: (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business and no successor clearing system is available; or (b) any of the circumstances described in Condition 17 (*Events of Default*) occurs.

The exchange upon notice and/or at any time options described in paragraphs (i) and (ii) above should not be expressed to be applicable under Form of Notes in the applicable Final Terms if the relevant Notes have denominations consisting of a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Permanent Bearer Global Note exchangeable for Definitive Notes.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the applicable Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) a Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

(c) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

For the avoidance of doubt, Notes will only be issued with a minimum Specified Denomination and in integral multiples of another smaller amount in excess thereof if the applicable Final Terms specifies "in the limited circumstances described in the Permanent Global Note".

Form of Registered Notes

Subject as provided below in relation to Global Registered Notes, in respect of each Tranche of Notes issued in registered form, the Issuer will deliver to each holder of such Notes an individual Registered Note and the name of the holder will be recorded in the register which the Issuer shall procure to be kept by the Registrar. Registered Notes will be in substantially the forms (subject to amendment and completion) scheduled to a programme manual containing the forms of the Notes in global and definitive form and dated 7 September 2018 (the "**Programme Manual**"). Notes issued in registered form will not be represented upon issue by a Temporary Global Note and Registered Notes will not be exchangeable for Bearer Notes.

Registered Notes held in Euroclear and/or Clearstream, Luxembourg (or any other clearing system) will be represented by a global Registered Note (a "**Global Registered Note**") which will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg (or such other relevant clearing system).

The Global Registered Note will become exchangeable in whole, but not in part, for individual Registered Notes (each an "**Individual Note Certificate**"):

(i) on the expiry of such period of notice as may be specified in the applicable Final Terms; or

(ii) at any time, if so specified in the applicable Final Terms as being at the option of such holder of a Global Registered Note upon such holder's request; or

(iii) if: (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays) or announces an intention permanently to cease business, and no successor clearing system is available; or (b) any of the circumstances described in Condition 17 (*Events of Default*) occurs.

Whenever the Global Registered Note is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Note, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been issued and delivered by 5.00 p.m. (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Registered Note; or

(b) any of the Notes evidenced by the Global Registered Note has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Registered Note on the due date for payment in accordance with the terms of the Global Registered Note,

then the Global Registered Note (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such date (in the case of (b) above) and the holder will have no further rights thereunder (but without prejudice to the rights which the holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) as being entitled to interests in the Notes will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Note became void, they had been the registered holders of Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the applicable Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent below:

Payments: All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note to or to the order of any Fiscal Agent or Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note, this shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre, or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of the Global Registered Note will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Registered Note is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 12(f) (*Redemption and Purchase – Redemption at the option of Noteholders*), the bearer of the Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to any Paying Agent or Registrar specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 12(d) (*Redemption and Purchase – Redemption at the option of the Issuer*) in relation to only some of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 23 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note and the relevant Note or Notes is/are deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 23 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Clearing System Accountholders

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the bearer of such Global Note and in relation to all other rights arising under the Global Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the bearer of the Global Note.

Legend concerning U.S. persons

In the case of any Tranche of Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the U.S. Internal Revenue Code of 1986, as amended."

The sections referred to in such legend provide that a U.S. person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the applicable Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Forms of the Notes" above.

1. **Introduction**

(a) ***Programme***: The National Bank of Oman SAOG (whether acting through its principal office in Oman or, if so specified in the applicable Final Terms (as defined below), acting through a specified branch) (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$1,500,000,000 in aggregate principal amount of notes (the "**Notes**"). The Notes will be either unsubordinated in the manner described in Condition 5(a) (*Status of the Senior Notes*) (a "**Senior Note**") or subordinated in the manner described under Condition 5(b) (*Status of the Subordinated Notes*) (a "**Subordinated Note**"), depending upon the status specified in the applicable Final Terms (as defined below).

(b) ***Final Terms***: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of final terms (the "**Final Terms**") which complete these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the applicable Final Terms. In the event of any inconsistency between these Conditions and the applicable Final Terms, the applicable Final Terms shall prevail.

(c) ***Agency Agreement***: The Notes are the subject of an amended and restated issue and paying agency agreement dated 7 September 2018 as may be further amended or supplemented from time to time (the "**Agency Agreement**") between the Issuer, Citibank N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), Citibank Europe PLC as transfer agent (the "**Transfer Agent**", which expression includes any successor transfer agent appointed from time to time in connection with the Notes), Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, the Fiscal Agent, the Transfer Agent and the Paying Agents and any reference to an "**Agent**" is to each one of them.

(d) ***Deed of Covenant***: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 7 September 2018 (the "**Deed of Covenant**") entered into by the Issuer.

(e) ***The Notes***: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the applicable Final Terms. Copies of the applicable Final Terms are available for inspection during normal business hours at the Specified Office of the Fiscal Agent, the initial Specified Office of which is set out in the Agency Agreement.

(f) ***Summaries***: Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**", which expression shall where appropriate, be deemed to include holders of Bearer Notes or, as the case may be, Registered Notes**,** and the holders of related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**" respectively)) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Office of the Fiscal Agent, or, if applicable, the Registrar, the initial Specified Offices of which are set out in the Agency Agreement.

2. **Interpretation**

(a) ***Definitions***: In these Conditions, the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the applicable Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the applicable Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the applicable Final Terms;

"**Applicable Regulatory Capital Requirements**" means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Issuer, including transitional rules and waivers granted in respect of the foregoing;

"**Basel Committee**" means the Basel Committee on Banking Supervision;

"**Basel III**" means the reforms to the international regulatory capital framework issued by the Basel Committee as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital instruments and tier 2 capital instruments);

"**Business Day**" means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**" in relation to any particular date, has the meaning given in the applicable Final Terms and, if so specified in the applicable Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the applicable Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided that:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent or such other Person specified in the applicable Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the applicable Final Terms;

"**Calculation Amount**" has the meaning given in the applicable Final Terms;

"**Capital Regulations**" means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Oman, including those of the Regulator (which shall include, without limitation, the Regulator's CP-1 Guidelines on regulatory capital under Basel III issued via the CBO circular BM1114, dated 17 November 2013);

"**CBO**" means the Central Bank of Oman;

"**Common Equity Tier 1**" means capital qualifying as, and approved by the Regulator as, or capital which would, but for any applicable limitation on the amount of such capital, qualify as common equity tier 1 (or any equivalent or successor term) in accordance with the Capital Regulations;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the applicable Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

(a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of: (1) the actual number of days in such Regular Period; and (2) the number of Regular Periods in any year; and

(b) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of: (1) the actual number of days in such Regular Period; and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of: (1) the actual number of days in such Regular Period; and (2) the number of Regular Periods in any year;

(ii) if "**Actual/365**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of: (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30;

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless: (i) that day is the last day of February; or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless: (i) that day is the last day of February but not the Maturity Date; or (ii) such number would be 31, in which case D_2 will be 30,

provided that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Designated Maturity**" means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the applicable Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the applicable Final Terms;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the applicable Final Terms;

"**First Interest Payment Date**" means the date specified in the applicable Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the applicable Final Terms;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised on a conventional or Shariah-compliant basis, including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Initial Rate of Interest**" has the meaning given in the applicable Final Terms;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the interest commencement date in the applicable Final Terms;

"**Interest Determination Date**" has the meaning given in the applicable Final Terms;

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the applicable Final Terms and, if a Business Day Convention is specified in the applicable Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the applicable Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the First Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions or such other ISDA Definitions as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the applicable Final Terms) as published by the International Swaps and Derivatives Association, Inc.;

"**Issue Date**" has the meaning given in the applicable Final Terms;

"**Junior Obligations**" means all claims of the holders of the ordinary shares of the Issuer and any subordinated payment obligations of the Issuer which rank, or are expressed to rank, junior to the Subordinated Notes;

"**Margin**" has the meaning given in the applicable Final Terms;

"**Maturity Date**" has the meaning given in the applicable Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the applicable Final Terms;

"**Mid Swap Benchmark Rate**" means EURIBOR if the Specified Currency is euro or LIBOR if the Specified Currency is not euro;

"**Mid Swap Maturity**" has the meaning given in the applicable Final Terms;

"**Mid Swap Rate**" means for any Reset Period the arithmetic mean of the bid and offered rates for the fixed leg, payable with a frequency equivalent to the frequency with which scheduled interest payments are payable on the relevant Reset Notes during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent), of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction: (a) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date; (b) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and (c) has a floating leg based on the Mid Swap Benchmark Rate for the Mid Swap Maturity as specified in the applicable Final Terms (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

"**Minimum Redemption Amount**" has the meaning given in the applicable Final Terms;

"**Non-Viability Event**" means that:

(i) the Regulator has notified the Issuer in writing that it has determined that the Issuer is, or will become, Non-Viable without a Write-down; or

(ii) a decision is taken to make a public-sector injection of capital (or equivalent support) without which the Issuer is, or will become, Non-Viable,

whichever is earlier;

"**Non-Viability Event Write-down Date**" shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than 10 Business Days (or such earlier date as determined by the Regulator) after the date of the Non-Viability Notice;

"**Non-Viability Notice**" has the meaning given to it in Condition 16(b) (*Write-down at the Point of Non-Viability – Non-Viability Notice*);

"**Non-Viable**" means: (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business; or (b) any other event or circumstance which is specified as constituting non-viability by the Regulator or as is set out in the applicable banking regulations;

"**Oman**" means the Sultanate of Oman;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the applicable Final Terms;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the applicable Final Terms;

"**Optional Redemption Date (Call)**" has the meaning given in the applicable Final Terms;

"**Optional Redemption Date (Put)**" has the meaning given in the applicable Final Terms;

"**Pari Passu Obligations**" means all subordinated payment obligations of the Issuer which rank, or are expressed to rank, *pari passu* with the Subordinated Notes;

"**Payment Business Day**" means:

(iii) if the currency of payment is euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(iv) if the currency of payment is not euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or any other juridical entity, including, without limitation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency provided that:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Principal Subsidiary**" means any Subsidiary whose revenues, profits or assets from time to time represent not less than 10 per cent. of the consolidated revenues, profits or assets of the Issuer from time to time as shown in the Issuer's most recent audited financial statements (or, if more recent, interim financial statements);

"**Put Option Notice**" means a notice in the form available from the Specified Office of the Paying Agent, or in the case of Registered Notes, the Registrar, which must be delivered to the Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder, and as set out at Schedule 4 (*Form of Put Option Notice*) of the Agency Agreement;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder, substantially in the form set out at Schedule 5 (*Form of Put Option Receipt*) of the Agency Agreement;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms;

"**Record Date**" has the meaning given to such term in Condition 14 (*Payments – Registered Notes*);

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount, the Regulatory Redemption Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the applicable Final Terms;

"**Reference Bond**" means for any Reset Period a government security or securities issued by the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) selected by the Issuer on the advice of an investment bank of international repute as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the Specified Currency and of a comparable maturity to the relevant Reset Period;

"**Reference Bond Price**" means, with respect to any Reset Determination Date: (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such Reset Determination Date, after excluding the highest and lowest such Reference Government Bond Dealer Quotations; or (B) if the Calculation Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

"**Reference Government Bond Dealer**" means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are: (A) primary government securities dealers, and their respective successors; or (B) market makers in pricing corporate bond issues;

"**Reference Government Bond Dealer Quotations**" means, with respect to each Reference Government Bond Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the relevant Reference Bond (expressed in each case as a percentage of its nominal amount) at or around the Subsequent Reset Rate Time on the relevant Reset Determination Date quoted in writing to the Calculation Agent by such Reference Government Bond Dealer;

"**Reference Banks**" means the four major banks selected by the Calculation Agent in the market that are most closely connected with the Reference Rate or, as the case may be, the Subsequent Reset Reference Rate;

"**Reference Price**" has the meaning given in the applicable Final Terms;

"**Reference Rate**" has the meaning given in the applicable Final Terms;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the First Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Regulator**" means the CBO or any successor entity having primary bank supervisory authority with respect to the Issuer in Oman;

"**Regulatory Redemption Amount**" means, in respect of any Note, 101 per cent. of its outstanding principal amount;

"**Regulatory Redemption Event**" is deemed to have occurred if the Issuer is notified in writing by the Regulator to the effect that the outstanding principal amount (or the amount that qualifies as regulatory capital, if some amount of the Subordinated Notes are held by the Issuer or whose purchase is funded by the Issuer) of the Subordinated Notes would cease to qualify, in full, for inclusion in the consolidated Tier 2 Capital of the Issuer (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

"**Relevant Banking Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments generally in the place of presentation of the relevant Note or, as the case may be, Coupon or, in connection with the transfer of Registered Notes only, the place of the Specified Office of the Registrar;

"**Relevant Date**" means, in relation to any payment, whichever is the later of: (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders in accordance with Condition 23 (*Notices*);

"**Relevant Financial Centre**" has the meaning given in the applicable Final Terms;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the applicable Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the applicable Final Terms;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Reset Date(s)**" means the date(s) specified in the applicable Final Terms;

"**Reset Determination Date**" means for each Reset Period the date as specified in the applicable Final Terms falling on or before the commencement of such Reset Period on which the rate of interest applying during such Reset Period will be determined;

"**Reset Margin**" means the margin specified in the applicable Final Terms;

"**Reset Note**" means a Note specified as such in the applicable Final Terms;

"**Reset Period**" means the period from (and including) the first Reset Date to (but excluding) the Maturity Date if there is only one Reset Period or, if there is more than one Reset Period, each period from (and including) one Reset Date (or the first Reset Date) to (but excluding) the next Reset Date up to (but excluding) the Maturity Date;

"**Senior Obligations**" means all unsubordinated payment obligations of the Issuer (including deposit holders) and all subordinated payment obligations (if any) of the Issuer to which the Subordinated Notes rank, or are expressed to rank, junior;

"**Specified Currency**" has the meaning given in the applicable Final Terms;

"**Specified Denomination(s)**" has the meaning given in the applicable Final Terms;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the applicable Final Terms;

"**Subsequent Reset Rate**" means, for any Reset Period and subject to Condition 11(c), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of: (i) the applicable Subsequent Reset Reference Rate; and (ii) the applicable Reset Margin (rounded down to four decimal places, with 0.00005 being rounded down);

"**Subsequent Reset Rate Screen Page**" has the meaning specified in the applicable Final Terms;

"**Subsequent Reset Rate Time**" has the meaning specified in the applicable Final Terms;

"**Subsequent Reset Reference Rate**" means either:

(i) if "**Mid Swaps**" is specified in the applicable Final Terms, the Mid Swap Rate displayed on the Subsequent Reset Rate Screen Page at or around the Subsequent Reset Rate Time on the relevant Reset Determination Date for such Reset Period; or

(ii) if "**Reference Bond**" is specified in the applicable Final Terms, the annual yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond, assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Tier 1 Capital**" means capital, other than Common Equity Tier 1, qualifying as (or would qualify, but for any applicable limitation on the amount of such capital), and approved by the Regulator as, tier 1 capital (or any equivalent or successor term) in accordance with the Capital Regulations;

"**Tier 2 Capital**" means capital qualifying as, and approved by the Regulator as, tier 2 capital (or any equivalent or successor term) in accordance with the Capital Regulations;

"**Winding-up**" means circumstances where: (i) an administrator is appointed, an order is made by a court of competent jurisdiction or an effective resolution is passed for the winding-up or dissolution or administration of the Issuer; or (ii) the Issuer applies or petitions for a winding-up or administration order in respect of itself or ceases, or through an official action of its board of directors threatens to cease, to carry on all or substantially all of its business or operations;

"**Write-down**" means:

(i) the Subordinated Notes shall be cancelled (in the case of a write-down in whole) or written-down in part on a *pro rata* basis (in the case of a write-down in part) as determined by the Issuer in conjunction with the Regulator in accordance with the Capital Regulations; and

(ii) all rights of any holder of Subordinated Notes for payment of any amounts under or in respect of the Subordinated Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default in accordance with Condition 17(b) (*Events of Default for Subordinated Notes*)) shall, as the case may be, be cancelled in whole or written-down in part *pro rata* among the holders of the Subordinated Notes and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ended.

For the avoidance of doubt, with respect to paragraphs (i) and (ii) of this definition, the Write-down will be full and permanent where the Regulator has determined that a public-sector injection of capital or equivalent support is required.

It is the Issuer's intention at the date of this Base Prospectus that a Write-down will take place: (1) after the common shares of the Issuer and any other Common Equity Tier 1 capital and Tier 1 Capital absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Issuer at such time) and the Regulator has not notified the Issuer in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; and (2) simultaneously with the write-down of any of the Issuer's other obligations in respect of Tier 2 Capital and other instruments related to the Issuer's other obligations constituting Tier 2 Capital, provided that, in the case of (2) above, this will only apply to the extent such other instruments have contractual provisions for such analogous write down at the point of non-viability or are subject to a statutory framework that provides for such analogous write down; and

"**Zero Coupon Note**" means a Note specified as such in the applicable Final Terms.

(b) ***Interpretation***: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the applicable Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the applicable Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 15 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 15 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (*Interpretation – Definitions*) to have the meaning given in the applicable Final Terms, but the applicable Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement and/or the Deed of Covenant shall be construed as a reference to the Agency Agreement and/or the Deed of Covenant, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. **Form, Denomination and Title**

(a) ***Notes in Bearer Form***: Bearer Notes are issued in the Specified Denomination(s) with Coupons and, if specified in the applicable Final Terms, Talons attached at the time of issue and may be held in holdings equal to the minimum denomination specified in the applicable Final Terms and integral multiples in excess thereof. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination. Title to Bearer Notes and Coupons will pass by delivery. The holder of any Bearer Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder. All Definitive Notes will be serially numbered, with coupons, if any, attached.

(b) ***Notes in Registered Form***: Registered Notes are issued in the Specified Denomination and may be held in holdings equal to the minimum denomination specified in the applicable Final Terms and integral multiples in excess thereof. The holder of each Registered Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Registered Note relating thereto (other than the endorsed form of transfer) or any previous loss or theft of such Registered Note) and no Person shall be liable for so treating such holder. Title to Registered Notes will pass by transfer and registration in the register which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. All individual Registered Notes will be numbered serially with an identity number which will be recorded in the register.

4. **Transfers of Registered Notes**

(a) ***Transfers of Registered Notes***: A Registered Note may, upon the terms and subject to the conditions set forth in the Agency Agreement, be transferred in whole or in part only (provided that such part is, or is an integral multiple of, the minimum denomination specified in the Final Terms) upon the surrender of the Registered Note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Registrar. A new Registered Note will be issued to the transferee and, in the case of a transfer of part only of a Registered Note, a new Registered Note in respect of the balance not transferred will be issued to the transferor.

(b) ***Issue of new Registered Notes***: Each new Registered Note to be issued upon the transfer of a Registered Note will, within five Relevant Banking Days of the day on which such Note was presented for transfer, be available for collection by each relevant holder at the Specified Office of the Registrar or, at the option of the holder requesting such transfer, be mailed (by uninsured post at the risk of the holder(s) entitled thereto) to such address(es) as may be specified by such holder. For these purposes, a form of transfer received by the Registrar or the Fiscal Agent after the Record Date in respect of any payment due in respect of Registered Notes shall be deemed not to be effectively received by the Registrar or the Fiscal Agent until the day following the due date for such payment.

(c) ***Charges for transfer or exchange***: The issue of new Registered Notes on transfer will be effected without charge by or on behalf of the Issuer, the Fiscal Agent or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Fiscal Agent or the Registrar may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

(d) ***Closed Periods***: Holders of Registered Notes may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

5. **Status**

(a) ***Status of the Senior Notes***: The Senior Notes and any related coupons constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 6 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, save for such obligations as may be preferred by provisions of law.

(b) ***Status of the Subordinated Notes***: The Subordinated Notes and any related coupons will: (i) constitute Tier 2 Capital of the Issuer; (ii) constitute direct, unsecured, unconditional and subordinated obligations of the Issuer that rank pari passu amongst themselves; (iii) rank junior to all Senior Obligations; (iv) rank pari passu with all Pari Passu Obligations; and (v) rank in priority only to all Junior Obligations.

Subject to applicable law, no holder of any Subordinated Notes may exercise or claim any right of set off in respect of any amount owed to it by the Issuer arising under or in connection with such Subordinated Notes and each holder of the Subordinated Notes shall, by virtue of being a holder of such Subordinated Notes, be deemed to have waived all such rights of set-off.

6. **Negative Pledge**

This Condition 6 only applies to Senior Notes.

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer shall not, and the Issuer shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or Sukuk Obligation or guarantee of Relevant Indebtedness or any Sukuk Obligation, other than a Permitted Security Interest, without: (a) at the same time or prior thereto securing the Notes equally and rateably therewith; or (b) providing such other security for the Notes as may be approved by Extraordinary Resolution (as defined in the Agency Agreement).

In this Condition 6:

"**guarantee**" means, in relation to any Relevant Indebtedness or any Sukuk Obligation of any Person, any obligation of another Person to pay such Relevant Indebtedness including (without limitation):

(i) any obligation to purchase such Relevant Indebtedness or such Sukuk Obligation;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Relevant Indebtedness or such Sukuk Obligation;

(iii) any indemnity against the consequences of a default in the payment of such Relevant Indebtedness or such Sukuk Obligation; and

(iv) any other agreement to be responsible for such Relevant Indebtedness or such Sukuk Obligation;

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, certificates, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over the-counter or other securities market;

"**Non-recourse Project Financing**" means any financing of all or part of the costs of the acquisition, construction or development of any project, provided that: (i) any Security Interest given by the Issuer or any of its Subsidiaries in connection therewith is limited solely to the assets of the project; (ii) the Persons providing such financing expressly agree to limit their recourse to the project financed and the revenues derived from such project as the principal source of repayment for the moneys advanced; and (iii) there is no other recourse to the Issuer or any of its Subsidiaries in respect of any default by any Person under the financing;

"**Permitted Security Interest**" means:

(i) any Security Interest created or outstanding with the approval of an Extraordinary Resolution;

(ii) any Security Interest arising by operation of law, provided that such Security Interest is discharged within 30 days of arising; and

(iii) any Security Interest granted to secure a Non-recourse Project Financing or to secure any Relevant Indebtedness or Sukuk Obligation incurred in connection with a Securitisation;

"**Securitisation**" means any securitisation (Islamic or otherwise) of existing or future assets and/or revenues, provided that: (i) any Security Interest given by the Issuer or any of its Subsidiaries in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation; (ii) each Person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues securitised as the principal source of repayment for the moneys advanced or payment of any other liability; and (iii) there is no other recourse to the Issuer or any of its Subsidiaries in respect of any default by any Person under the securitisation;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Sukuk Obligation**" means any undertaking or other obligation to pay any money given in connection with the issue of trust certificates or other securities issued in connection with any Islamic financing whether or not in return for consideration of any kind, which trust certificates or other securities for the time being are, or are intended to be or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

7. Fixed Rate Note Provisions

(a) ***Application***: This Condition 7 is applicable to the Notes only if the Fixed Rate Note provisions are specified in the applicable Final Terms as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 13 (*Payments – Bearer Notes*) and Condition 14 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (after as well as before judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Fixed Coupon Amount***: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) ***Calculation of interest amount***: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

8. Floating Rate Note Provisions

(a) ***Application***: This Condition 8 is applicable to the Notes only if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 13 (*Payments – Bearer Notes*) and Condition 14 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 8 (after as well as before judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Linear Interpolation***: If Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided, however, that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(d) ***Screen Rate Determination***: If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

In this Condition 8(d), "**Reference Rate**" shall be any one of the following, as specified in the applicable Final Terms:

- Euro-Zone interbank offered rate ("**EURIBOR**");
- London interbank bid rate ("**LIBID**");
- London interbank offered rate ("**LIBOR**");
- London interbank mean rate ("**LIMEAN**");
- Shanghai interbank offered rate ("**SHIBOR**");
- Hong Kong interbank offered rate ("**HIBOR**");
- Singapore interbank offered rate ("**SIBOR**");
- Kuala Lumpur interbank offered rate ("**KLIBOR**");
- Emirates interbank offered rate ("**EIBOR**");
- Saudi Arabia interbank offered rate ("**SAIBOR**");
- Australia Bank Bill Swap ("**BBSW**");
- Australian dollar LIBOR ("**AUD LIBOR**");
- Japanese Yen LIBOR ("**JPY LIBOR**");
- Prague interbank offered rate ("**PRIBOR**");
- CNH Hong Kong interbank offered rate ("**CNH HIBOR**");
- Turkish Lira interbank offered rate ("**TRLIBOR**" or "**TRYLIBOR**"); and
- Tokyo interbank offered rate ("**TIBOR**");

(e) ***ISDA Determination***: If ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the applicable Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the applicable Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either: (A) if the relevant Floating Rate Option is based on LIBOR or on EURIBOR for a currency, the first day of that Interest Period; or (B) in any other case, as specified in the applicable Final Terms.

(f) ***Maximum or Minimum Rate of Interest***: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the applicable Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) ***Calculation of Interest Amount***: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the

Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) ***Calculation of other amounts***: If the applicable Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the applicable Final Terms.

(i) ***Publication***: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) ***Notifications etc.***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

9. Zero Coupon Note Provisions

(a) ***Application***: This Condition 9 is applicable to the Notes only if the Zero Coupon Note provisions are specified in the applicable Final Terms as being applicable.

(b) ***Late payment on Zero Coupon Notes***: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

10. Fixed/Floating Rate Note Provisions

(a) ***Application***: This Condition 10 is applicable to the Notes only if the Fixed Rate Note Provisions and the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) ***Fixed/Floating Rate***: The Issuer may issue Notes: (i) that the Issuer may elect to convert on the date set out in the applicable Final Terms from a Fixed Rate Note to a Floating Rate Note, or from a Floating Rate Note to a Fixed Rate Note, as the case may be; or (ii) that will automatically change from a Fixed Rate Note to a Floating Rate Note, or from a Floating Rate Note to a Fixed Rate Note, as the case may be, on the date set out in the relevant Final Terms.

11. **Reset Note Provisions**

(a) ***Application***: This Condition 11 is applicable to the Notes only if the Reset Note provisions are specified in the applicable Final Terms as being applicable.

(b) ***Accrual of interest***: Each Reset Note bears interest: (i) in respect of the period from (and including) the Interest Commencement Date to (but excluding) the Reset Date (or, if there is more than one Reset Period, the first Reset Date occurring after the Interest Commencement Date), at the rate per annum equal to the Initial Rate of Interest; and (ii) in respect of the Reset Period (or, if there is more than one Reset Period, each Reset Period), at such rate per annum as is equal to the relevant Subsequent Reset Rate, as determined by the Calculation Agent on the relevant Reset Determination Date in accordance with this Condition 11, payable, in each case, in arrear on the Interest Payment Dates(s) (as specified in the applicable Final Terms).

The Calculation Agent will calculate the Interest Amount payable on the relevant Reset Notes for the relevant period by applying the Initial Rate of Interest or the applicable Subsequent Reset Rate (as the case may be) to:

(A) in the case of Reset Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Reset Notes represented by such Global Note; or

(B) in the case of Reset Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Reset Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Reset Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

(c) ***Subsequent Reset Rate Screen Page***: If, on any Reset Determination Date, the Subsequent Reset Rate Screen Page is not available (or, where "Mid Swaps" is specified in the applicable Final Terms in relation to the Subsequent Reset Reference Rate and the Mid Swap Rate does not appear on the Subsequent Reset Rate Screen Page as of the Subsequent Reset Rate Time on such Reset Determination Date), the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Subsequent Reset Reference Rate at approximately the Subsequent Reset Rate Time on the Reset Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Subsequent Reset Rate for the relevant Reset Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the applicable Reset Margin (if any), all as determined by the Calculation Agent. If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with an offered quotation as provided in the foregoing provisions of this Condition 11(c), the Subsequent Reset Rate shall be determined as at the last preceding Reset Determination Date or, in the case of the first Reset Determination Date, the Subsequent Reset Rate shall be the Initial Rate of Interest, plus or minus (as the case may be) the applicable Reset Margin (if any).

(d) ***Notification of Subsequent Reset Rate and Interest Amounts***: The Calculation Agent will cause the Subsequent Reset Rate and each Interest Amount for each Reset Period to be notified to the Issuer, the Fiscal Agent and any stock exchange on which the relevant Reset Notes are for the time being listed and notice thereof to be published in accordance with Condition 23 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount as notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment). Any such amendment will be promptly notified to any stock exchange on which the relevant Reset Notes are for the time being listed and to the Noteholders in accordance with Condition 23 (*Notices*). For the purposes of this Condition 11(d), the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(e) ***Notifications etc.***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 11 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

12. **Redemption and Purchase**

(a) ***Scheduled redemption***: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 13 (*Payments – Bearer Notes*) and Condition 14 (*Payments – Registered Notes*).

(b) ***Redemption for tax reasons***: The Notes may (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if the Floating Rate Note provisions are specified in the applicable Final Terms as being not applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) in accordance with Condition 23 (*Notices*), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 15 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Oman or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 12(b), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent: (A) a certificate signed by two authorised signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to so redeem have occurred; and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 12(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 12(b).

(c) ***Redemption or Variation following a Regulatory Redemption Event***: Upon the occurrence of a Regulatory Redemption Event, the Issuer shall, by giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 23 (*Notices*) (which notice shall be irrevocable) either:

(i) redeem all, but not some only, of the Subordinated Notes at their Regulatory Redemption Amount:

(A) at any time (if the Floating Rate Note provisions are specified in the applicable Final Terms as being not applicable); or

(B) on any Interest Payment Date (if the Floating Rate Note provisions are specified in the applicable Final Terms as being applicable); or

(ii) solely for the purpose of ensuring compliance with Applicable Regulatory Capital Requirements, vary the terms of the Subordinated Notes so that they remain or, as appropriate, become, Tier 2 Capital without any requirement for consent or approval of the holders of the Subordinated Notes.

Prior to the publication of any notice of redemption or variation (as the case may be) pursuant to this Condition 12(c), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent a certificate signed by two authorised signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that: (A) the conditions set out in Condition 12(c) have been satisfied; (B) a Regulatory Redemption Event has occurred; and (C) in the case of a variation only, the varied Subordinated Notes constitute Tier 2 Capital and that the Regulator has confirmed that the varied Subordinated Notes would constitute Tier 2 Capital. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above. Upon expiry of such notice the Issuer shall redeem or vary the terms of the Subordinated Notes (as the case may be).

(d) ***Redemption at the option of the Issuer***: If the Call Option is specified in the applicable Final Terms as being applicable, the Notes may (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) be redeemed at the option of the Issuer in whole or, if so specified in the applicable Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 23 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(e) ***Partial redemption***: If the Notes are to be redeemed in part only on any date in accordance with Condition 12(d) (*Redemption and Purchase – Redemption at the option of the Issuer*):

(i) in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 12(d) (*Redemption and Purchase – Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the applicable Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified; and

(ii) in the case of Registered Notes, the Notes shall be redeemed (so far as may be practicable) *pro rata* to their principal amounts, subject always to compliance with all applicable laws and the requirements of any listing authority, stock exchange or quotation system on which the relevant Notes may be listed, traded or quoted.

In the case of the redemption of part only of a Registered Note, a new Registered Note in respect of the unredeemed balance shall be issued in accordance with Condition 4 (*Transfers of Registered*

Notes) which shall apply as in the case of a transfer of Registered Notes as if such new Registered Note were in respect of the untransferred balance.

(f) ***Redemption at the option of Noteholders***: This Condition 12(f) only applies to Senior Notes. If the Put Option is specified in the applicable Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 12(f), the holder of a Note must, not less than 30 nor more than 60 days' before the relevant Optional Redemption Date (Put), deposit at the Specified Offices of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent or Registrar specifying the aggregate outstanding principal amount in respect of which such option is exercised. The Paying Agent or Registrar with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing holder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 12(f), may be withdrawn; provided that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent or Registrar, as the case may be, shall mail notification thereof to the depositing holder at such address as may have been given by such holder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing holder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent or Registrar, as the case may be, in accordance with this Condition 12(f), the depositor of such Note, and not such Paying Agent, shall be deemed to be the holder of such Note for all purposes.

The Issuer shall redeem the Notes in respect of which Put Option Receipts have been issued on the Optional Redemption Date (Put), unless previously redeemed. Payment in respect of any Note so delivered will be made:

(i) if the Note is in definitive form and held outside Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and if the holder duly specified a bank account in the Put Option Notice to which payment is to be made, on the Optional Redemption Date (Put) by transfer to that bank account and in every other case on or after the Optional Redemption Date (Put), in each case against presentation and surrender or (as the case may be) endorsement of such Put Option Receipt and, where appropriate, entry in the Register, at the Specified Office of any Paying Agent; or

(ii) if the Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg.

The holder of a Note may not exercise such Put Option in respect of any Note which is the subject of an exercise by the Issuer of its Call Option.

In the case of the redemption of part only of a Registered Note, a new Registered Note in respect of the unredeemed balance shall be issued in accordance with Condition 4 (*Transfers of Registered Notes*) which shall apply in the case of a transfer of Registered Notes as if such new Registered Note were in respect of the untransferred balance.

(g) ***No other redemption***: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 12(a) (*Redemption and Purchase – Scheduled redemption*) to 12(f) (*Redemption and Purchase – Redemption at the option of Noteholders*) above.

(h) ***Early redemption of Zero Coupon Notes***: Unless otherwise specified in the applicable Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the applicable Final Terms for the purposes of this Condition 12(h) or, if none is so specified, a Day Count Fraction of 30E/360.

(i) ***Purchase***: The Issuer may (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith. Such Notes may be held, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

(j) ***Cancellation***: All Notes so redeemed or purchased by the Issuer and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

13. Payments – Bearer Notes

This Condition 13 (*Payments – Bearer Notes*) is only applicable in relation to Bearer Notes.

(a) ***Principal***: Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

(b) ***Interest***: Payments of interest shall, subject to Condition 13(h) (*Payments – Bearer Notes – Payments other than in respect of matured Coupons*) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 13(a) (*Payments – Bearer Notes – Principal*) above.

(c) ***Payments in New York City***: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if: (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Bearer Notes in the currency in which the payment is due when due; (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions; and (iii) payment is permitted by applicable United States law.

(d) ***Payments subject to fiscal laws***: All payments of principal and interest in respect of the Bearer Notes are subject in all cases to: (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 15 (*Taxation*); (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto; and (iii) any withholding or deduction required pursuant to the laws or regulations of Oman or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), or any similar laws, regulations and directives passed in Oman. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Deductions for unmatured Coupons***: If the applicable Final Terms specifies that the Fixed Rate Note provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided that where this sub-paragraph (A) would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 13(a) (*Payments – Bearer Notes – Principal*) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(f) ***Unmatured Coupons void***: If the applicable Final Terms specifies that this Condition 13(f) is applicable or that the Floating Rate Note provisions are applicable, on the due date for final redemption of any Bearer Note or early redemption in whole of such Bearer Note pursuant to Condition 12(b) (*Redemption and Purchase – Redemption for tax reasons*), Condition 12(c) (*Regulatory Redemption Event*), Condition 12(d) (*Redemption and Purchase – Redemption at the option of the Issuer*), Condition 12(e) (*Redemption and Purchase – Redemption at the option of Noteholders*) or Condition 17 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) ***Payments on business days***: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) ***Payments other than in respect of matured Coupons***: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by Condition 13(c) (*Payments – Bearer Notes – Payments in New York City*) above).

(i) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) ***Exchange of Talons***: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 18 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Bearer Note shall become void and no Coupon will be delivered in respect of such Talon.

14. Payments – Registered Notes

This Condition 14 is only applicable in relation to Registered Notes.

(a) ***Redemption Amount***: Payments of the Redemption Amount (together with accrued interest) due in respect of Registered Notes shall be made in the currency in which such amount is due against presentation, and save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Notes at the Specified Office of the Registrar. If the due date for payment of the Redemption Amount of any Registered Note is not a business day (as defined below), then the Noteholder will not be entitled to payment until the next business day, and from such day and thereafter will be entitled to payment by transfer to a designated account on any day which is a Relevant Banking Day, business day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Conditions, in which event interest shall continue to accrue as provided in these Conditions.

(b) ***Principal and interest***: Payments of principal and interest shall be made by transfer to a designated account, if the due date for any such payment is not a business day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located, then the Noteholder will not be entitled to payment thereof until the first day thereafter which is a business day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is subsequent failure to pay in accordance with these Conditions, in which event interest shall continue to accrue as provided in these Conditions.

(c) ***Payments subject to fiscal laws***: All payments of principal and interest in respect of the Registered Notes are subject in all cases to: (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 15 (*Taxation*); (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto; and (iii) any withholding or deduction required pursuant to any withholding or deduction required pursuant to the laws or regulations of Oman or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), or any similar laws, regulations and directives passed in Oman. No commission or expenses shall be charged to the Registered Noteholders in respect of such payments.

(d) ***Record date****:* Each payment in respect of a Registered Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(e) In this Condition 14, "**business day**" means:

(i) any day which is in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in each Additional Financial Centre; or

(ii) in the case of surrender of a Registered Note, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the place in which the Registered Note is surrendered.

15. Taxation

(a) All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Oman (or, where a specified branch is specified in the applicable Final Terms, the jurisdiction in which such specified branch is located), or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(i) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Issuer or any political subdivision or any authority thereof or therein having power to tax other than the mere holding of the Note or Coupon; or

(ii) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

(b) ***Taxing jurisdiction***: If the Issuer becomes subject at any time to any taxing jurisdiction other than Oman (or, where a specified branch is specified in the applicable Final Terms, the jurisdiction in which such specified branch is located), all references in these Conditions to Oman shall be construed as references to Oman and/or such other jurisdiction.

16. **Write-down at the Point of Non-Viability**

(a) ***Non-Viability Event***

If a Non-Viability Event occurs, a Write-down will take place in accordance with Condition 16(b) (*Non-Viability Notice*) below.

It is the Issuer's current intention that a Write-down will take place: (1) after the common shares of the Issuer and any other Common Equity Tier 1 capital and Tier 1 Capital absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Issuer at such time) and the Regulator has not notified the Issuer in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; and (2) simultaneously with the write-down of any of the Issuer's other obligations in respect of Tier 2 Capital and other instruments related to the Issuer's other obligations constituting Tier 2 Capital, provided that, in the case of (2) above, this will only apply to the extent such other instruments have contractual provisions for such analogous write down at the point of non-viability or are subject to a statutory framework that provides for such analogous write down.

(b) ***Non-Viability Notice***

If a Non-Viability Event occurs, on the third Business Day following the occurrence of such Non-Viability Event (or such earlier date as determined by the Regulator), the Issuer will notify the holders of the Subordinated Notes thereof in accordance with Condition 23 (*Notices*) (a "**Non-Viability Notice**"). Upon provision of such Non-Viability Notice, a Write-down of the Subordinated Notes shall take place on the Non-Viability Event Write-down Date and, with effect from such date, holders shall not be entitled to any claim for any amount subject to such Write-down in connection with the Subordinated Notes. Any such Write-down shall not constitute an Event of Default. Holders of the Subordinated Notes acknowledge that there shall be no recourse to the Regulator in respect of any determination made by it with respect to the occurrence of a Non-Viability Event.

Following any Write-down of the Subordinated Notes in accordance with this Condition 16: (i) references in these Conditions to the "principal amount" or "outstanding principal amount" of the Subordinated Notes shall be construed as referring to the written down amount; (ii) the principal amount so written down will be cancelled and interest will continue to accrue only on the outstanding principal amount following such cancellation; and (iii) any amounts so written down may not be restored and holders of the Subordinated Notes shall not have any claim thereto under any circumstances, including, without limitation: (1) where the relevant Non-Viability Event is no longer continuing; (2) in the event of the liquidation or winding-up of the Issuer; (3) following the exercise of a call option by the Issuer pursuant to Condition 12(d) (*Redemption at the option of the Issuer*); or (4) following the redemption of the Subordinated Notes pursuant to Condition 12(b) (*Redemption for tax reasons*) or, on the occurrence of a Regulatory Redemption Event, pursuant to Condition 12(c) (*Regulatory Redemption Event*).

17. **Events of Default**

(a) ***Events of Default for Senior Notes***: This Condition 17(a) only applies to Senior Notes.

If any one or more of the following events (each an "**Event of Default**") occurs and is continuing:

(i) *Non-payment*: the Issuer fails to pay any amount of principal, premium, if any, or interest in respect of any of the Notes when due and payable and such failure continues for a period of 14 days; or

(ii) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer; or

(iii) *Cross-default of the Issuer or Principal Subsidiary*:

(A) any Indebtedness of the Issuer or any of its Principal Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(B) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Principal Subsidiary or (provided that no event of de fault, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(C) the Issuer or any of its Principal Subsidiaries fails to pay when due or (as the case may be) within any originally applicable grace period any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (A) and/or sub-paragraph (B) above and/or the amount payable under any Guarantee referred to in sub-paragraph (C) above, as applicable, either alone or when aggregated with all other indebtedness in respect of which such an event shall have occurred and be continuing shall be more than U.S.$10,000,000 (or its equivalent in any other currency or currencies); or

(iv) *Unlawfulness*: it is or will, for any reason whatsoever, become unlawful, or is declared by a court of competent jurisdiction to be no longer binding on, or no longer enforceable against, the Issuer to perform or comply with any of its obligations under or in respect of the Notes; or

(v) *Unsatisfied judgment*: one or more final, non-appealable judgment(s) or final, non-appealable order(s) for the payment of an aggregate amount in excess of U.S.$10,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or the date therein specified for payment, if later; or

(vi) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries; or

(vii) *Insolvency etc.*: (a) the Issuer or any of its Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due; (b) an administrator or liquidator of the Issuer or any of its Principal Subsidiaries or the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries is appointed (or application for any such appointment is made); (c) the Issuer or any of its Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it; or (d) the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business; or

(viii) *Winding up etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries; or

(ix) *Analagous event*: any event occurs which under the laws of Oman or any other jurisdiction has an analogous effect to any of the events referred to in Conditions 17(a)(vii) (*Insolvency etc*) and 17(a)(viii) (*Winding up etc*) above; or

(x) *Failure to take action etc*: any action, condition or thing at any time required to be taken, fulfilled or done in order: (a) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes; (b) to ensure that those obligations are legal, valid, binding and enforceable; and (c) to make the Notes and the Coupons admissible in evidence in the courts of Oman is not taken, fulfilled or done; or

(xi) *Government intervention*: (a) all or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government; or (b) the Issuer or any of its Principal Subsidiaries is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and revenues,

then any Senior Note may, by written notice addressed by the holder to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

(b) ***Events of Default for Subordinated Notes***: This Condition 17(b) only applies to Subordinated Notes.

(i) ***Non-payment***: in the event that the Issuer fails to pay any amount of principal, premium, if any, or interest in respect of any of the Notes when due and payable and such failure continues for a period of seven days in the case of principal and 14 days in the case of interest, any holder of the Subordinated Notes may, to the extent permitted by applicable law, at its discretion institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment, but the institution of such proceedings shall not have the effect that the Issuer shall be obliged to pay any such sum or sums sooner than would otherwise have been payable by it.

(ii) ***Winding-up***: in the event of a Winding-up, in each case except:

(A) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the holders of the Subordinated Notes; or

(B) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority,

and such Winding-up is continuing, any holder of the Subordinated Notes may, by written notice addressed by the holder to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, effective upon the date of receipt thereof by the Issuer or the Fiscal Agent as the case may be, declare that such Subordinated Note is immediately due and payable, whereupon the same shall become immediately due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment without further action or formality.

No remedy against the Issuer, other than the institution of the proceedings referred to in this Condition 17(b), and the proving or claiming in any Winding-up or liquidation of the Issuer, shall be available to the holders of the Subordinated Notes, whether for the recovery of amounts owing in respect of the Subordinated Notes or in respect of any breach by the Issuer of any other obligation, condition or provision binding on it under the Subordinated Notes.

18. **Prescription**

Claims against the Issuer in respect of principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims against the Issuer in respect of interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

Any money paid by the Issuer to the Fiscal Agent for payment due under any Note that remains unclaimed at the end of two years after the due date for payment of such Note will be repaid to the Issuer, and the holder of such Note shall thereafter look only to the Issuer for payment.

19. **Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system) (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Registered Notes), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

20. **Agents**

(a) ***Obligations of Agents***: In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents, the Transfer Agents, the Calculation Agent and the Registrar act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders, and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

(b) The initial Fiscal Agent and Registrar and their initial Specified Offices are listed in the Agency Agreement. The initial Calculation Agent (if any) is specified in the applicable Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Fiscal Agent) or the Registrar or the Calculation Agent and to appoint a successor fiscal agent, paying agent, calculation agent or registrar; provided that:

(i) the Issuer shall at all times maintain a Fiscal Agent;

(ii) the Issuer shall at all times maintain, in the case of Registered Notes, a Registrar;

(iii) if a Calculation Agent is specified in the applicable Final Terms, the Issuer shall at all times maintain a Calculation Agent;

(iv) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent (which may be the Fiscal Agent) and a Registrar (for Registered Notes) each with a Specified Office in the place required by such competent authority, stock exchange and/or quotation system; and

(v) in the circumstances described in Condition 13(c) (*Payments – Bearer Notes – Payments in New York City*), a paying agent with a Specified Office in New York City.

Notice of any change in the Paying Agent, the Registrar, the Calculation Agent or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 23 (*Notices*).

21. **Meetings of Noteholders; Modification and Waiver**

(a) ***Meetings of Noteholders***: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing not less than fifty per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than seventy five per cent. or, at any adjourned meeting, twenty five per cent. of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification***: The Notes, the Coupons or the Agency Agreement may be amended without the consent of the Noteholders or the Couponholders to correct a manifest or proven error or to comply with mandatory provisions of law. In addition, the Issuer and the Fiscal Agent may agree to modify any provision of the Notes, the Coupons or the Agency Agreement, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature. In addition, the Issuer may only agree to any modification of the Notes, Coupons or the Agency Agreement which, in the opinion of the Issuer, is not materially prejudicial to the interests of the Noteholders.

22. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and date of the first payment of interest) so as to form a single series with the Notes. References in these Conditions to the Notes shall include (unless the context requires otherwise) any other notes issued pursuant to this Condition 22.

23. **Notices**

(a) ***Bearer Notes***: Notices to holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

(b) ***Registered Notes***: Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an address overseas) by airmail to them (or the first named of joint holders) at their respective addresses recorded in the register kept by the Registrar, and will be deemed to have been given on the fourth business day after the date of such after mailing.

24. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the applicable Final Terms): (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.); (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up); (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount; and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency (with 0.005 being rounded upwards).

25. **Governing Law and Jurisdiction**

(a) ***Governing law***: The Agency Agreement, the Notes (except for Condition 5(b) (*Status of the Subordinated Notes*)), the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes (including the remaining provisions of this Condition 25, the Receipts and the Coupons, are and shall be governed by, and construed in accordance with, English law). Condition 5(b) (*Status of the Subordinated Notes*) is governed by, and shall be construed in accordance with, the laws of Oman.

(b) ***Agreement to arbitrate***: Subject to Condition 25(c) (*Governing Law and Jurisdiction – Option to litigate*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Notes, the Receipts and/or the Coupons (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules (the "**Rules**") of the London Court of International Arbitration ("**LCIA**"), which Rules (as amended from time to time) are incorporated by reference into this Condition. For these purposes:

(i) the seat of arbitration shall be London;

(ii) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators, together, shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly shall each nominate one arbitrator. Without prejudice to Article 8 of the LCIA Rules, in the event that one party to the Dispute, or both, fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party nominated arbitrators fail to appoint the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and

(iii) the language of the arbitration shall be English.

(c) ***Option to litigate***: Notwithstanding Condition 25(b) (*Governing Law and Jurisdiction – Agreement to arbitrate*), any Noteholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:

(i) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(ii) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If a Noteholder gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 25(d) (*Governing Law and Jurisdiction – Effect of exercise of option to litigate*) and, subject as provided below, any arbitration commenced under Condition 25(b) (*Governing Law and Jurisdiction – Agreement to arbitrate*) in respect of that Dispute will be terminated. Each of the Noteholder and the recipient of such notice will bear its own costs in relation to the terminated arbitration.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Noteholder must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(i) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(ii) his entitlement to be paid his proper fees and disbursements; and

(iii) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

(d) ***Effect of exercise of option to litigate***: In the event that a notice pursuant to Condition 25(c) (*Governing Law and Jurisdiction – Option to litigate*) is issued, the following provisions shall apply:

(i) subject to paragraph (iii) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and the Issuer submits to the exclusive jurisdiction of such courts;

(ii) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(iii) this Condition 25(d) is for the benefit of the Noteholders only. As a result, and notwithstanding paragraph (i) above, Noteholders may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) ***Process agent***: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited, 100 Wood Street, London EC2V 7EX, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this Condition shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) ***Consent to enforcement etc.***: The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(g) ***Waiver of immunity***: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

26. Rights of Third Parties

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

27. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of: (a) making or filing a claim or proof against the Issuer; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS –** The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[**MiFID II PRODUCT GOVERNANCE** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")/MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.]

[**Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore** (the "**SFA**") - [*Notice to be included if classification of the Notes is not "prescribed capital markets products", pursuant to Section 309B of the SFA.*]]

Final Terms dated [•]

The National Bank of Oman SAOG

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the U.S.$1,500,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions set forth in the base prospectus dated 7 September 2018 (the "**Base Prospectus**") [and the supplemental base prospectus dated [•]] which [together] constitute[s] a base prospectus [for the purposes of the Prospectus Directive (Directive 2003/71/EC) (as amended, including by Directive 2010/73/EU) (the "**Prospectus Directive**"). [This document constitutes the applicable Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]][*]. In order to get the full information on the Issuer and the Notes described herein, these Final Terms must be read in conjunction with the Base Prospectus [as so supplemented]. The Base Prospectus [as so supplemented] is available for viewing in accordance with Article 14 of the Prospectus Directive on the website of the Central Bank of Ireland (*http: www.centralbank.ie*) and during normal business hours at the National Bank of Oman SAOG, Bank Al Markazi Street, Ruwi, Muscat, Sultanate of Oman and the Fiscal Agent at 8 Canada Square, London, E14 5HQ, England.]]

[*] *Delete where Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive.*

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") contained in the Agency Agreement dated 27 June 2016 and set forth in the base prospectus dated 27 June 2016 which are incorporated by reference into the base prospectus dated 7 September 2018. [This document constitutes the applicable Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC), as amended (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated 7 September 2018 [and the supplemental prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive]*. The Base Prospectus [and the supplemental prospectus] are available for viewing in accordance with Article 14 of the Prospectus Directive on the website of the Central Bank of Ireland (*http://www.centralbank.ie*) and during normal business hours at the National Bank of Oman SAOG, Bank Al Markazi Street, Ruwi, Muscat, Sultanate of Oman and the Fiscal Agent at 8 Canada Square, London, E14 5HQ, England.]]

1.	(i)	Issuer:	The National Bank of Oman SAOG, [acting through its principal office in Oman]/[acting through its Specified Branch]
	(ii)	Issuer Legal Entity Identifier (LEI):	549300D3B4GI1CT73Z02
	[(ii)	Specified Branch:	[Not Applicable]/[Dubai]
2.	[(i)	Series Number:	[•]]
	[(ii)	Tranche Number:	[•]]
	[(iii)	Date on which the Notes become fungible:	[•]/[Not Applicable]]
3.	**Specified Currency or Currencies**:		[•]
4.	**Aggregate Nominal Amount**:		
	[(i)	Series:	[•]]
	[(ii)	Tranche:	[•]]
5.	**Issue Price**:		[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•]]
6.	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount:	[•]
7.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[•]/[Issue Date]/[Not Applicable]
8.	**Maturity Date**:		[•]
9.	**Interest Basis**:		[[•] per cent. Fixed Rate] [[•] [+/-] [•] per cent. Floating Rate] [Zero Coupon]
10.	**Redemption/Payment Basis**:		Subject to any purchase and cancellation or early redemption, the Notes will be

* *Delete where the Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive.*

		redeemed on the Maturity Date at 100 per cent. of their nominal amount.
11.	**Change of Interest or Redemption/Payment Basis**:	[Applicable]/[Not Applicable]
12.	**Put/Call Options**:	[Investor Put] [Issuer Call] [Not Applicable]
13.	(i) Status of the Notes:	[Senior Notes/Subordinated Notes]
	[(ii) Date approval for issuance of Notes obtained:	[•]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	**Fixed Rate Note Provisions**:	[Applicable]/[Not Applicable]
	(i) Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually]/[semi-annually]/[quarterly]/[mo nthly]/[•] in arrear]
	(ii) Interest Payment Date(s):	[•] [and [•]] in each year up to and including the Maturity Date [commencing on [•]]
	[(iii) First Interest Payment Date:	[Issue Date]/[•]]
	(iv) Fixed Coupon Amount[(s)]:	[[•] per Calculation Amount]/[Not Applicable]
	(v) Broken Amount(s):	[[•] per Calculation Amount, payable on the Interest Payment Date falling [in]/[on] [•]]/[Not Applicable]
	(vi) Day Count Fraction:	[30/360]/[360/360]/[Bond Basis]/[Actual/Actual(ICMA)]/ [Actual/365]/[Actual/365(Fixed)]/ [Actual/360]/[30E/360]/[30E/360(ISDA)]
	(vii) Determination Dates:	[[•] in each year]/[Not Applicable]
	(viii) Business Day Convention:	[Floating Rate Convention]/[FRN Convention]/[Eurodollar Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Modified Business Day Convention]/[Preceding Business Day Convention]/[No Adjustment]
15.	**Floating Rate Note Provisions**:	[Applicable]/[Not Applicable]
	(i) Interest Period(s):	[•]/[, subject to adjustment in accordance with the Business Day Convention set out in (v) below]/[, not subject to adjustment, as No Adjustment has been specified in (v) below]
	(ii) Specified Period:	[•]

(iii)	Specified Interest Payment Dates:	[•]/[, subject to adjustment in accordance with the Business Day Convention set out in (v) below]/[, not subject to adjustment, as No Adjustment has been specified in (v) below]
[(iv)	First Interest Payment Date:	[Issue Date]/[•]]
(v)	Business Day Convention:	[Floating Rate Convention]/[FRN Convention]/[Eurodollar Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Modified Business Day Convention]/[Preceding Business Day Convention]/[No Adjustment]
(vi)	Additional Business Centre(s):	[•]/[Not Applicable]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Fiscal Agent):	[[•] shall be the Calculation Agent]
(ix)	Screen Rate Determination:	
	• Reference Rate:	[LIBOR]/[EURIBOR]/[LIBID]/[LIMEAN]/[SHIBOR]/[HIBOR]/[SIBOR]/[KLIBOR]/ [EIBOR]/[SAIBOR]/[BBSW]/ [AUD LIBOR]/[JPY LIBOR]/[PRIBOR]/ [CNH HIBOR]/[TRLIBOR]/[TRYLIBOR]/[TIBOR]
	• Interest Determination Date(s):	[•]
	• Relevant Screen Page:	[•]
	• Relevant Time:	[•]
	• Relevant Financial Centre:	[•]
(x)	ISDA Determination:	
	• Floating Rate Option:	[•]
	• Designated Maturity:	[•]
	• Reset Date:	[•]
	• ISDA Definitions:	[2000]/[2006]
(xi)	Linear Interpolation:	[Not Applicable]/[Applicable – the Rate of Interest for the [long]/[short] [first]/[last] Interest Period shall be calculated using Linear Interpolation]
(xii)	Margin(s):	[+/-] [•] per cent. per annum
(xiii)	Minimum Rate of Interest:	[•] per cent. per annum

	(xiv)	Maximum Rate of Interest:	[•] per cent. per annum
	(xv)	Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/365 (Fixed)] [Actual/365] [Actual/360] [30/360] / [360/360] / [Bond Basis] [30E/360] [30E/360 (ISDA)]
16.	**Zero Coupon Note Provisions**:		[Applicable]/[Not Applicable]
	(i)	[Amortisation]/[Accrual] Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]

PROVISIONS RELATING TO REDEMPTION

17.	**Call Option**:		[Applicable]/[Not Applicable]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note:	[•] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount
18.	**Put Option**:		[Applicable]/[Not Applicable]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note:	[•] per Calculation Amount
19.	**Final Redemption Amount of each Note**:		100 per cent. of their nominal amount
20.	**Early Redemption Amount**:		[Applicable]/[Not Applicable]
	Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default:		[•] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21.	**Form of Notes**:	**Bearer Notes**: [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on [•] days' notice]/[at any time]/[in the limited circumstances specified in the Permanent Global Note]] [Temporary Bearer Global Note exchangeable for Definitive Notes on [•] days' notice]

		[Permanent Bearer Global Note exchangeable for Definitive Notes [on [•] days' notice]/[at any time]/[in the limited circumstances specified in the Permanent Bearer Global Note]]
		[**Registered Notes**:]
		[Individual Note Certificates]
		[Global Registered Note exchangeable for Individual Note Certificates]
22.	**Additional Financial Centre(s)**:	[•]/[Not Applicable]
23.	**Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature)**:	[Yes]/[No]

Signed on behalf of

THE NATIONAL BANK OF OMAN SAOG:

By: .... Duly Authorised	By: .... Duly Authorised

PART B – OTHER INFORMATION

1. **LISTING**

(i)	Listing and admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [Euronext Dublin's Main Securities Market] with effect from [•]]/[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [Euronext Dublin's Main Securities Market] with effect from [•]]/[Not Applicable]
(ii)	Estimate of total expenses related to admission to trading:	[•]/[Not Applicable]

2. **RATINGS**

Ratings:	The Notes to be issued have been rated: [Moody's: [•]] [•] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

[Save for any fees payable to the [Managers]/[Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers]/[Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business for which they may receive fees.]

4. [**FIXED RATE NOTES ONLY – YIELD**

Indication of yield:	[•]]

5. **U.S. SELLING RESTRICTIONS**

[TEFRA C]/[TEFRA D]/[TEFRA rules not applicable]

6. **PROHIBITION OF SALES TO EEA RETAIL INVESTORS**

[Applicable]/[Not Applicable]

7. **OPERATIONAL INFORMATION**

ISIN Code:	[•]
Common Code:	[•]
Names and addresses of additional Paying Agent(s) (if any):	[•]/[Not Applicable]
Delivery:	Delivery [against]/[free of] payment
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[•]/[Not Applicable]

8. **THIRD PARTY INFORMATION**

[[•] has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading]/[Not Applicable]

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for the general corporate purposes of the Issuer, which include making a profit and the buy back of existing Notes.

DESCRIPTION OF THE NATIONAL BANK OF OMAN SAOG

Overview

The National Bank of Oman SAOG (the "**Bank**") was established in the Sultanate of Oman on 28 February 1973 as a joint stock company (under registration no. 1003704) and is engaged in retail banking, corporate banking, investment banking, treasury, international and Islamic banking services. It is known in Arabic as "Bank Al Watani" and its registered address is P.O. Box 751, Ruwi, postal code 112, Muscat, Oman. The Bank's website address is www.NBO.co.om and its telephone number is +968 2477 8219. The Bank's shares are listed on the Muscat Securities Market under the company code "NBOB".

As at 31 March 2018, the Bank had a network of 66 branches operating in Oman as well as 2 branches in the UAE and one branch in Egypt, 213 automatic teller machines ("**ATMs**") and cash and cheque deposit machines ("**CCDMs**") and the Bank provided banking services to approximately 491,785 retail customers and approximately 24,282 corporate and SME customers. In the UAE, the Bank operates at its branches in Abu Dhabi (The National Bank of Oman, Ground Floor, Nahel Tower, Fatima Bint Mubarak Street, Al Markaziya, Zip Code: 3822 Abu Dhabi) and Dubai (The National Bank of Oman, Um Al Sheif, PO BOX 66106, Dubai, United Arab Emirates). The UAE branches are regulated by the Central Bank of UAE.

As at 31 March 2018, the Bank was the third largest bank in Oman by total loans, representing approximately 11.18 per cent. of the total loans and 11.65 per cent of the total deposits of all banks in Oman (source: Central Bank Monthly Statistical Bulletin March 2018).

As at 30 June 2018, the Bank's international operations in the UAE and Egypt accounted for 3.7 per cent. of its total assets. In 2013, the Bank secured a banking license to open a branch in Dubai and as a result it now has two branches in UAE, one in Abu Dhabi and one in Dubai. The Bank has one branch in Egypt, which accounted for 0.6 per cent. of the Bank's total assets as at 30 June 2018. The Bank opened its first Islamic banking branch under the brand name "Muzn" in 2013, and as at 30 June 2018, the number of Islamic banking branches had increased to six.

The banking industry in Oman is regulated by the Central Bank, which regularly carries out on and off-site examinations of financial institutions. The Central Bank imposes guidelines which monitor capital, liquidity, funding mismatches, investments and overseas exposures in addition to general banking operations (see "*The Sultanate of Oman Banking System and Prudential Regulations*").

As at 30 June 2018, the Bank had been assigned a Long-term Issuer Default Rating of 'BB+' (negative outlook), a Short-term Issuer Default Rating of 'B', a Viability Rating of 'bb+', a Support Rating of '3' and a Support Rating Floor of 'BB+' by Fitch Ratings Limited ("**Fitch**"), and a Bank Deposits rating of 'Baa3/P-3', a Baseline Credit Assessment of 'ba2', an Adjusted Baseline Credit Assessment of 'ba1' and a Senior Unsecured rating of 'Baa3' with a 'negative' outlook by Moody's Investors Service Cyprus Ltd. ("**Moody's Cyprus**"). Each of Moody's Cyprus and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).

The Bank has won a number of awards for excellence in banking in the Oman market from a number of Government and other private sector bodies, that recognize the Bank's contribution to the development of the banking sector in Oman, in retail banking, investment banking and corporate banking.

History

The National Bank of Oman JSC was the first Omani commercial bank established in the Sultanate of Oman in 1973 under registration no. 1003704 with an initial capital of RO 500,000. The Bank commenced operations with two branches in 1973. WJ Towell & Co. and Bank of America were the Bank's initial principal shareholders, with holdings of 51 per cent., and 39 per cent. respectively. In 1987, Bank of Credit and Commerce International (Luxembourg) Holdings SA ("**BCCI**") acquired Bank of America's 39 per cent. stake. In 1991, the operations of BCCI were suspended and the Bank was recapitalised by the Government. The Bank experienced financial difficulties as a result of heavy credit losses in 2002, 2003 and thereafter. Suhail Bahwan Group ("**SBG**") acquired a 35 per cent. holding of the Bank in 2003 through a private issue of share capital. In 2005, SBG and certain other minority shareholders divested part of their holdings to The Commercial Bank, which currently holds 34.9 per cent. of the Bank's issued share capital.

Since its establishment, the Bank has focused on providing a full range of banking services to its customers. The Bank was the first bank in Oman to offer customers various new products and services including credit and debit cards, access to ATMs and several savings products. In 2013, the Bank launched its Islamic banking operations under the brand name "Muzn", with the aim of offering customers a range of Shari'a-compliant products and services.

The Bank has had an international presence in the UAE (Abu Dhabi) and in Egypt for over ten years. In 2013, it secured a full banking licence to offer conventional and Islamic finance services in the UAE and in the last quarter of 2013 it opened a branch in Dubai. The Bank's UAE assets amounted to RO 106.9 million as at 30 June 2018 compared to RO 153.7 million as at 31 December 2017. Due to political instability, since 2011, the Bank's operations in Egypt have been reduced from five branches to one branch. See "– *Branch Network and Product Distribution*".

Strategy

The Bank's vision is to be the bank of choice for both individual and business customers within Oman and across the GCC-region by providing a consistently superior customer experience using technology to deliver personalized services, convenience and innovative products.

The significant drop in global oil prices in late 2014 albeit with a modest recovery in the recent past adversely affected economies throughout the GCC region and compelled most companies to reconsider their long term plans. This is also true for the Bank and in the context of the change in market condition the Bank is focusing on developing new products and services aligned to macro trends affecting its customers and business in Oman and the GCC region. These trends encompass the rapid adoption of new technologies by customers, the growth in both regional and international trade with Oman, the Oman Government's national agenda to transform the local economy and the growing importance of a highly skilled workforce.

To take advantage of these trends the Bank is implementing a multi-dimensional strategy that includes a three-pronged approach: 1) offering compelling solutions with particular emphasis on capitalizing on the growth in trade; 2) building capabilities to consistently deliver a superior customer service while maintaining an efficient operating model; and 3) developing a market-leading workforce.

Offering compelling solutions

The Bank continuously focuses on making available innovative financial solutions to its customers. During the last two years the Bank launched a number of innovative products and services with an objective to capitalize on growth in trade (within Oman and the wider region). Examples of such innovations include launching a seamless instant transfer service between Oman and the UAE as an alternative payment method to a slower and less cost-efficient SWIFT payment system, a unified online corporate banking portal that allow clients to view and manage their Oman and UAE accounts from a single web-portal, secure e-commerce payment services to fulfil the growth in demand for e-commerce by the local and regional community (government entities, retailers and consumers), account enquiry services on social-media platforms - Twitter-banking, and an advanced loyalty rewards scheme (named “Nuqati”) which is linked to an eco-system of retailers and service providers (such as utilities and telecommunication companies) who accept loyalty rewards as a means to pay for goods and services, while offering the Bank’s customers preferential discounts.

Deepening the Bank's relationship with the private and Government sector

The cornerstone of the Bank's strategy within Oman is the developing and nurturing deep-rooted relationship with entities in the private and public sectors. The rationale for this is based on the Oman Government's strategy to encourage diversification, industrialisation and privatisation with aims to diversify the economy and create employment opportunities for the rising number of young Omanis entering the workforce.

Having a strong relationship with the private sector is critical as it is the future driving force of Oman's economy and cross border trade-and-investment through the expansion of business and supply chains into other markets. As a result, the Bank is committed to continue developing deep relationship with companies in the private sector, ranging from large corporates to small business entrepreneurs.

It is also essential for the Bank to continue to deepen relationship with the Government of Oman and other Government related entities as they are one of the primary sources of low cost deposits in Oman and the largest employers in the country. To ensure the Bank provides focused attention to these Government clients, the Bank has a dedicated Government banking division with the mandate to improve and expand its relationships with the Government and its related entities.

In supporting the private and public sector, the Bank has created several services such as business-to-business integrations, a best in class merchant acquiring network and a digital corporate internet banking portal with advanced features. These services are carefully tailored to match the specific needs of private and public sector clients.

The Bank also aims to continue its expansion of investment banking services, providing asset management, corporate finance and advisory services. The Bank's asset management division is among the largest local equity portfolio managers offering both private and public sector clients access to local and regional capital markets. Further, the Government's plan to increase foreign direct investments into Oman creates an opportunity for the Bank's investment banking team to target offshore corporate clients looking to invest in Oman and requiring specialist financial advisory services.

Strengthen and leverage UAE presence as an emerging trade corridor

The Bank is currently the only Omani bank to hold a banking license (both a conventional and an Islamic) to operate in the United Arab Emirates ("**UAE**"). This gives the Bank a distinct advantage to offer customers a seamless banking experience when managing their finances across borders. In view of the adverse variance in the Bank's UAE lending book over the last two years due to elevated provisions, the Bank has taken active measures to align its credit and operational controls with the operating environment in the UAE. The UAE branch is now primarily focusing on trade business between Oman and the UAE. The UAE is a particularly important market for the Bank as the UAE is Oman's largest trade partner for both imports and exports. In order to benefit from the trade and business flows between Oman and the UAE, the Bank has expanded its operations in the UAE. The Bank has created a seamless cross-border banking experience when serving Omani mid-sized corporates and nationals operating in the UAE as well as serving UAE based firms operating in Oman. For instance, the Bank developed capabilities to route cross-border payments within the same day, creating a distinguished capability for traders and companies to improve their cash-flow management.

Leveraging the Bank's banking alliance

The Bank operates as an alliance bank to The Commercial Bank (P.S.Q.C.). This alliance also includes financial institutions under The Commercial Bank group, which provides the Bank with opportunities in cross-border lending. The resulting opportunities for cross-selling and sharing knowledge about industries and banking practices can result in potential competitive advantage for the Bank. See "*Competition and Competitive Strengths - its role as a strategic partner of The Commercial Bank*".

Retail Banking

The Bank's retail banking business is resilient due to a strong lending portfolio and it being a prominent brand among individuals in its home market. While the Bank continues to benefit from sturdy retail lending revenues, in recent years the retail banking business has made significant advances to develop new non-lending products, such as insurance, savings and card products to contribute to the growth in the revenues. For example, the Bank's retail banking division expanded its offerings by launching health and life insurance products, overhauled the Bank's prize draw saving scheme (Al Kanz) to ensure more of its customers had a chance to win. The Bank also introduced new credit and debit card features such as instalment payment plans and loyalty rewards. In addition, the Bank's retail banking business plans to develop a comprehensive wealth management offering for high-net worth clients to grow non-lending revenues. The Bank received the Best Retail Bank in Oman award for 2017 at The Asian Banker's Middle East and Africa Regional Awards Programme 2017.

Islamic Banking

The Bank started its Islamic banking window operation in 2013 so that it could offer clients who wish to change to a Shari'a-compliant banking from conventional banking. The Bank's Islamic banking business is focused on targeting affluent and high-net worth clients by offering them privileged banking services comprising a dedicated relationship manager, preferential rates, countless retail offers and global access to airport lounges worldwide. Since inception, the Bank continued to make advances on developing new products and digital banking services (offered via mobile, internet and SMS banking). These enhancements in the capability of the Bank's Islamic banking window have been independently recognized by receiving an award from Islamic Finance News (IFN) in 2017 for being the best Islamic banking provider in Oman.

Deliver a superior customer experience while improving operational efficiency

The Bank considers the delivery of a consistently superior customer service to be a key factor in differentiating the Bank from its competitors and, accordingly, vital to maintaining its sustainable competitive advantage. The Bank's measures of superior customer service include customer satisfaction levels, loyalty and retention, and a consistently high market share. While the Bank invests in building capabilities to enhance the customer experience, it also maintains a balance on operational efficiency by focusing on digital channel adoption, branch distribution efficiency and back-office process automation.

To achieve this balance, the Bank made significant investments in technology and encouraged its customers to adopt the use of its digital channels. The number of customers using the Bank's digital banking services increased by more than 90 per cent. in 2017. Currently the Bank has over 60 per cent. of all its customer transactions routed through its digital banking solutions. This shift in the Bank's operating model has improved customer experience as the staff in the physical branches now have more time to focus on complex value added services to its customers.

The Bank is also focused on the rationalisation and development of its branch network in order to meet existing and future customer needs. The Bank will continue to develop flexible and cost effective distribution channels. For example, the Bank intends to diversify revenue streams by utilising its existing retail branch network to strengthen its corporate and SME offerings by providing customer service representatives within branches.

The Bank will continue to invest in automation and straight through processing of its critical processes to increase revenue, decrease costs and improve the Bank's cost to income ratio. In 2017, the Bank made significant progress with the implementation of several capabilities to streamline account opening, credit origination and trade finance processes.

Develop a market-leading workforce

Behind the Bank's customer-centric culture is a strong workforce. The Bank is determined to maintain a motivated workforce by creating an environment in which its staff understand their purpose and are engaged to fulfil their full potential. To support this objective, the Bank continues to introduce internal talent management programmes. The Bank's talent management programmes each year identifies high potential staff who are given opportunities to expand their skills and knowledge.

In order to build a high performance culture within the Bank, it has identified key metrics to measure performance. Within the Bank, group and divisional level targets as well as employee key performance indicators are aligned towards these strategic drivers of financial performance. The Bank considers its performance management system to be an effective method of executing its competitive strategy.

Competition and Competitive Strengths

The Bank is subject to competition in Oman from both locally incorporated and foreign banks. As at 31 December 2017, there were 18 commercial banks operating in Oman, of which seven were locally incorporated conventional banks, nine were branches of foreign banks and two were Islamic banks (source: Central Bank Oman).

Although locally incorporated banks generally have stronger relationships with Omani nationals and corporates which are incorporated in Oman, foreign banks may have greater resources and access to potentially cheaper funding sources. Foreign banks are also able to leverage their international expertise and, in some instances, provide more attractive products and services to Omani corporates with international business operations, as well as to foreign companies operating in Oman.

The Bank believes that its competitive strengths are:

- *its profitability and efficiency have kept pace with its growth*: The Bank's financial performance has been consistently strong in recent years, except in 2017 when its financial performance was affected by credit losses and a drop in asset volumes in its UAE operations. As a result, for the year ended 31 December 2017, the Bank's return on average equity and return on average assets dropped to 8.2 per cent. and 1.2 per cent., respectively. However, for Oman which constitutes 95.0 per cent. of the Bank's assets, the return on average equity and return on average assets are 10.3 and 1.5 respectively for 2017. For the year ended 31 December 2017 the average overall effective annual cost of the Bank's funds was 1.95 per cent. and the Bank earned interest at an overall effective annual rate of 5.20 per cent. on interest bearing assets. The Bank continues to have one of the highest interest margins and income on assets amongst banks operating in Oman;

- *its strong relations with Oman Government and Government-related entities:* The Government indirectly holds more than 25 per cent. of the outstanding shares in the Bank (see Capital Structure "*Pension Funds*"). Accordingly, the Bank has a strong relationship with the Government and has been able to secure stable and significant deposits from the Government (approximately 30 per cent. of the Bank's total deposits), including low cost deposits provided by Government related entities. The low cost deposits provided by Government-related entities represent approximately 27.3 per cent. and 26.8 per cent. of total deposits in 31 December 2017 and 30 June 2018, respectively. This proportion of low cost deposits from Government-related entities has contributed to the stability of the Bank's deposit base and has resulted in lower cost of funds for the Bank.;

- *its presence in the UAE presents opportunities to diversify*. Despite the challenges faced by the Bank's UAE portfolio, the Bank sees the UAE as a very important market. The UAE's diversified economy presents the Bank with an opportunity to grow in a jurisdiction which enjoys economic and market synergies with Oman;

- *its enduring and strong relations with prominent companies and individuals in Oman*. The Bank was founded in 1973 and is the oldest local bank operating in Oman. It has enjoyed long term corporate and retail relationships with a number of prominent companies, Government-related Entities and individuals which generate significant fees and deposits for the Bank. This customer loyalty has been achieved as a result of the Bank's full range of product offerings and its commitment to superior customer care;

- *its role as a strategic partner of The Commercial Bank.* The Bank operates as an alliance bank of The Commercial Bank, which enables it to enter into arrangements with other Commercial Bank alliance banks on a variety of initiatives and transactions including cross-border transactions. The Bank is also able to leverage The Commercial Bank's expertise in the areas of retail banking (particularly around the development of credit card products), cross border deals, risk management, financial resource management and human resource practices and adopt those best practices. See "- *The Commercial Bank* "; and

- *its Islamic banking window*. The successful introduction of the Bank's "Muzn" Islamic banking window ensures that the Bank can offer a greater range of relevant products and services to meet customer needs. This is a growth area for the Bank and helps the Bank to attract new customers.

Shareholding Structure

As at 30 June 2018 the Bank's major shareholders were:

	Percentage of total Bank shares
The Commercial Bank	34.9
Suhail Bahwan Group	14.7
Civil Service Employees' Pension Fund	11.3
Ministry of Defence Pension Fund	8.0
Public Authority of Social Insurance	8.2

The Commercial Bank

The Commercial Bank is one of the largest banks in Qatar and is listed on the Doha Securities Market. The Commercial Bank has expanded in the GCC through the acquisition of strategic interests in several regional financial institutions. The Bank benefits from The Commercial Bank's retail banking strengths and club deals involving both the Bank and The Commercial Bank. The Commercial Bank acquired its stake in the Bank in 2005 and continues to have a major strategic alliance with the Bank and is represented on the Bank's Board of Directors by the Deputy Chairman, Sheikh Abdulla Bin Jabor Bin Ali Al Thani.

As at the date of this Base Prospectus, The Commercial Bank had been assigned: a Long-term Issuer Default Rating of 'A', a Short-term Issuer Default Rating of 'F1' and viability rating of 'bbb-' with a 'stable' outlook by Fitch; a Bank Deposits rating of 'A3/P-2' with a 'stable' outlook by Moody's Cyprus; and an Issuer Credit Rating of 'BBB+/Negative/A-2' by Standard & Poor's Ratings Services.

Suhail Bahwan Group Holding LLC (SBG)

SBG is one of Oman's largest business houses. It manages more than 30 companies in the trading, engineering and construction, specialised services, manufacturing and industrial investments and information technology sectors. SBG also holds automobile agencies for BMW, Isuzu, Subaru, Hyundai and GM. SBG is also a major participant in the country's privatisation programmes. It employs more than 10,000 people. SBG is represented on the Bank's Board of Directors.

Pension funds

Oman pension funds collectively hold approximately 27.0 per cent. of the Bank's shares. These are classified as indirect shareholding by the Government. The pension funds are cash rich and are also major depositors and holders of the subordinated debt issued by the Bank.

Business Activities

For financial reporting purposes, the Bank's operations are split between the Retail Banking Group, Wholesale Banking Group and Commercial Banking Group.

The Retail Banking Group includes the following divisions

- retail products, including offering of mortgages, personal loans and credit cards;
- liabilities, bancassurance and private banking;
- "Sadara" wealth management services; and
- distribution, sales and business development.

The Wholesale Banking Group includes the following divisions

- corporate banking (which includes Government banking), large corporate banking and wholesale distribution (which manages transaction banking);
- investment banking, which comprises asset management, corporate finance and advisory services, brokerage and research units; and
- treasury and international banking.

The Commercial Banking Group includes the following divisions:

- "Tijarati" SME banking services; and
- business banking (serving mid-sized corporate entities).

The Bank's "Muzn" Islamic finance operations are conducted through a separate Islamic Banking Division, which operates as a window, and the operations of the UAE and Egypt branches are conducted through their respective operations divisions.

For management purposes, the Bank's business activities are currently organised within the following operating segments:

- *retail banking:* offering products and facilities to individual retail and high net-worth customers to meet their everyday banking needs;
- *wholesale banking:* delivering a variety of products and services to corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes

investment banking which offers asset management, corporate advisory and brokerage services to retail customers and institutional clients;

- *commercial banking:* offering a wide range of bespoke products and facilities to mid-sized corporate and SME customers. It also includes the Bank's operations in the UAE and Egypt and its Islamic banking operations which provide Shari'a-compliant products and services to retail, corporate and Treasury and international banking clients; and

- *Funding Centre:* responsible for managing the Bank's capital, funding and currency balances.

For a summary of certain segmental financial information for the six month period ended 30 June 2018 and the years ended 31 December 2017 and 31 December 2016 please see "*Segmental Information*" in the Financial Review section of this Base Prospectus.

Retail Banking Group

As at 30 June 2018, the Bank's retail banking assets amounted to RO 1,281.7 million and accounted for 37.2 per cent. of the Bank's total assets (compared to RO 1,256.3 million and 36.2 per cent. as at 31 December 2017). As at 30 June 2018, the Bank provided banking services to approximately 491,785 retail customers.

Although the Bank's retail banking products and services are targeted at both Omani nationals and expatriates, the Bank has primarily positioned itself as the bank of choice for Omani national retail customers. As at 30 June 2018, the Bank's retail customer portfolio was composed of 56.4 per cent. Omani nationals and 43.4 per cent. expatriates. The Bank considers that the key selling points for its retail clients are the breadth of the services and products offered, the quality of its personnel, particularly those in client-facing roles, its innovative and advanced digital banking capabilities and the physical distribution and reach of its branch network.

The Bank is actively reducing its retail customer servicing costs, where possible, by offering alternatives to the traditional branch network by enhancing the capabilities of its digital distribution channels including internet banking, ATMs and CCDMs, ITM (interactive teller machine), call centre and a mobile app. See "*- Branch Network and Product Distribution*".

The principal retail client products and services offered by the Bank include:

Current, savings and term deposit accounts

The Bank offers a wide range of deposit products in local and foreign currencies including savings accounts (interest-bearing and non-interest-bearing), current accounts, corporate salary accounts, call deposits and fixed deposits. Its "*Al Kanz*"-branded non-interest-bearing savings accounts comprise accounts with savings incentives for "*Al Kanz*" account holders such as the opportunity to participate in periodic draws with cash prizes being rewarded to the winning retail customers. As of 30 June 2018, time deposits for the Bank's retail banking group amounted to RO 140.9 million, savings deposits amounted to RO 567.3 million, while current and call accounts for the retail banking division amounted to RO 111.4 million.

Lending

The Bank offers two main loan products to retail customers: general purpose unsecured loans; and secured housing loans.

General purpose unsecured loans are provided to suit the needs of Omani customers, such as the purchase of goods, travel and educational services. General purpose loans are supported by salary transfers to the Bank and are regarded as salary related unsecured loans. As at 30 June 2018, these salary related unsecured loans amounted to RO 880.8 million and accounted for 31.4 per cent. of the Bank's gross loans and advances.

Secured housing loans are provided by the Bank to assist retail customers with the purchase of residential land for development, the purchase of existing residential property, the construction and maintenance of residential property and the refinancing of existing housing loans. As at 30 June 2018, the housing loans portfolio amounted to RO 341.5 million and accounted for 12.2 per cent. of the Bank's gross loans and advances. The Bank's internal cap on retail mortgages is equal to the statutory limit of 15 per cent.

Credit and debit cards

The Bank offers retail customers a variety of branded credit and debit cards in association with, MasterCard and Visa. This range of cards includes the brands "Infinite", "Platinum", "Titanium" and "Gold". Credit card interest rates are regulated by the Central Bank and are approximately 18 per cent. per annum, with credit card holders also being charged an annual card fee. The Bank is focused on increasing card usage among its retail customers, for example, through the introduction of its "Nuqati" card reward points programmes that gives cardholders rewards points for every transaction they make.

"Sadara" wealth management services

Sadara wealth management services are designed to offer an enhanced customer service to the Bank's high net worth retail customers. Sadara customers must demonstrate a minimum deposit of RO 40,000 (or equivalent) or earn a minimum monthly salary of RO 3,500 (or equivalent). Sadara customers have access to tailored investment products and preferential services. The Sadara Gold account provides customers with a streamlined route to trading on the gold market, through the utilisation of the Bank's trading accounts with international banks..

Private investment banking

Since 2012, the Bank has also offered private banking services including access to exclusive investment products and international mutual funds to customers with a minimum of U.S.$1 million in available funds.

"Mazaya" banking

Mazaya banking services were introduced in early 2014 to offer services to affluent or emerging high net worth individuals. Mazaya offers customers personalised banking and investment services. The Mazaya services are designed to develop lifetime loyalty from its customer base.

"Nuqati" Rewards program

In 2014, the Bank launched an innovative loyalty program which rewards retail customers for any transactions they make. This is the first type of loyalty program offered to retail banking customers in Oman rewarding customers for each transaction. The loyalty program is designed to encourage customer behaviour patterns which are favourable to the Bank, such as rewarding customers for utilising cheaper distribution channels and making purchases using their credit or debit card instead of cash. Customers are able to earn points on certain transactions and in return are offered discounts on, for example, airline bookings, car rentals and hotel bookings.

Wholesale Banking Group

The Bank's corporate, investment banking and treasury and international banking divisions operate under the umbrella, Wholesale Banking Group. For financial reporting purposes, these divisions are organised on a different basis.

Corporate Banking Division

As at 30 June 2018, the Bank's corporate banking assets amounted to RO 1,105.8 million and accounted for 32.1 per cent. of the Bank's total assets (compared to RO 1,072.8 million and 30.9 per cent. as at 31 December 2017).

As at 30 June 2018, the Bank provided banking services to approximately 24,282 corporate customers, out of which approximately 8,013 corporate customers are serviced by the Corporate Banking Division.

The Corporate Banking division seeks to deliver financial solutions and corporate credit facilities tailored to meet the needs of every type of business and industry customer. A team of experienced account relationship managers serve the Bank's corporate customers across the Bank's branch network.

The Bank's corporate banking operations are split into the following sub-divisions:

- *Large corporate banking*: which provides services and products tailored to appeal to multinational and large corporate customers. Large corporates may be grouped into segments depending on, for example, size, location and industry;

- *Government banking*: which provides customised services and solutions to the Government, Government-related entities, sovereign wealth funds and pension funds within Oman;

- *Transaction banking*: which offers customised transaction solutions to corporate customers covering the entire business cycle, from the procurement phase, through product processing, to post-sales; and

- *Remedial Management Division* ("***RMD***"): which pursues delinquent corporate accounts and manages the Bank's impaired financial asset management. The RMD pursues delinquent account rehabilitation, including the restructuring of accounts to ensure that assets can be returned as fully performing accounts where possible. The RMD also pursues legal collection activities where necessary. See "*Risk Management - Credit Risk"* and "*Risk Management - Corporate Credit Risk*".

Criteria for Large, Mid-corporate and SME

Criteria	**SME**	**Mid-corporate**	**Large Corporate**
Turnover................................	Less than RO 3 million	RO 3 million to RO 12.5 million	Above RO 12.5 million

Corporate products and services

The principal corporate client products and services offered by the Bank include:

- *Working capital finance:* revolving working capital facilities in the form of overdrafts, receivables financing, inventory financing and short-term loans denominated in Omani Rial and in a number of major currencies;

- *Term loans:* fixed and floating rate term loans, typically with a maturity of at least one year, in Omani Rial and other major currencies for the acquisition of capital assets, as well as other corporate purposes;

- *Short-term loans*: short-term secured and unsecured loans are offered to corporate customers for specific purposes with maturities of up to six months;

- *Syndicated loans*: the Bank has significant experience in arranging, structuring, placing and syndicating multi-currency loan facilities to finance projects across a broad spectrum of customers and sectors, including oil and gas, aviation, ships and tugs, port services, energy and manufacturing; and

- *Trade finance:* The Bank's trade finance team offers corporate customers trade financing services and products including the provision of letters of guarantee, acceptances, foreign documentary bills and export credit. It has a wide network of correspondent banks across the world through which letters of credit can be issued or confirmed. The Bank's trade finance products and services include the following:

    - *Letters of credit*: letters of credit can be issued by the Bank on behalf of its customers, committing to the relevant beneficiaries that customers obligations will be satisfied when due;

    - *Letters of guarantee:* letters of guarantee are irrevocable obligations to pay a sum of money on demand in the event of non-performance of an obligation by a third party. The Bank issues a number of types of letters of guarantee, including tender/bid bonds, performance bonds and guarantees, payment and advance payment guarantees, financial guarantees and risk participation guarantees;

- *Acceptances*: the Bank offers acceptances, which involve the Bank undertaking to make payments against bills of exchange;
- *Bills discounting:* the Bank extends loans against bills of exchange, with the loans to be repaid on the dates specified in the bills; and
- *Advances against trust receipts*: advances against trust receipts are advances of a pre-agreed tenor, not exceeding one year, used by customers to finance the purchase of goods, which are then held on trust for the Bank and the sale proceeds of which are used to repay the advance.

Investment Banking Division

As at 30 June 2018, the Bank's investment banking assets (which comprise the Bank's proprietary investments) amounted to RO 48.8 million and accounted for 1.42 per cent. of the Bank's total assets (compared to RO 42.0 million and 1.2 per cent. as at 31 December 2017).

The Bank's Investment Banking Division provides institutions and businesses with independent financial advice, in addition to transaction execution assistance across various investment products and services.

The principal investment banking services offered by the Bank include:

Asset Management

The Bank's Asset Management unit manages the domestic portfolios of major local pension funds, Government and Government-related entities, corporates and high net worth individual customers. It also manages institutional portfolios in international markets across various asset classes. The unit also manages customer portfolios on a non-discretionary basis. The Asset Management unit advises the Bank's institutional clients on their regional and international fixed income portfolios.

The Asset Management unit has managed pension fund assets in the local equity market since 1996. Assets under discretionary portfolio management by the Bank are managed under significantly different investment guidelines and risk-return parameters, depending upon the type of client. Due to the Bank's established presence in the local equity markets, the Asset Management unit has the requisite experience in managing assets successfully during positive and negative market conditions. This has made the Bank an asset manager of choice for institutional investors seeking external portfolio managers in Oman.

Corporate Finance & Advisory

The Bank offers corporate and execution delivery advisory services to corporate, Government and Government-related Entity customers. The Bank assists local and regional companies in accessing the Omani market. The Bank provides advisory services to customers relating to M&A, management of equity public offerings, debt security offerings, rights issues, project finance advisory and equity private placements.

The Bank has acted as a collecting bank for a number of local equity public offerings. The Bank offers custody and administration services for funds established in Oman and GCC clients investing in Oman.

Brokerage

The Bank's brokerage desk on the Muscat Securities Market is one of the longest standing and employs licensed brokers with strong market trading experience. The Brokerage unit manages brokerage transactions for both local and international customers.

Treasury and International Banking division

As at 30 June 2018, the Bank's treasury and international banking assets, which includes due from banks and other money market placements (net), amounted to RO 155.7 million and accounted for 4.5 per cent. of the Bank's total assets (compared to RO 138.7 million and 4.0 per cent. as at 31 December 2017). The Bank's Treasury Division manages the funding and liquidity requirements of the Bank, manages the Bank's deposits and offers a range of derivative products to Omani corporate, Government and Government-related entities, as well as to the Bank's international clients and investors. The Treasury Division has a sales team which structures and sells treasury and foreign exchange hedging instruments and offers a range of products to cater to the evolving financial needs of the Bank's clients. The Bank does not trade these products for its own account.

The Bank has established correspondent relationships with international banks and undertakes risk participation, both funded and un-funded through primary and secondary market deals.

The principal treasury services offered by the Bank include:

Foreign Exchange

The Bank's treasury operations are arranged into the following:

- *Foreign Exchange and Derivatives Sales Desk:* which offers foreign exchange, commodities, interest rates and derivative solutions to clients These products are designed to manage a customer's financial risk through offering forwards, swaps, options and other customised product offerings. The Bank provides customers with regular market updates on topics related to macroeconomics and financial markets. The Bank does not trade these products on its own account but it hedges risks arising from its international transactions;

- *Money Market Desk:* which manages the Bank's liquidity and is actively involved in lending and borrowing operations with both local and international banks. This desk also manages the bank's investment in Government development bonds and certificates of deposits; and

- *Interbank Desk:* which plays a key role in mitigating the Bank's market risks arising due to customer's foreign currency and derivative transactions through hedging activities.

Government Treasury Services

The Bank is a primary dealer, as well as an over-the-counter agent, for the Government bonds market. The Central Bank regularly issues medium term bonds denominated in Omani Rials on behalf of the Government. As at 30 June 2018, the Bank holds RO 144.6 million of these medium term Government bonds.

Commercial Banking Group

On an operational level, the Bank formed a separate group called the Commercial Banking Group in January 2015, which carved out Tijarati SME banking from the Retail Banking Group and business banking from the Wholesale Banking Group. Apart from this, Islamic banking and the international business in UAE and Egypt also report to the Chief Commercial Banking Officer on various governance matters.

This was done in order to bring about improved focus on the customer bases within these divisions which make up the Commercial Banking Group, whose needs were very similar (due to the similarity in size of these customer bases) but very different to the Retail Banking Group and the Wholesale Banking Group which they were previously part of.

As at 30 June 2018, the Commercial Banking Group's assets amounted to RO 408.1 million and accounted for 11.8 per cent. of the Bank's total assets (compared to RO 449.7 million and 13.0 per cent. as at 31 December 2017).

"Tijarati" SME banking

With the Omani economy growing, and following the Government's recent focus on supporting and developing the SME sector, the Bank has focused on developing products, brand, channels and services for SME customers. In 2013, the Bank introduced an SME banking division offering products and services including collateral-backed and unsecured offerings under the "*Tijarati*" brand. The Bank also provides SME customers with advisory services to complement the financial products it offers. As at 30 June 2018, the Bank provided banking services to 15,415 SME banking customers.

Business banking

This division caters to mid-sized corporate entities between large corporates and SMEs. The Bank re-launched its mid-sized corporate offering in 2012 with the implementation of a specific mid-sized corporate banking sub-division. The Bank offers tailor-made services to mid-sector companies whose banking requirements differ from those of larger corporates. As at 30 June 2018, the Bank provided banking services to 854 mid-sized corporate customers.

Muzn Islamic Banking

In 2013, the Bank launched the "Muzn" Islamic Banking Window, through which it offers retail and corporate Shari'a-compliant financial services and products to retail and corporate customers. Since its launch, the Bank has introduced Shari'a compliant banking channels under its "Muzn" brand such as ATMs, debit cards, mobile banking and internet banking facilities. In 2017, the Bank launched "Muzn Privilege Banking" targeting high net-worth customers. "Muzn" was awarded the 'Best Islamic Bank in Oman' for 2017 by Islamic Finance News Awards which is a reflection of its quality customer service in Oman's Islamic banking market. Under the Central Bank's Islamic Banking Regulatory Framework, any Islamic Window shall only operate through separate Islamic banking-only branches and they shall be dedicated to offering Islamic products and services only. All activities conducted through the "Muzn" Islamic Banking Window are independent and separate from the Bank's conventional banking operations. As at 30 June 2018, the Bank has opened six dedicated Islamic banking branches.

The Bank has established a separate Islamic Risk Committee and Asset & Liability Committee (see "*Directors, Senior Management and Employees—Management Committees*"), to review the Bank's Islamic banking activities and provide necessary guidance. The Bank's Shari'a Supervisory Board reviews and approves all Islamic banking products prior to their launch and monitors compliance with Shari'a principles (see "*—Board Committees*").

Branch Network and Product Distribution

The Bank's services and products are offered through a range of channels including:

Branches

The Bank has an extensive network of 66 branches operating in Oman (as at 30 June 2018), as well as two branches operating in the UAE and one branch in Egypt. The Bank's branch network continues to be the principal channel through which retail and corporate customers conduct their banking business.

The Bank's UAE branches are based in Abu Dhabi and Dubai. The Bank is the only Omani bank to be granted a full conventional and Islamic finance licence to operate in the UAE.

In view of the political instability in Egypt in 2011, the Board decided to downsize the Bank's operations in the country. Four branches have closed and there is one branch operating in Egypt as at the date of this Base Prospectus.

As at 30 June 2018, the Bank's network of 66 branches operating in Oman includes six dedicated Islamic banking branches. Fifteen of the Bank's branches include dedicated centres for Sadara customers. The Bank also uses the retail branch network to offer services to corporate and SME customers.

The Bank's central operations are responsible for the bulk processing of transactions, and management controls and oversight, as well as the supervision of the Bank's operational controls.

Other distribution channels

The Bank's distribution channels have been designed to enable efficient and superior service delivery to all its banking customers. Besides the physical distribution of branches, the Bank has the following alternate channels of distribution:

- *Call Centre*: the Bank's call centre operations are located in Muscat and commenced in 2000. As at the date of this Base Prospectus, the Bank employs forty staff in the call centre. The call centre operates on a 24 hour basis and is equipped with the latest technology to serve both retail and corporate customers. In 2014, an outbound call team was established to focus on cross-selling and marketing;

- *Direct Sales Agents*: Direct Sales Agents target sales by offering bundled and tailor-made products and services to existing and potential customers. As at the date of this Base Prospectus, the Bank employs 66 Direct Sales Agents in Oman;

- *Internet Banking*: the Bank was the first in Oman to offer internet banking services in 2000 and it provides online banking services to its corporate and retail customers. The Bank's retail internet banking service (Net@Bank) and corporate internet banking service (@SAMA) include local and international payment transfers, balance enquiries, account statements and segment- specific services;

- *ATMs and CCDMs*: As at the date of this Base Prospectus, the Bank has a network of 213 ATMs and CCDMs across Oman which operate on a 24 hour basis; and

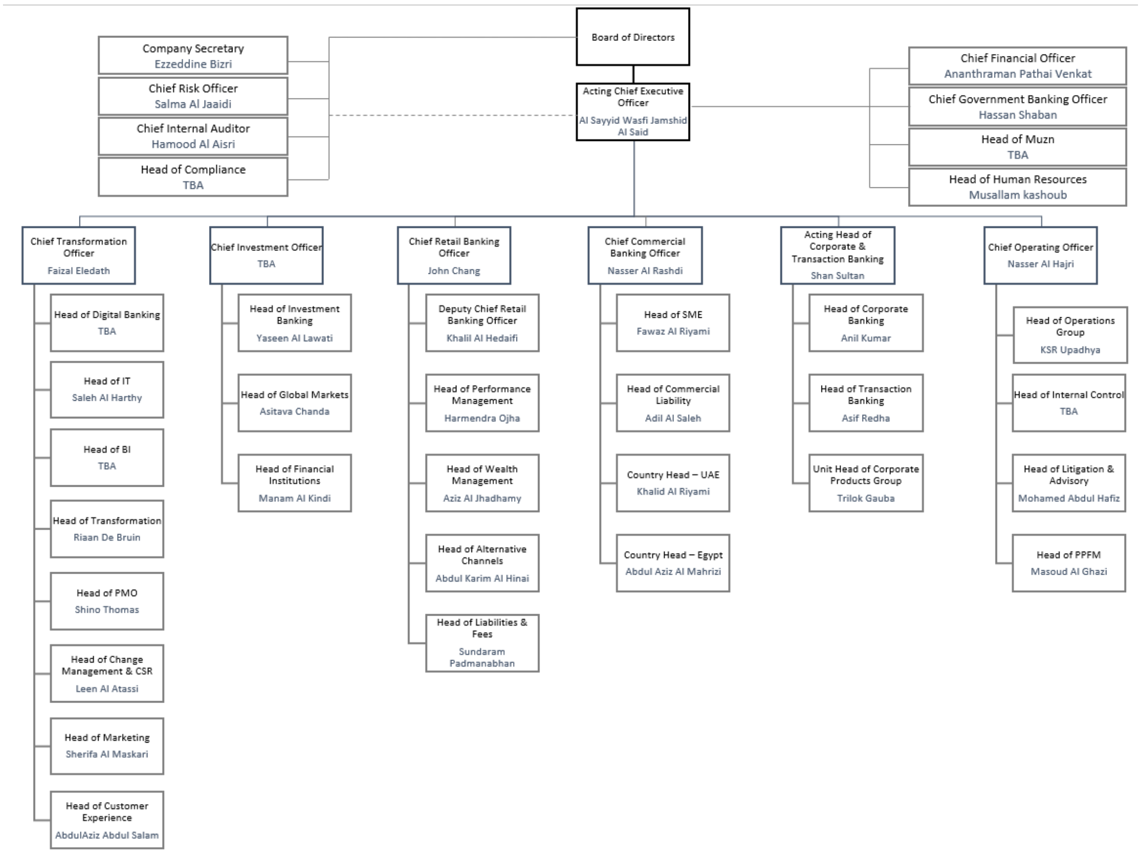
- *Mobile Banking*: The Bank implemented the first mobile banking services in Oman in 2011. In 2015, the Bank introduced iOS and Android mobile phone applications to facilitate mobile banking.

- *SMS Banking*: The Bank was the first bank in Oman to implement SMS banking in 2003. Customers may choose to receive SMS text message alerts for transactions and request other information such as their account balances without charge.

These alternate distribution channels are particularly important to the Bank as its customers become more reliant on technology and less reliant on branches.

Directors, Senior Management and Employees

Overview



The Bank's board of directors (the "**Board**") is responsible for the overall direction, supervision and control of the business of the Bank. The Board has delegated responsibility for overall executive management to the Bank's senior management team under the leadership of the Acting Chief Executive Officer (the "**ACEO**"). The principal role of the Board is to oversee implementation of the Bank's strategic initiatives and its functioning within the agreed framework in accordance with relevant statutory and regulatory structures. The ACEO and other members of senior management are responsible for the conduct of the Bank's business affairs and day-to-day management. The ACEO regularly reports back to the Board.

The Board meets at least four times a year and is required to have a maximum of eleven members. As at the date of this Base Prospectus, the Board has eleven members, all of whom are non-executive members and not less than one third of whom are "independent" in accordance with the Capital Markets Authority definition as identified in the revised Code of Corporate Governance which came into effect in July 2016. The majority of the Directors are required to attend for there to be a quorate Board meeting. A Director may appoint another Director to represent and vote for him in his absence by proxy. Decisions of the Board are, with limited exceptions, made by majority votes of those present (in person or by proxy) at the meeting. In the event of a split decision, the Chairperson holds the casting vote.

Each Director is appointed for a three year term. Upon expiry of the term, each Director must present himself to the general meeting of shareholders for re-election. The election or re-election of Board members occurs at the Bank's annual general meeting, pursuant to Omani regulations, in a process overseen by the Omani Capital Markets Authority. The current Board members were elected or re-elected at the Bank's last annual general meeting held in March 2017 for a term of three years.

As at the date of this Base Prospectus, the composition of the Board is as follows:

Name of Director	**Position**	**Year of Appointment**	**Date of Appointment Expiry**	**Representing**
Sayyida Rawan Ahmed Al Said.................................	Chairperson	2017	2020	Herself
H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani	Deputy Chairman	2017	2020	The Commercial Bank
Ms. Amal Suhail Bahwan..	Director	2017	2020	Suhail Bahwan Group (Holding)
Mr. Rahul Kar	Director	2017	2020	Himself
Mr. Fahad A.R. Badar	Director	2017	2020	Himself
Mr. Joseph Abraham	Director	2018	2020	Himself
Mr. Ghassan Khamis Al-Hashar................................	Director	2017	2020	Public Authority for Social Insurance
Mr. Hamad Mohammed Al Wahaibi	Director	2017	2020	Himself
Mr. Mohammed Ismail Al Emadi..............................	Director	2017	2020	Himself
Mrs. Najat Ali Al Lawatia	Director	2017	2020	Civil Service Pension Fund
Mr. Rashid Bin Saif Al-Saadi....................................	Director	2017	2020	Himself

The business address of all members of the Board is Bank Al Markazi Street, Muscat, Sultanate of Oman. No member of the Board has any actual or potential conflict of interest between their duties to the Bank and their private interests and/or duties. No members of the Board hold any shareholdings in the Bank.

The Bank's Code of Conduct (the "**Code**") covers the conduct of members of the Board. The Code binds signatories to the highest standards of professionalism and due diligence in the performance of their duties. It also covers conflicts of interest, disclosure and the confidentiality of insider information.

Members of the Board are bound by specific regulations relating to insider trading and are required to disclose details of their shareholdings in the Bank.

Certain members of the Board, their families and companies of which they are principal owners are customers of the Bank in the ordinary course of business. The transactions with these parties are made on the same terms, including interest rates, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk (see "*Selected Financial Information – Related Party Transactions*").

Biographies of the Board

Sayyida Rawan Ahmed Al Said, Chairperson

Chairperson of the Executive, Nomination and Remuneration Committee (ENRC).

Dr. Sayyida Rawan Ahmed Al Said is the Chief Executive Officer ("**CEO**") of Takaful Oman SAOG. Prior to joining Takaful Oman, she was the Managing Director and CEO of ONIC Holding Corporation. Before moving to the private sector, Sayyida Rawan was the Deputy CEO-Investment for the State General Reserve Fund of Oman, leading the execution of many large investments internationally. She has almost 30 years of experience in the financial industry, with 20 years in the public sector.

She has been a member on the board of a number of reputed companies and financial institutions in both the public and private sector of Oman and the GCC region. She is currently the chairperson of the Bank, the deputy chairperson in Oman Oil Marketing Company, board member of Oman National Investments Development Company ONIDCO (Tanmia) and the chairperson of its equity and GCC funds committee. In the public sector, she was on the board of Oman Oil Company SOAC and its audit committee. She was also on the board of the Public Authority for the SME Development (Riyada) and on the board of International General Insurance (IGI) in Jordan and National Finance House (NFH) in Bahrain. She also held the position as deputy chairperson of Orix Finance, National Life & General Insurance Company SAOC (NLIG) and Al Ahlia Insurance.

She is also a member of the Investment Committee of the Public Authority for Social Insurance, chairperson of Al Kawther Fund (Islamic Compliant Fund) and a member of the investment committee of Orphans & Incapacitated Funds in the Ministry of Justice of Oman. She has been recently appointed as a board member of the Sultan Qaboos University Council.

Sayyida Rawan remains to be the first and only woman to hold a CEO position in a public listed company in Oman.

In 2011, she was awarded the Business Professional (BizPro) Leader Award, and in 2012, was ranked 14th in Forbes Middle East for the 'Most Powerful Arab Business Women in Listed Companies'. In 2014, Sayyida Rawan was named among the Best Chief Executives in the region by Trend in collaboration with INSEAD (The Business School for the World). She was also awarded the Hall of Fame by MARA Excellence Awards. In 2015, she was honored with two prestigious awards; the Asian Women Leadership of the Year from World Leadership Congress and the Business Leader of the year from the Middle East Accountancy and Finance Excellency Awards 2015. In 2016 she was honored with Honorary Doctorate Degree from Commonwealth University in UK and she was awarded the Best Takaful CEO from Global Business Outlook, UK. In 2017 she won the best Takaful CEO-Oman, International Finance, London. Forbes ranked Sayyida Rawan third in Oman amongst the top 100 most powerful Arab Businesswomen in 2017.

Dr. Sayyida Rawan, has a master's degree in economics and finance from Loughborough University UK. She also holds a post graduate diploma in investment analysis from Stirling University UK, and a bachelor's degree in economics and political science from the American University in Cairo (AUC).

H.E. Sheikh Abdulla Bin Ali Bin Jabor Al Thani, Deputy Chairman

Member of the Executive, Nomination and Remuneration Committee (ENRC).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani has been a Director of the Bank since July 2005 and serves as a member of the Board Executive, Nomination and Remuneration Committee (ENRC). His Excellency is the chairman of The Commercial Bank (P.S.Q.C.) in Qatar, a member of the board of directors for United Arab Bank, P.J.S.C. in UAE and is the owner of Vista Trading Company (Qatar), a partner in Dar Al Manar (Qatar), Domopan Qatar and Integrated Intelligence Services Company (Qatar).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani holds a bachelor's degree in social science from Qatar University.

Mr. Joseph Abraham, Director

Mr. Abraham is the Group Chief Executive Officer of The Commercial Bank as well as Vice-Chairman of the Board of Directors of Alternatif Bank and a Board Director of the United Arab Bank, UAE. He has extensive banking experience across both developed and emerging markets. Before joining The Commercial Bank in June 2016, he was CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta, a position he served in from 2008 to 2016. Mr. Abraham has an MBA from the Graduate School of Business, Stanford University, California and has worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles with a successful track record covering general management, corporate banking, strategy, product management as well as acquisitions and integrations. His appointment (subject to CBO approval) is temporary until the next Annual General Meeting next year.

Ms. Amal Suhail Bahwan, Director

Member of the Executive, Nomination and Remuneration Committee (ENRC) and the Board Risk Committee (BRC).

Ms. Amal Suhail Bahwan is the vice chairperson of Suhail Bahwan Group Holding LLC. She has extensive experience in managing companies across the Bahwan Group.

She is also the chairperson of Oman Ceramics SAOG, director and executive committee member of National Pharmaceutical Industries SAOG and Director of Oman Oil Marketing Co SAOG.

Ms. Amal has a bachelor's degree in education and a master's degree in administration from the Sultan Qaboos University.

Mr. Hamad Mohammad Hamood Al Wahaibi, Director

Chairperson of the Credit Committee of the Board (CCB) and member of the Board Executive, Nomination and Remuneration Committee (ENRC).

Mr. Hamad Mohammed Al Wahaibi has been a Director of the Bank since March 2014. He has 18 years of experience in the GCC. He has been a director of investment with the Ministry of Defense Pension Fund for the past five years. Mr. Al Wahaibi is also a member of the boards of Voltamp Energy Company, Oman Cables Company and ACWA Power Company.

Mr. Al Wahaibi holds a masters of business administration (MBA) degree, specializing in finance, and he is a Chartered Financial Analyst (CFA) charterholder, as well as a Chartered Alternative Investment Analyst (CAIA) charterholder.

Mr. Mohammed Ismail Mandani Al Emadi, Director

Chairperson of the Board Risk Committee (BRC) and Member of the Board Audit Committee (BAC).

Mr. Mohammed Ismail Mandani Al Emadi has been a Director of the Bank since November 2014. He is also a member of the board for The Commercial Bank (P.S.Q.C.) and a member of the Board of Alternatifbank A.S. (ABank), Turkey and has over 30 years of banking experience. Mr. Al Emadi has held a number of key roles at The Commercial Bank until 2006, after which he served as chief executive officer of Qatar Real Estate Investment Company Q.S.C. up to 2011, and also served as its director from 2003 until 2005.

Mr. Al Emadi holds a bachelor's degree in business administration and economics from Holy Names University, California.

Mr. Rahul Kar, Director

Chairperson of the Board Audit Committee (BAC).

Mr. Rahul Kar has been a Director of the Bank since April 2016. Mr. Kar is a Chartered Accountant with over 25 years of relevant experience and is currently working as the financial advisor to the chairman of Suhail Bahwan Group Holding LLC.

Mr. Rahul is also a director and an audit committee member of National Pharmaceutical Industries SAOG and Al Suwadi Power Co SAOG. He is also a director and Nomination & Remuneration committee member of Oman United Insurance Company SAOG.

Mr. Fahad Badar, Director

Member of the Credit Committee of the Board (CCB).

Mr. Fahad Badar has been a Director of the Bank since May 2016. He is also a member of the board for Alternatifbank A.S. (ABank), Turkey since September 2013 and a member of the Board for ALease, Turkey since March 2016. He is also a member of the board for United Arab Bank, P.J.S.C. in UAE since July 2016.

Mr. Badar's career at The Commercial Bank (P.S.Q.C.) in Qatar spans over 17 years. Prior to his current role as Executive General Manager, International Banking, he held a number of key roles in international banking, the Government and Public Sector Relations and the Wholesale Banking Divisions.

Mr. Badar holds an MBA from Durham University, UK and a bachelor's degree in banking and finance from the University of Wales.

Mr Ghassan Khamis Al Hashar, Director

Member of the Board Audit Committee (BAC) and the Board Risk Committee (BRC).

Mr Al Hashar joined the Board as a representative of the Public Authority for Social Insurance (PASI) in March 2017. He is currently the Authority's Director of Investments. He has nearly 20 years of experience in finance and investment management, and represents PASI on the boards of numerous public and private companies. He is also the chairman of Muscat Fund Management Body and board director at Oman National Investments Development Company SAOC (TANMIA).

Mr. Al Hashar holds a master's degree in finance and investment management.

Mrs. Najat Ali Al Lawatia, Director

Member of Credit Committee of the Board (CCB).

Ms. Najat Ali Al Lawatia was elected as a Director of the Bank at the AGM in March 2017. She holds a commerce degree in accounting and has attended various courses in diverse fields of financial management, audit, investments etc. She is working as the deputy director of general-support services of the Civil Service Employees Pension Fund and has more than 20 years of relevant experience.

Ms. Najat is also a director and chairperson of Audit Committee of Oman Cement Company SAOG.

Mr. Rashid Bin Saif Al-Saadi, Director

Member of the Board Audit Committee (BAC) and a member of the Credit Committee of the Board (CCB).

Sheikh Rashid has been a member of the Board since August 2017, and is a renowned financial and investment banker, business executive, entrepreneur and philanthropist. Sheikh Rashid is also the CEO of TANMIA, a company that actively contributes to the Sultanate's economic development.

Sheikh Rashid holds a B.Sc. in business administration from Rollins College, USA. His career is marked by many significant achievements and milestones; including a twelve year stint with the Diwan of Royal Court, in addition to his involvement in various specialized committees, such as the Omanization committee, the planning and budgeting committee until his appointment as the general manager of the Arabian Engineering Services (AES) Company.

In 2000, Sheikh Rashid was appointed CEO of TANMIA, which was setting up its investment fund with the Muscat Securities Market at the time. Following his appointment, the board decided to transfer the responsibilities of managing the fund to the company directly, and two new funds were set up subsequently; the GCC Investment Fund, a private equity fund, and the Shari'a Fund in 2013. In addition, Sheikh Rashid also drove direct investments into various industries, including and not limited to real estate development; the company played an active role in the development of the Al Mouj Muscat Project, and in the tourism sector, the company played a key role in setting up the Kempinski Hotel, Muscat. In the industrial sector the company contributed to the establishment of Octal Petrochemicals, also extending into the retail sector by partnering with Al Meera Group to set up its business in the Sultanate.

In addition to his executive responsibilities, Sheikh Rashid is the chairman of the board of directors of Takaful Oman SAOG and A'saffa Foods SAOG. He is also a director on the boards of Oman Orix leasing Company, Minerals Development Company SAOC, Muscat National Development and Investment SAOC, Almouj Muscat & Oman Hospitality Company.

Board Committees

The Bank has the following Board Committees:

Board Audit Committee (BAC)

The BAC comprises of four Board members, three of whom are independent (being the majority as required by the law). The BAC meets at least four times a year. The BAC's Charter, which specifies the responsibilities and authorities of the Bank's audit function, is approved on an annual basis by the Board.

The BAC's Charter specifies that the committee is responsible for assisting the Board in the discharge of its regulatory oversight obligations on financial and accounting matters. It monitors the appropriateness and integrity of the published financial statements and annual report of the Bank on behalf of the Board, including the review of significant reporting judgments and accounting contained in them. The BAC approves the terms of engagement of external auditors, receives the auditors' reports, agrees the scope of the external audit and ensures the effectiveness of the Bank's audit process in consultation with the external auditors. The BAC's recommendations regarding the appointment of external auditors are presented to the Board for formal approval at the Board's annual general meeting. It reports back to the Board on the audits undertaken by the external auditors and the Bank's internal auditors, the adequacy of disclosure of information and the appropriateness and quality of the Bank's finance and accounting management systems. The BAC is also responsible for directing and supervising the activities of the Bank's internal audit function.

Credit Committee of the Board (CCB)

The CCB comprises four members of the Board and meets as and when there is a business need, which is typically once per month. The CCB is responsible for overseeing the risk management framework for controlling credit risk arising from the operation of the Bank's business segments. The responsibilities of the CCB include reviewing and approving specific transactions up to the Bank's permitted risk limits. This includes the approval of the Bank's underwriting exposures and sales of the Bank's participations. It also monitors risk assets by analysing portfolio trends such as higher risk assets and exposures and monitoring the management of the Bank's recovery strategies for problem loans and considering the adequacy of the Bank's provisioning framework. On at least a quarterly basis, the CCB reviews managements reports of Bank-wide portfolio risk trends, such as increased risk assets and exposures.

Board Risk Committee (BRC)

The BRC comprises four members of the Board and meets at least four times a year. The BRC's Terms of Reference set out the responsibilities of the committee. The main responsibilities of the BRC include the identification and review of Bank risks, as well as the establishment and on-going monitoring of risk policy, risk limits and risk management.

The BRC formulates the overall risk management strategy for the Bank, including the implementation of the Risk Charter, which is presented to the Board for approval on an annual basis. The key responsibilities of the BRC include setting policies relating to all risk issues and maintaining oversight of Bank risks through the Management Risk Committee. The BRC is required to establish an appropriate credit risk environment. This involves considering the strategic risks facing the Bank and recommending proposals to mitigate such risks to the Board. The BRC is also required to monitor and manage the Bank's operational risk, interest rate risk, liquidity risk, market risks (including foreign exchange), as well as a reputational, legal and accounting risk, and their impact on the Bank's financial performance. It also approves credit loss write-offs which are over the limits prescribed for senior management approval. The BRC is also responsible for monitoring the management of the Bank's recovery strategies for problem loans, as well as the adequacy of provisioning parameters. It regularly reviews stress scenarios to measure the impact of unusual market conditions and monitors variances between the actual volatility in portfolio values and levels predicted by the risk measures. The BRC also conducts an annual review of all asset and liability product strategies which include, but are not restricted to, all retail credit and deposit products, treasury and investment products and any other non-standard products relating to corporate banking. The BRC establishes risk tolerance levels and portfolio limits including limits associated with industry sector, geography, asset quality and others, as appropriate.

The BRC has direct oversight over specific credit policy issues including the development and ongoing monitoring of credit rating models, country limits, concentration issues, loan review mechanism and classification policy for loans and provisioning policy and the approval of new product strategies, which have credit implications for the Bank. It also conducts periodic reviews of the Bank's credit risk rating methodology and the appropriateness of risk ratings.

Executive, Nomination and Remuneration Committee of the Board (ENRC)

The ENRC comprises of four members of the Board and meets at least four times per year. The ENRC's Terms of Reference, which is approved by the Board on an annual basis set out the responsibilities of the committee.

The ENRC is responsible for the development of the Bank's long term strategy and the furtherance of the Board's stated goals (see "– *Strategy*"), as well as the review of the Bank's performance compared to those goals. Their analysis is based on the prior, current and projected economic, market and regulatory environment. It reviews the Bank's annual financial budgets and business plans and submits them for review by the Board. The ENRC is also responsible for oversight of the Bank's investment banking operations.

The ENRC analyses the Bank's proposals for capital raising and presents recommendations to the Board for approval. It also produces the Bank's dividend policy and recommends dividend distribution levels to the Board. It is also responsible for managing Bank-wide compensation and benefits policies and presents recommendations to the Board for approval.

The ENRC also adopts a transparent method in preparing the Nomination Policy, targeting directors of high competence and calibre, without prejudice to the right of any of the shareholders to stand for election or to nominate whoever they see fit.

The ENRC is responsible to look for and nominate qualified persons to act as interim directors on the board in the event a seat becomes vacant.

The Shari'a Supervisory Board (SSB)

The appointment of the SSB was approved at the Bank's Extraordinary General Meeting in June 2012. It is responsible for the review and approval of the Bank's policies, products and processes to ensure their compliance with Shari'a principles. The SSB is also responsible for the approval of Shari'a compliant products. The SSB is responsible to the approval of the annual Shari'a Audit Plan. The SSB reviews and approves the annual Shari'a Compliance Report of "Muzn" Islamic Banking Services prior to the issuance of the Bank's annual report.

The SSB meets at least four times a year. The SSB is comprised of a minimum of three members, one of which is elected as the Chairman. In the event that Chairman is unable to attend a meeting, the other two members shall elect one of them to act as alternate chairman to preside over the meeting. Any meeting of the SSB requires a quorum of two members. Decisions of the SSB are by way of a simple majority.

The Head of Shari'a Department acts as Secretary of the SSB and records and retains minutes of the SSB meetings.

Biographies of SSB members

Sheikh Dr. Mohamed Bin Ali Elgari (Member and Chairman)

Education: 1986 PhD in economics from the University of California, United States of America

Dr. Elgari is Professor of Islamic Economic at King Abdulaziz University, Jeddah, Saudi Arabia and Former Director of the Center for Research in Islamic Economics, in the same university. He is an expert at the Islamic Jurisprudence Academy of the OIC and the Islamic Jurisprudence Academy of the Islamic

World League and a member of the Shari'a Council of AAOFI. He is member of editorial board of several academic publications in the field of Islamic Finance and Jurisprudence among them, Journal of the Jurisprudence Academy (of the IWL), Journal of Islamic Economic Studies (IDB), Journal of Islamic Economic (IAIE, London), and the advisory board of Harvard Series in Islamic Law, Harvard Law School. He authored several books in Islamic finance and published tens of articles on the subject. Dr. Elgari is the recipient of the Islamic Development Bank prize in Islamic Banking and Finance for the year 1424H (2004).

Dr. Elgari is currently a Member of Shari'a supervisory boards for Noor Islamic Bank, Amanah (HSBC) Central & Regional Committees, Standard Chartered Bank in Pakistan, United Arab Bank in the UAE and Navis Capital Partners in Malaysia.

Dr. Mohammed Daud Bakar (Member)

Dr. Mohammed Daud Bakar obtained a degree in Shari'a from the University of Kuwait in 1988. He then obtained a PhD in Islamic Law from the University of St. Andrews in 1993, and a degree in jurisprudence from the University of Malaya, Malaysia in 2002.

Dr. Bakar's area of specialisation include Islamic Legal Theory, Islamic Banking and Finance and Islamic Law of Zakah. Dr. Bakar has published more than 30 research papers in academic journals. In 2005 he received the Islamic Banker Award from the Association of Islamic Banking Institutions, Malaysia. Dr. Bakar provides Shari'a structuring and advisory services to various Islamic Financial institutions.

He was previously the chairman of the Central Shari'a Advisory Council of the Central Bank of Malaysia, Securities Commission of Malaysia, and Labuan Financial Services Authority. He was a member of Shari'a supervisory boards for Amundi Asset Management, France, Noor Islamic Bank, the UAE, BNP Paribas, Bahrain, Bank of London and The Middle East, United Kingdom and Islamic Bank of Asia, Singapore.

Sheikh Saleh Al Kharusi (Member)

Sheikh Saleh Al Kharusi is the director of the Notary Public Office – Ministry of Justice and part time lecturer in Institute of Shari'a Sciences.

He has a bachelor's in Shari'a degree from the Institute of Shari'a Sciences – Oman in 2008. He completed a master's degree in financial transactions from Sultan Qaboos University in 2016.

Dr. Khalid Said Humaid Al Amri (Non-voting member)

Education: 2013 PhD in risk management and insurance (major) and finance (2nd major) from Temple University USA and in 2009, a master's degree in actuarial science from the Boston University, USA. 2016 Certified Shari'a Advisor and Auditor (CSAA) from accounting and auditing organization for Islamic financial Institutions (AAOIFI).

Dr. Al Amri's areas of specialisation include Islamic Finance, Banking Efficiency, Takaful Insurance, Financial Stability, Operational Risk, Enterprise Risk Management (ERM), Corporate Social Responsibility (CSR), and Executive Compensation. Dr. Al Amri is an assistant professor at Sultan Qaboos University, Muscat, Oman and advisor for the board of directors for Al Madina Takaful Company in Oman.

H.H Sayyid Dr. Adham Turki Al Said (Non-voting member)

HH Dr. Adham Al Said has a PhD in economics from the University of Western Australia, Australia in 2011 and an MA in economics from New York University, USA in 2002.

HH Dr. Adham is an assistant professor of economics at Sultan Qaboos University, partner at The Firm for Business and Economic Consulting and the chairman of board of trustees of the Scientific College of Design.

Senior Management

In addition to the Board members, the day-to-day management of the Bank's business is conducted by the Bank's senior management.

The business address of each member of the senior management is in Muscat, Oman. No member of the senior management has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or duties.

Biographies of the Senior Management

Al Sayyid Wasfi Jamshid Al Said - Acting Chief Executive Officer

Sayyid Wasfi Al Said is the Bank's Acting Chief Executive Officer. Prior to his appointment, Sayyid Wasfi has held posts as Chief Investment Officer and deputy head of WB, he is also a member of all of the Bank's management committees. Sayyid Wasfi played an instrumental role in the architecture of the five-year growth strategy for the Bank, which centered around a vision to make it the bank of choice in Oman.

Prior to joining the Bank, Sayyid Wasfi served as deputy director of investments of the State General Reserve Fund. Additionally, he served as deputy chairman of the Investment Committee for domestic equities and as a member of the investment committee of the National Investment Funds Company (NIFCO) and National Equity Fund (NEF). He was also a founding member of the investment advisory team for the Investment Stabilization Fund.

Sayyid Wasfi served as chairman of National Aluminium Products Company SAOG (NAPCO), deputy chairman of Gulf Energy LLC and as a member of the investment committee for the Oman Integrated Tourism Projects Fund. He has held several board memberships across various industries including manufacturing, oil and gas, investments and tourism.

Sayyid Wasfi holds, business and finance degrees from the University of Portsmouth, UK and El Centro Europeo de Gestión de Empresas, Madrid, Spain.

Ananthraman Venkat - Chief Financial Officer

Mr. Ananth Venkat is Chief Financial Officer ("**CFO**") of the Bank.

Mr. Venkat was appointed as the Bank's CFO in 2013 following more than two decades spent working with leading financial institutions across the Middle East and Africa.

Before joining the Bank, Mr. Venkat served as CFO of RAKBANK in the UAE. Prior to this, Mr. Venkat worked at Saudi Hollandi Bank in Saudi Arabia. His career has included senior leadership positions at Barclays Africa, where he also served as a board member of several Barclays subsidiaries in Sub Saharan Africa and Ahli United Bank in Qatar. He began his career in India as a financial consultant with AF Ferguson & Co., before relocating to Africa.

Mr. Venkat holds a bachelor's degree in commerce from Madurai University in India. He is an Associate Member of the Institute of Chartered Accountants of India and has completed many specialist finance and leadership courses.

Hamood Khalfan Al Aisri- Chief Internal Auditor

Mr. Hamood was appointed as the Bank's Chief Internal Auditor in November 2014. He joined the Bank in 1996 as an auditor and spent over 15 years in different roles in internal audit with last role as deputy head of audit prior to assuming the role of financial controller. He was the Bank's financial controller for over two years prior to becoming the Bank's Chief Internal Auditor.

Mr. Hamood is a Chartered Accountant and has attended different courses on audit and management.

Nasser Al Rashdi - Chief Commercial Banking Officer

Mr. Nasser Al Rashdi joined the Bank in June 1993 as the Bank's first management trainee. Mr. Al Rashdi has held many a senior leadership roles in the Bank. Prior to becoming the Chief SME Officer and Head of International Business, Mr. Al Rashdi was the Bank's Chief Internal Auditor from October 2010 to November 2014, Mr. Al Rashdi was the Bank's Chief Risk Officer from July 2008 to October 2010 and a member of various management committees, such as the Asset and Liability Committee and the Management Risk Committee.

Mr. Al Rashdi holds a Business and Management Engineering Degree (1992) with distinction from Université Catholique de Mons in Belgium. He also attended an intensive Advance Development Program at the London Business School.

Salma Al Jaaidi - Chief Risk Officer

Ms. Salma Al Jaaidi joined the Bank in 2003 in the Risk Group. Prior to becoming Chief Risk Officer she was the Deputy Chief Risk Officer. She has a masters in business administration from the University of Hull, United Kingdom (through the Gulf College). Her career has spanned over 29 years with various leading financial institutions such as Standard Chartered and Majan International Bank.

Faizal Eledath - Chief Transformation Officer

Mr. Faizal Eledath is Chief Information Officer (CIO) of the Bank, a position he has held since October 2012. IDG, the leading technology media, events and research company, has twice named Mr. Eledath among the region's top 20 CIOs.

Before joining the Bank, Mr. Eledath served as CIO of Dubai Bank, an Islamic bank in the UAE that later became part of Emirates Islamic Bank. Prior to this, he was Vice President of Information Technology Solutions at Mashreq Bank in the UAE, with responsibility for all channels, including branch systems, call centres, internet banking, ATMs, credit card systems and CRM systems. Mr Eledath began his career in 1992 as a Senior Systems Analyst at Oman Computer Services.

Mr. Eledath holds a bachelor's degree in computer science from Bharathiar University, India, and a master's degree in computer science from the University of Alabama at Birmingham, USA. Alongside his scientific education, Mr. Eledath has a master in business administration from Southern New Hampshire University, USA, and has attended executive education programmes at Harvard Business School on subjects including launching new ventures and the small business life cycle.

John Chang –Chief Retail Banking Officer

Mr. John Chang is a senior consumer banking professional with extensive experience in Singapore, Malaysia, South Asia, Africa, Qatar, Kuwait and the UAE. In his career of around three decades, he has held senior retail banking positions with leading financial institutions such as Noor Bank PJSC, Abu Dhabi Finance, Burgan Bank – Kuwait and The Commercial Bank in the GCC. His international experience includes holding various senior level positions at Standard Chartered Bank in Singapore, Malaysia, UAE, Ghana, and Bangladesh between 1984 to 2004.

Mr. Chang has completed his MBA from The City University, London, United Kingdom and an Advanced Management Program from INSEAD, France.

Nasser Al Hajri - Chief Operating Officer

Mr. Nasser has extensive leadership experience over two decades in key roles comprising of strategic HR management, project management, finance and IT.

Mr. Nasser is a board member of the Youth Development Project Fund, the advisory board at the College of Finance & Banking, a member of CIPD, a former board member for the Project Management Institute (PMI) –Gulf Chapter and president of PMI Oman. Nasser is the chairman of the human resources executive committee and the tender committee.

Prior to joining the Bank, Nasser was holding a senior management position in Sohar Industrial Port Company handling HR, finance and project management. He holds an MBA from the University of Hull and bachelor's degree in electrical engineering, bio-medical engineering from USA.

Hassan Abdul Amir Shaban - Chief Government Banking Officer

Mr. Hassan joined the Bank in April 2004. He has more than 20 years of wide-ranging experience of Government Banking, Communication, Public Relations, Marketing and Branding, Wealth Management & Financial Services with organizations like Commerzbank – Zurich and Majan International Bank.

Hassan worked in the diplomatic field as Omani Commercial attaché in South Africa – 1993-1995, Oman Commercial attaché in Taiwan – 1995 – 1997. He is a Fellow of the Institute of AMBA Association – UK, holds an MBA in general management from the University of Nottingham. He has extensive relationships with local and regional key institutions.

Shan Sultan – Acting Head – Corporate & Transaction Banking

Mr. Shan has joined National Bank of Oman in March 2011. He has over two decades of experience in the field of Credit, Marketing and Corporate Banking across several international banks.

Prior to joining the Bank, Mr. Shan worked with Mashreq Bank, UAE, as Head of the Risk Review division for four years. Prior to this, he worked with the Bank as Senior Manager of Corporate Banking. Prior to that, he worked in Standard Chartered Bank, Oman, as Senior Manager of Corporate Banking. Mr. Shan holds an MBA in Finance and Marketing.

Management Committees

The following are the key delegated committees of the Bank's senior management:

Management Risk Committee (MRC)

The MRC is responsible for reviewing and approving the Bank's key risk management policies. It provides recommendations to the Board Risk Committee ("**BRC**") and to other Board committees, as appropriate, on all risk policy and portfolio issues.

The MRC makes Bank-wide risk strategy recommendations for the consideration of the BRC, such as suggested credit strategy changes, the development of the Bank's risk policy framework, changes to the risk tolerance levels and portfolio limits (with reference to industry sectors, geography and asset quality) and the development of risk policies relating to interest rate and liquidity gaps, hedging strategies and foreign exchange ratio targets. It also oversees the development of the Bank's Risk Charter and makes recommendations to the BRC relating to amending the Risk Charter. The MRC is also responsible for overseeing the annual and ongoing reviews of the Bank's asset and liability products within the Bank's risk policy framework. It undertakes regular stress scenario reviews to measure the impact of unusual market conditions and adjusts the Bank's stress scenario models, as necessary.

The MRC is also responsible for the ongoing monitoring and correction of the Bank's:

- regulatory and legal compliance, including anti-money laundering policies;
- credit portfolio in line with the regulatory requirements in the jurisdictions in which the Bank operates and monitoring the Bank's credit policy issues, such as country limits, concentration issues, the Bank's loan review mechanism and the classification policies for loans and provisioning; and
- external and internal high and medium-risk audit issues.

Management Credit Committee (MCC)

The MCC is responsible for overseeing the risk management framework for controlling credit risk and approving transactions with retail and corporate customers. The MCC also presents transaction approvals to the CCB for credit exposures to corporate, retail and financial institution customers, including underwriting commitments exceeding its authority level. The MCC meets weekly or more frequently if required.

Asset & Liability Committee (ALCO)

The ALCO is responsible for managing the Bank's asset and liability management and market risk issues, including the formulation of the Bank's key financial indicators and ratios, setting the thresholds for management of the Bank's balance sheet risks (such as market risk and liquidity risk) and monitoring and analysing the sensitivity of the Bank's funding mismatches, capital ratios and currency positions. The ALCO monitors and manages the Bank's balance sheet projections, business division plans and the resultant net interest income margins and growth. The ALCO meets on a monthly basis. The Bank has also established a separate Islamic banking ALCO to oversee Islamic asset management and liability management.

Investment Committee

The Investment Committee is responsible for managing the Bank's proprietary portfolio to achieve optimal returns whilst complying with regulatory limits and the Bank's internal investment policies.

The Investment Committee reviews portfolio performance and ensures that the portfolio adheres to the Bank's Proprietary Portfolio Policy Guidelines and the Central Bank limits on the Bank's proprietary investments in local as well as foreign securities across various asset classes. These limits are based on the Bank's net worth. The Investment Committee has the authority to approve investments in securities within the limits set in the Investment Policy of the Bank. The Investment Policy of the Bank defines the investment objectives of the Bank and provides internal limits for each asset class in addition to limits imposed by Central Bank regulations and other applicable laws. It encompasses all regulatory limits and internal limits across securities, sectors and asset classes with the aim of reaching optimal risk adjusted returns over the long term. The day to day management of the Bank's proprietary portfolio is undertaken by the Bank's Investment Banking sub-division.

Investment Committee operates by circulation or by meetings if required.

Within the Investment Policy, guidelines have been framed which provide for the internal limits on each asset class in addition to the limits imposed by Central Bank regulations and other applicable laws.

Islamic Risk Committee (IRC)

The IRC is responsible for the management of risk related issues in connection with the Bank's Islamic finance operations. The IRC provides recommendations on all risk policy and portfolio issues to the BRC and to other committees, as appropriate.

Operational Risk Management Committee (ORMC)

The ORMC is responsible for the management of the Bank's operational policies and procedures. The ORMC oversees the management of the Bank's operational risk exposures in line with the Operational Risk Management Framework which has been approved by the BRC and MRC. The ORMC sets the Bank's operational risk standards and monitors and assesses internal and external operational risk issues which it reports to the BRC and/or MRC, along with suggested corrective and risk mitigation actions for approval by the relevant committee. The ORMC provides the Bank's management with a forum to monitor and manage operational risk control lapses, such as fraud or regulatory non-compliance and to formulate remedial actions to prevent future lapses.

Management Fiduciary Committee (MFC)

The MFC is responsible for supervising the proper exercise of fiduciary powers within the Bank, as well as assessing the adequacy of the Bank's ethical standards, strategic plans, policies and control procedures, management, staffing, systems and facilities. The MFC provides guidance relating to the types of fiduciary services offered or to be offered by the Bank.

Compliance Management Committee (CMC)

The Compliance Management Committee (CMC) is responsible for overseeing regulatory issues highlighted by the Compliance Division. The Compliance Division (the Compliance Officers in case of foreign operations) will be involved in managing all compliance requirements and activities of the Bank and ensuring that compliance risk is managed effectively.

Business Transformation Committee (BTC)

The BTC is a committee which is entrusted to provide an organized means to govern, manage and achieve the Bank's business transformation goals. BTC should ensure the pro-active identification of material risks of any nature originating out of the delivery of the transformation is appropriately assessed and reported to the designated management. The committee is mandated to oversee the execution and reviewing the performance of transformation of the Bank. The committee shall recommend to the Board an annual plan highlighting the select transformational initiatives and an estimated capital investment requirement. The committee shall meet at least two (2) times per year, or more frequently as circumstances may require.

Tender Committee

The Tender Committee evaluates and approves tenders / procurement of goods, services and projects in line with the Procurement Policy of the Bank. The Tender Committee meets once a month or as and when a need arises.

Employees

The total number of the Bank's employees as at 30 June 2018 is 1,510 as compared to 1,501 in December 2017, 1,544 in December 2016 and 1,506 in December 2015.

The Bank has carefully allocated employees to the areas of strategic growth of the Bank, but also ensuring that the overall efficiency is enhanced. The Bank is committed to the training and development of new and existing staff in order to ensure that the Bank continues to be supported by the skills required for its planned growth. This includes the establishment of both internal and external training programmes for all staff members. The Bank is in compliance with current Omanization policy issued by Central Bank (see "*Sovereign Overview*"). As at 30 June 2018, Oman nationals accounted for 92.87 per cent. of the Bank's employees.

Property

The Bank's principal premises and equipment include the new Head Office building in Oman which was capitalized in 2017. The net book value of premises and equipment was RO 65.2 million as at 30 June 2018 (compared to RO 65.8 million as at 31 December 2017), of which land and buildings have a net carrying value of RO 50.5 million.

Information Technology

The Bank's Information Technology ("**IT**") Division is responsible for the Bank's IT strategy, its execution and the delivery of all IT services throughout the Bank. In line with the Bank's overall strategy, the Bank's IT strategy is focused on three key themes:

- Develop compelling solutions that support the Bank in launching several innovative products and services, which are simple transparent and easy-to-contract products.

- Deliver a superior customer experience while improving operational efficiency by placing customer needs at the core and accordingly aligning solutions, products and services to satisfy their requirements.

- Develop a market-leading workforce by encouraging its employees to be involved in its innovation events and exposing them to agile methodology and other digital working concepts.

Recent IT initiations made by the Bank under these themes include:

Develop compelling solutions:

- Adopted "Mobile First" approach for customers with increased mobile banking applications such as setting up Twitter enquiry services, personalized financial management and a wearable banking application.

- The Bank continues its innovation efforts through developing and testing propositions around block chain technology, mixed reality and natural language based interfaces. In 2017, it organised a Hackathon, thereby engaging the regional fintech and universities to garner new ideas.

- Launched a series of digital channels for its Islamic subsidiary Muzn - retail internet banking, corporate internet banking, mobile banking, enhanced ATMs/CDMs.

Deliver a superior customer experience while improving operational efficiency:

- Implementation of Customer Relationship Management (CRM) solution, significantly reduced process time for issuance of debit cards to support the customer centric strategy and enhance lead management and cross sell capabilities. The Bank has won the Asian Banker Award for the Best CRM project.

- Updated corporate and retail internet banking with enhanced customer experience and user experience, for example by implementing simplified Central Bank of Oman WPS Processing through Corporate Internet Banking, Voice of Corporate Internet Banking Customers, Corporate Internet Banking Hard token expiry notifications.

- All key customer centric processes are automated with specific workflow solutions especially for retail and corporate customers to improve Turnaround Time (TAT) and process efficiency.

- Enabled banking solutions to facilitate significantly reduced process time from one day to real time for across border transactions between the Bank's Oman and UAE branches.

- Business intelligence and machine learning capability has been included enterprise wide to specific business lines with ability to validate performance management and customer service.

- **Tier 3 Data Centre** has been setup and the Bank's infrastructure and information security systems have been enhanced. It is a facility which houses the Bank's computer systems and associated components, such as telecommunications and storage systems to ensure all day service delivery to the customers.

Develop a market-leading workforce:

- Continued in investing in our resources to building depth across wide range of technical competencies.

- Hosted the latest edition of innovation platform ibtikar, to encourage ground-up innovations.

Insurance

The Bank maintains insurance policies and coverage that it deems appropriate. This includes a financial institution's blanket bond covering standard risk including electronic equipment and professional indemnity cover. The Bank maintains standard property insurance for all premises and electronic equipment.

The Bank reviews insurance coverage on an on-going basis and believes its current coverage to be in accordance with industry practice in Oman.

Litigation

In the ordinary course of its business, the Bank may be subject to governmental, legal and arbitration proceedings. The Bank has an established protocol for dealing with such claims or proceedings. 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. As at the date of this Base Prospectus, although the Bank has certain unresolved legal claims, these are not expected to have any significant impact on the financial performance of the Bank and no material provision has been made regarding any outstanding legal proceedings.

Recent Development

Potential merger with Bank Dhofar S.A.O.G.

The Board of Directors has expressed an interest in and has commenced discussions with Bank Dhofar to explore the possibility of a merger between the two banks, subject to agreeing commercial terms, satisfactory due diligence and obtaining all necessary corporate approvals (including shareholders' approval) and regulatory approvals. Discussions between the two banks are currently ongoing on the potential terms of the merger, the optimum legal structure of the combined entity and the method and timing for the implementation and execution of the proposed merger. Such discussions are still at a preliminary stage and no substantive developments are expected to take place in connection with the proposed merger at or around the time of any issuance under this Programme.

Risk Management

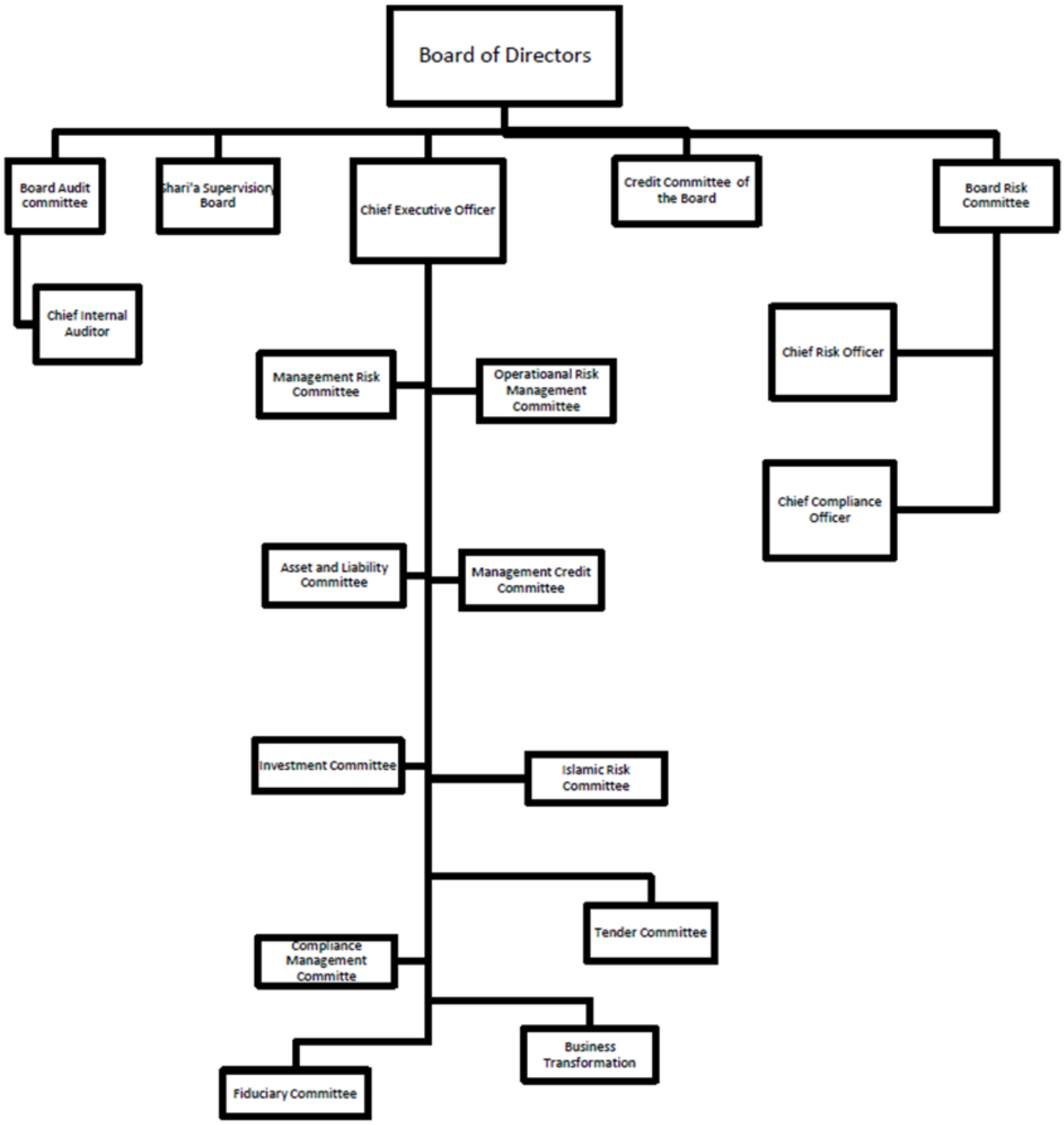
All of the Bank's revenue-generating activities involve risk-taking, as well as the associated creation of stakeholder value for the Bank. The Bank's aim is to achieve an appropriate balance between risk and return to minimise potential adverse effects on the Bank's financial performance. Risk is also inherent in many internal business processes and systems and as a result of external factors.

The primary objective is to safeguard the Bank from the various risks it is exposed to. The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and compliance with relevant limits through reliance on information systems.

The principal risks facing the Bank's business are credit risk, liquidity risk, market risk (including foreign exchange risk, interest rate risk and profit rate risk) and operational risk (including regulatory and legal risks) and strategic risk. The Bank's risk management policies and procedures are designed to identify and analyse these risks, prescribe appropriate risk limitations, monitor the level and incidence of such risks on an ongoing basis and prescribe appropriate remedial action.

The Bank's governance structure is ultimately supervised by the Board. The Board has established a number of Board committees and management committees to co-ordinate the day-to-day risk management of the Bank. See "*Directors, Senior Management and Employees—Board Committees*" and "*Management Committees*".

The following diagram sets out the Bank's risk management structure.



Guiding principles for risk management activities

The Bank's guiding principles for risk management are as follows:

- *Approval*: all commercial activities which commit the Bank to deliver risk sensitive products and any business proposals require approval by authorised individuals/levels prior to commitment;

- *Independence*: clear separation between commercial (the business) and risk management functions;

- *Transparency*: risk management structures, policies and procedures are transparent and are based on consistent and comprehensive principles, in written form, and clearly communicated;

- *One obligor*: decision authority is determined by the total amount of facilities (one obligor total) and/or (when applicable) capital at risk approved for all entities that form a coherent group based on shareholding and/or management control;

- *Committees*: decisions regarding policy, product, portfolio, or large (or high risk) exposures are taken by appropriate committees duly constituted and empowered by the Board or any other sets of functionaries as determined by the nature and quantum of exposures authorised by the Board or the Board Risk Committee;

- *Conflicts of interest*: members of committees are required to disclose their business relations to ensure that there is no conflict of interest;

- *Approval Authority*: authorities are delegated by the Board through the Board Risk Committee to the CEO which is required to delegate these authorities to the various Management Committees responsible for Risk Management. The CEO will also delegate specific credit authorities to qualified officers of the Bank based on the delegate's experience, credit credentials and qualifications;

- *Risk proposals* are not approved without at least two authorised individuals forming an agreement within the framework set by an authorised committee;

- *Risk and reward*: risk and reward from a transaction are borne by the same business unit;

- *Business responsibility*: business units are responsible for the selection of clients and for managing all of the business activities with such clients within approved limits; and

- *Source of internal policies:* these guiding principles are dictated by the policies and guidelines from the Central Bank and Capital Markets Authority.

The key risks facing the Bank are:

Credit risk

Credit Risk is managed in accordance with the regulatory requirements of the Central Bank. The Bank's risk framework is provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as the level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units in accordance with established procedures.

Retail credit risk

The Bank's Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by the Board Risk Committee. The lending criteria for these programs are regularly reviewed and revised, if required, based on an ongoing analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and approved as per the delegated authorities.

A review of the Bank's Retail Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the preceding month's report is presented to the Board Risk Committee.

Salient areas covered in the review include:

- portfolio review;

- management summary of delinquency and non-performing asset trends (which includes product-wise delinquency analysis, vintage analysis and delinquencies across various credit criteria);

- projects undertaken / fulfilled during the month; and

- recoveries.

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency, and to enhance the recovery methodologies of the retail portfolio. The Bank has reworked its strategy of lending through adoption of stricter lending criteria and continuous monitoring of the portfolio and is in the process of implementing a loan origination system, credit scoring module and collections solution to enhance its retail credit risk framework.

Corporate credit risk

The Bank's Corporate Credit Risk Division is responsible for the independent assessment and control of the risks related to all corporate (both large and mid-sized) and financial institutions exposures. The Corporate Credit Risk Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any, are highlighted. The Bank follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Bank has implemented a customised Moody's risk analyst model for risk rating corporate borrowers. The Bank's Corporate Credit Risk Division also provides advice and guidance to business units, for example, the Remedial Management Division, with a view to promoting best practices throughout the Bank in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. The Bank has instituted an early warning system to identify corporate accounts which are experiencing stress in their business/cashflows resulting in potential delays in debt servicing. The identified accounts are reviewed on a weekly basis and an action plan is arrived at to proactively protect the Bank's exposure from default. Furthermore, the Bank continues to undertake quarterly review of financial institutions and country portfolios including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

A comprehensive review of the Bank's corporate credit portfolio is conducted on a quarterly basis and provided to the senior management and the Board Risk Committee. Salient areas covered in the review include:

- exposures downgraded/negatively migrated;
- weighted average credit grade profile;
- portfolio concentration / performance;
- position of restructured exposures;
- position of past due exposures;
- exposures secured by equity;
- exposures to real estate and leasing sectors;
- syndicated exposures;
- new relationships;
- exposures to senior members and non-resident borrowers;
- exposures to countries / financial institutions; and
- clean lending and name lending exposures.

Discussions of the Bank's impairment provisions and credit risk mitigation are provided in "*Financial Review - Impairment provisions*" and "- *Credit risk mitigation*".

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the Bank's management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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 the Central Bank guidelines and the Liquidity and Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. The Bank's liquidity risk position is monitored regularly thorough analysis of various reports, such as, maturity of assets and liabilities, liquidity lines, early warning indicators and stock ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and Bank-specific events in line with Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the Bank's management and also discussed at the Board Risk Committee.

Market risk

The Bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the Bank will fluctuate because of changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity and credit spreads. Market risk is managed based on the Central Bank guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests incorporating adverse movements in equity value and foreign exchange are also periodically conducted and reviewed by the Management and Board Risk Committee.

The Bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The Bank has adopted risk weightings in line with best practices being followed by other banks to capture the credit risk related to these off-balance sheet exposures.

Equity risk

The Bank's proprietary equity positions are held in the 'Available for Sale' category. The market risk is monitored through daily mark-to- market reports which are circulated to the management and required actions, if any, are promptly taken. The portfolio is also monitored and managed in accordance with the Investment Policy approved by the Board Risk Committee.

Interest rate risk

The principal market risk to which the Bank's non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

The methods for interest rate sensitivity analysis are:

- Maturity gap analysis (which measures the interest rate sensitivity of earnings); and
- Duration (which measures the interest rate sensitivity of capital).

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardised interest rate shocks. Standardised shocks include 100 basis point and 200 basis point parallel shifts in yield curves. The impact of these shocks is analysed in the context of its impact on earnings and economic value. The impact is compared against internal limits which have been formulated in line with the Central Bank and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The foreign exchange positions in the books of the Bank are largely held on account of customers and any variations in the exchange rates are absorbed by the customers.

Foreign exchange VaR is computed monthly for all non-pegged currencies at 99 per cent. confidence level and a holding period of ten days. Additionally earnings impact of a 15 per cent. adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

Further, the Bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set off thresholds will be reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

The Bank has a business continuity framework which allows prompt action in response to any disruptive events to ensure continuity of operations. The Bank has formulated business continuity plans to ensure uninterrupted provision of services to customers during operational disruptions. The Bank's Management Risk Committee routinely ensures business continuity frameworks are aligned with business needs. The Bank's critical systems, applications and individual business units are regularly tested from its disaster recovery sites.

Legal Risk

Legal risk is the risk of losses occurring due to legal or regulatory action that precludes performance by the Bank or its counterparty under the terms of its contractual agreements. The Bank aims to mitigate this risk through the use of properly reviewed documentation and be seeking appropriate legal advice when appropriate. The Bank has a dedicated Legal Division which deals with both routine and more complex legal issues. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in Oman or overseas, as appropriate.

Compliance Risk

The Bank has been proactive in managing its compliance risk. The Board and senior management endeavour to ensure the Bank's operations and business conduct are consistent with the laws and regulations of Oman and the other markets it operates in. These include, but are not limited to, laws and regulations issued by the Central Bank and the CMA, as well as internationally accepted best practices. The Bank fosters a culture of compliance which is seen not only as a requirement of law but also as a good business practice.

The Bank's Compliance Division reviews the Bank's policies, procedures, services and products to ensure compliance with applicable laws and regulations and internationally accepted best practices.

The Bank remains committed to combating money laundering and terrorism financing by improving control measures as the regulatory environment becomes more challenging. The Bank has in place comprehensive policies and procedures to deal with the prevention of money laundering and terrorism financing. In 2012 the Bank implemented an anti-money laundering IT system which has enhanced the Bank's ability to detect and report suspicious transactions. The Bank also provides training to staff to ensure that they are able to effectively implement the Bank's anti-money laundering and anti-terrorism finance policies and procedures. Employees are required to undertake centralised, on-the-job and E-learning training programmes, as appropriate.

SELECTED FINANCIAL INFORMATION

The following financial information has been derived from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Bank's Financial Statements and the related notes thereto and the other information included elsewhere in this Base Prospectus.

The following tables set forth selected financial information of the Bank as at and for the years ended 31 December 2017 and 2016 and as at and for the six month period ended 30 June 2018. The statement of comprehensive income and statement of financial position data as at and for the years ended 31 December 2017 and 2016 and as at and for the six month period ended 30 June 2018 has been presented in Omani Riyals and, as set out in those Financial Statements for convenience only, in United States dollars using an exchange rate of U.S.$1 = RO 0.3850.

STATEMENT OF FINANCIAL POSITION DATA

	As at 30 June 2018 (unaudited)		As at 31 December 2017		As at 31 December 2016	
	RO'000	*USD'000*	*RO'000*	*USD'000*	*RO'000*	*USD'000*
Assets						
Cash and balances with Central Banks	317,975	825,909	383,111	995,094	511,594	1,328,816
Due from banks and other money market placements (net)	155,677	404,356	138,670	360,182	115,330	299,558
Loans, advances and financing activities for customers (net)	2,667,598	6,928,826	2,653,871	6,893,171	2,670,281	6,935,795
Financial investments	189,019	490,958	183,120	475,636	128,383	333,462
Premises and equipment	65,158	169,242	65,795	170,896	46,345	120,377
Other assets	53,482	138,914	45,785	118,922	60,750	157,792
Total assets	**3,448,909**	**8,958,205**	**3,470,352**	**9,013,901**	**3,532,683**	**9,175,800**
Liabilities						
Due to banks and other money market deposits	101,835	264,506	125,757	326,642	225,235	585,026
Customers' deposits and unrestricted investment accounts	2,487,325	6,460,584	2,461,267	6,392,901	2,399,361	6,232,107
Euro medium term notes	229,066	594,977	230,906	599,756	233,105	605,468
Other liabilities	81,374	211,361	73,347	190,512	80,062	207,953
Taxation	6,437	16,719	7,816	20,301	7,406	19,236
Subordinated debt	**25,000**	**64,935**	**25,000**	**64,935**	**49,100**	**127,532**
Total liabilities	**2,931,037**	**7,613,083**	**2,924,093**	**7,595,047**	**2,994,269**	**7,777,322**
Equity						
Share capital	162,595	422,325	154,852	402,213	147,478	383,060
Share premium	34,465	89,519	34,465	89,519	34,465	89,519
Legal reserve	51,617	134,070	51,617	134,070	49,159	127,686
Other non-distributable reserves	21,143	54,917	23,489	61,010	46,196	119,990
Proposed cash dividend	-	-	23,228	60,332	23,478	60,982
Proposed stock dividend	-	-	7,743	20,112	7,374	19,153
Retained earnings	132,552	344,291	135,365	351,598	114,764	298,088
Total shareholders' equity attributable to the equity holders of the Bank	**402,372**	**1,045,122**	**430,759**	**1,118,854**	**422,914**	**1,098,478**
Tier 1 perpetual bond	115,500	300,000	115,500	300,000	115,500	300,000
Total equity	**517,872**	**1,345,122**	**546,259**	**1,418,854**	**538,414**	**1,398,478**
Total liabilities, subordinated debt and equity	**3,448,909**	**8,958,205**	**3,470,352**	**9,013,901**	**3,532,683**	**9,175,800**

STATEMENT OF COMPREHENSIVE INCOME DATA

	For the six month period ended 30 June 2018 (unaudited)		For the year ended 31 December 2017		For the year ended 31 December 2016	
	RO'000	*USD'000*	*RO'000*	*USD'000*	*RO'000*	*USD'000*
Interest income	71,928	186,826	144,786	376,068	136,457	354,434

	For the six month period ended 30 June 2018 (unaudited)		For the year ended 31 December 2017		For the year ended 31 December 2016	
	RO'000	*USD'000*	*RO'000*	*USD'000*	*RO'000*	*USD'000*
Interest expense	(28,642)	(74,395)	(54,396)	(141,288)	(38,351)	(99,613)
Net interest income	43,286	112,431	90,390	234,780	98,106	254,821
Other operating income	19,103	49,618	39,199	101,816	34,548	89,735
Income from Islamic finance and investment activities	2,829	7,348	5,601	14,548	4,995	12,974
Unrestricted investment account holders share of profit	(1,660)	(4,312)	(3,061)	(7,951)	(1,536)	(3,990)
Net income from Islamic financing and Investment activities	1,169	3,036	2,540	6,597	3,459	8,984
OPERATING INCOME	63,558	165,086	132,129	343,193	136,113	353,540
Staff costs	(18,342)	(47,642)	(37,778)	(98,125)	(37,882)	(98,395)
Other operating expenses	(9,634)	(25,023)	(22,528)	(58,514)	(21,918)	(56,930)
Depreciation	(2,234)	(5,803)	(4,212)	(10,940)	(2,864)	(7,439)
Total operating expenses	(30,210)	(78,468)	(64,518)	(167,579)	(62,664)	(162,764)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX	33,348	86,618	67,611	175,614	73,449	190,776
Credit loss expense - customers' loan	(7,908)	(20,540)	(25,113)	(65,229)	(19,646)	(51,029)
Recoveries and releases from provision for credit losses	1,121	2,912	3,007	7,810	2,569	6,673
Recoveries from loans and advances written off	3,211	8,340	6,470	16,805	7,191	18,678
Impairment losses on available for sale investments	-	-	(688)	(1,787)	(210)	(545)
Credit loss (expense) / write back - bank loans	-	-	(26)	(68)	62	161
TOTAL IMPAIRMENT LOSSES (NET)	(3,576)	(9,288)	(16,350)	(42,469)	(10,034)	(26,062)
PROFIT BEFORE TAX	29,772	77,330	51,261	133,145	63,415	164,714
Taxation	(4,353)	(11,306)	(7,235)	(18,792)	(7,636)	(19,834)
PROFIT FOR THE YEAR	25,419	66,023	44,026	114,353	55,779	144,880
OTHER COMPREHENSIVE INCOME						
Items that will not be reclassified subsequently to profit or loss						
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income	(1,954)	(5,075)	-	-	-	-
Items that will be reclassified subsequently to profit or loss						
Debt instruments at fair value through other comprehensive income	(258)	(670)	-	-	-	-
Net movement on AFS investments	-	-	(3,729)	(9,686)	(1,153)	(2,995)
Tax effect of net results on FVOCI/AFS financial investments	(64)	(166)	122	317	(67)	(174)
OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR	(2,276)	(5,912)	(3,607)	(9,369)	(1,220)	(3,169)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR.	23,143	60,112	40,419	104,984	54,559	141,711

STATEMENT OF CHANGES IN EQUITY DATA

	Share Capital	Share premium	Legal reserve	Other non-distributable reserves	Proposed Cash Dividend	Proposed stock dividend	Retained earnings	Tier 1 Perpetual bond	Total
					(RO '000)				
Balance at 1 January 2018	154,852	34,465	51,617	23,489	23,228	7,743	135,365	115,500	546,259
Impact of adopting IFRS 9	-	-	-	(70)	-	-	(23,684)	-	(23,754)

	Share Capital	Share premium	Legal reserve	Other non-distributable reserves	Proposed Cash Dividend	Proposed stock dividend	Retained earnings	Tier 1 Perpetual bond	Total
					(RO '000)				
Restated opening balance under IFRS 9	154,852	34,465	51,617	23,419	23,228	7,743	111,681	115,500	522,505
Total comprehensive income for the year	-	-	-	(2,276)		-	25,419	-	23,143
Issue of shares..	7,743	-	-	-		(7,743)	-	-	-
Payment of tier 1 perpetual bond............	-	-	-	-		-	(4,548)	-	(4,548)
Dividend transferred to payable	-	-	-	-	(23,228)	-	-	-	(23,228)
Balance at 30 June 2018.......................	**162,595**	**34,465**	**51,617**	**21,143**	**-**	**-**	**132,552**	**115,500**	**517,872**
Balance at 1 January 2018 - in USD'000	402,213	89,519	134,070	61,010	60,332	20,112	351,597	300,000	1,418,854
Balance at 30 June 2018 - in USD'000 ...	422,325	89,519	134,070	54,917	-	-	344,291	300,000	1,345,122

	Share Capital	Share premium	Legal reserve	Other non-distributable reserves	Proposed Cash Dividend	Proposed stock dividend	Retained earnings	Tier 1 Perpetual bond	Total
					(RO '000)				
Balance at 1 January 2017...........	147,478	34,465	49,159	46,196	23,478	7,374	114,764	115,500	538,414
Total comprehensive income for the year	-	-	-	(3,607)	-	-	44,026	-	40,419
Issue of bonus shares	7,374	-	-	-	-	(7,374)	-	-	-
Dividend paid	-	-	-	-	(23,478)	-	-	-	(23,478)
Interest on tier 1 perpetual bond..	-	-	-	-	-	-	(9,096)	-	(9,096)
Transfer to retained earnings.......	-	-	-	(24,100)	-	-	24,100	-	-
Transfer to subordinated debts reserve....................................	-	-	-	5,000	-	-	(5,000)	-	-
Transfer to legal reserve.............	-	-	2,458	-	-	-	(2,458)	-	-
Proposed Dividend......................	-	-	-	-	23,228	7,743	(30,971)	-	-
Balance at 31 December 2017...	**154,852**	**34,465**	**51,617**	**23,489**	**23,228**	**7,743**	**135,365**	**115,500**	**546,259**
Balance at 1 January 2017 - in USD'000	383,060	89,519	127,686	119,990	60,982	19,153	298,088	300,000	1,398,478
Balance at 31 December 2017 - in USD'000	402,213	89,519	134,070	61,010	60,332	20,112	351,597	300,000	1,418,854

	Share Capital	Share premium	Legal reserve	Other non-distributable reserves	Proposed Cash Dividend	Proposed stock dividend	Retained earnings	Tier 1 Perpetual bond	Total
					(RO '000)				
Balance at 1 January 2016...........	134,071	34,465	47,737	40,596	22,792	13,407	106,089	115,500	514,657
Total comprehensive income for the year	-	-	-	(1,220)	-	-	55,779	-	54,559
Dividend paid	-	-	-	-	(22,792)	-	-	-	(22,792)
Issue of bonus shares	13,407	-	-	-	-	(13,407)	-	-	-
Interest on tier 1 perpetual bond..	-	-	-	-	-	-	(8,010)	-	(8,010)
Proposed dividend	-	-	-	-	23,478	7,374	(30,852)	-	-
Transfer to retained earnings.......	-	-	-	(3,000)	-	-	3,000	-	-
Transfer to subordinated debt reserve....................................	-	-	-	9,820	-	-	(9,820)	-	-
Transfer to legal reserve.............	-	-	1,422	-	-	-	(1,422)	-	-
Balance at 31 December 2016...	**147,478**	**34,465**	**49,159**	**46,196**	**23,478**	**7,374**	**114,764**	**115,500**	**538,414**
Balance at 1 January 2016 - in USD'000	348,236	89,519	123,992	105,444	59,200	34,823	275,556	300,000	1,336,771
Balance at 31 December 2016 - in USD'000	383,060	89,519	127,686	119,990	60,982	19,153	298,088	300,000	1,398,478

STATEMENT OF CASH FLOWS

	For the six month period ended 30 June 2018 (unaudited)		For the year ended 31 December 2017		For the year ended 31 December 2016	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
OPERATING ACTIVITIES						
Profit before taxation	29,772	77,330	51,261	133,145	63,415	164,714
Adjustments for:						
Depreciation	2,234	5,803	4,212	10,940	2,864	7,439
Provision for credit losses – customers' loans	7,908	20,540	25,113	65,229	19,646	51,029
Provision for credit losses (net)-due from banks	-	-	26	68	(62)	(161)
Impairment losses on available for sale investments	-	-	688	1,787	210	545
Profit on sale of equipment (net)	-	-	(1)	(3)	(12)	(31)
Profit on sale of investments	-	(283)	(1,859)	(4,829)	(1,712)	(4,447)
Investment income	(4,350)	(11,299)	(6,660)	(17,298)	(4,433)	(11,514)
Operating profit before changes in operating assets and liabilities	**35,455**	**92,091**	**72,780**	**189,039**	**79,916**	**207,574**
Due from banks and other money market placements	5,195	13,494	11,205	29,104	(14,654)	(38,062)
Due to banks and other money market deposits	(42,378)	(110,073)	(101,522)	(263,694)	86,649	225,062
Loans and advances to customers	(44,521)	(115,639)	(8,703)	(22,605)	(155,828)	(404,748)
Other assets	(7,761)	(20,158)	15,695	40,766	1,984	5,153
Customers' deposits	26,058	67,683	61,906	160,795	149,535	388,403
Euro medium term notes	-	-	-	-	38500	100000
Other liabilities	6,187	16,070	(8,915)	(23,156)	(1,258)	(3,268)
Cash from operations	(21,765)	(56,532)	42,446	110,249	184,844	480,114
Taxes paid	(5,740)	(14,909)	(7,438)	(19,319)	(8,608)	(22,358)
Net cash from operating activities	**(27,505)**	**(71,442)**	**35,008**	**90,930**	**176,236**	**457,756**
INVESTING ACTIVITIES						
Purchase of available-for-sale investments	(8,245)	(21,413)	(95,022)	(246,810)	(14,511)	(37,691)
Proceeds from sale of available-for-sale investments	-	283	37,762	98,083	43,293	112,449
Purchase of premises and equipment	(1,611)	(4,187)	(23,680)	(61,506)	(14,772)	(38,369)
Disposal of premises and equipment	13	34	21	55	98	255
Income from bond and other investments	3,573	9,281	5,317	13,810	3,675	9,545
Dividend income	777	2,018	1,343	3,488	758	1,969
Translation differences on premises and equipment and tax	9	23	(5)	(13)	(363)	(945)
Net cash (used in) / from investing activities	**(5,375)**	**(13,961)**	**(74,264)**	**(192,893)**	**18,178**	**47,213**
FINANCING ACTIVITIES						
Payment of dividend	(23,228)	(60,332)	(23,478)	(60,982)	(22,792)	(59,200)
Net movement in subordinated debt	-	-	(24,100)	(62,597)	(3,000)	(7,791)
Interest on Tier 1 perpetual bond	(4,548)	(11,813)	(9,096)	(23,626)	(8,010)	(20,805)
Net cash used in financing activities	**(27,776)**	**(72,145)**	**(56,674)**	**(147,205)**	**(33,802)**	**(87,796)**
(Decrease) / increase in cash and cash equivalents	(60,656)	(157,548)	(95,930)	(249,168)	160,612	417,173
Cash and cash equivalents at the beginning of the year	406,563	1,056,008	502,493	1,305,177	341,881	888,004
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**345,907**	**898,460**	**406,563**	**1,056,009**	**502,493**	**1,305,177**
REPRESENTING:						
Cash and balances with Central Banks	317,475	824,610	382,611	993,795	511,094	1,327,517

	For the six month period ended 30 June 2018 (unaudited)		For the year ended 31 December 2017		For the year ended 31 December 2016	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Deposits and balances with other banks and financial institutions (net)................................	28,432	73,849	23,952	62,214	(8,601)	(22,340)
	345,907	**898,460**	**406,563**	**1,056,009**	**502,493**	**1,305,177**

SELECTED FINANCIAL RATIOS

	As at	As at / for the year ended 31 December	
	30 June 2018	2017	2016
		(%)	
Return on average assets[1]	1.5	1.2	1.6
Return on average equity[2]	9.9	8.2	10.7
Net interest margin[3]...	3.2	3.3	3.5
Customers' deposits/total assets...	72.1	70.9	67.9
Cost to income ratio[4]	47.5	48.8	46.0
Non-performing financings ratio[5]..	3.8	3.5	2.2
Non-performing financings provisions ratio[6]	121.77	103.7	139.4
Capital adequacy ratio[7]..	15.9	17.3	17.4
Tier 1 capital ratio[8]..	15.2	16.1	16.0
Loans to Deposit ratio[9]..	107.2	107.8	111.3

1 Profit for the period (as annualised) /year divided by average total assets. Average total assets is the monthly average of total assets for the respective periods.
2 Profit for the period (as annualised) /year divided by average shareholders' equity attributable to the equity holders of the Bank. Average equity is the average of quarterly equity for the respective periods.
3 Overall effective annual yield less overall effective annual cost of Bank's funds.
4 Total operating expenses divided by operating income.
5 Stage 3 loans (For 30 June 2018) and Non-performing loans (For 31 December 2017/ 31 December 2016) net of reserved interest divided by gross loans and advances less reserved interest.
6 Allowance for credit losses (including credit provisions) divided by Stage 3 loans (For 30 June 2018) and Non-performing loans (For 31 December 2017/ 31 December 2016) net of reserved interest.
7 Calculated in accordance with Central Bank regulations. Ratio as at 31 December 2017 and 31 December 2016 are calculated including full year retained profits. Ratios as at 30 June 2018 is calculated without the interim profit and with opening IFRS 9 adjustment.
8 Calculated in accordance with Central Bank regulations. Ratio as at 31 December 2017 and 31 December 2016 are calculated including full year retained profits. Ratios as at 30 June 2018 is calculated without the interim profit and with opening IFRS 9 adjustment.
9 Loans, advances and financing activities for customers (net) divided by customers' deposits and unrestricted investment accounts.

RELATED PARTY TRANSACTIONS

Details of all transactions where a Board member and/or other related parties might have a potential interest are provided to the Board for their review and approval, and the interested Board member neither participates in the discussions, nor do they vote on such matters. On a half yearly basis, as at 30 June and 31 December of each financial year, the details of the related party transactions are produced and submitted to the Central Bank and other regulatory bodies for information and proper disclosure. Details of all the related party transactions are provided to the shareholders as part of the financial statements submitted for approval at the annual general meeting along with the statement that transactions are on an arm's length and independent basis and are reasonable.

In the ordinary course of business, the Bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties as at 30 June 2018, 31 December 2017 and 31 December 2016 are as follows.

	As at 30 June			As at 31 December					
	2018 (unaudited)			2017			2016		
	Principal share holders	Others	Total	Principal share holders	Others	Total	Principal share holders	Others	Total
					RO '000				
Loans and advances..	-	138,744	138,744	-	138,697	138,697	-	99,039	99,039
Customers deposits...	32,312	38,557	70,869	2,730	38,548	41,278	82,292	35,304	117,596
Due from banks........	121	9,625	9,746	156	9,625	9,781	55	13,668	13,723
Due to banks	411	-	411	427	-	427	28,917	-	28,917
Subordinated debt.....	14,500	3,000	17,500	14,500	3,000	17,500	14,500	4,000	18,500
Letter of credit, guarantees and acceptance................	2,553	8,809	11,362	3,057	8,765	11,822	118	5,348	5,466
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000	77,000	-	77,000
Risk indemnities received....................	-	-	-	-	-	-	422	-	422
Investment................	1,981	-	1,981	1,981	-	1,981	1,981	-	1,981

	As at 30 June			As at 31 December					
	2018			2017			2016		
	Principal share holders	Others	Total	Principal share holders	Others	Total	Principal share holders	Others	Total
					U.S.$'000				
Loans and advances.	-	360,374	360,374	-	360,252	360,252	-	257,244	257,244
Customers deposits..	83,927	100,148	184,075	7,091	100,125	107,216	213,745	91,699	305,444
Due from banks.......	314	25,000	25,314	405	25,000	25,405	143	35,501	35,644
Due to banks	1,068	-	1,068	1,109	-	1,109	75,109	-	75,109
Subordinated debt....	37,662	7,792	45,455	37,662	7,792	45,455	37,662	10,390	48,052
Letter of credit, guarantees and acceptance..............	6,631	22,881	29,512	7,940	22,766	30,706	306	13,891	14,197
Standby revolving credit facility	200,000	-	200,000	200,000	-	200,000	200,000	-	200,000
Risk indemnities received..................	-	-	-	-	-	-	1,096	-	1,096
Investment	5,145	-	5,145	5,145	-	5,145	4,982	-	4,982

The Bank's statement of comprehensive income includes the following amounts in relation to transactions with related parties for the six month period ended 30 June 2018 and the years ended 31 December 2017 and 31 December 2016.

	As at 30 June			As at 31 December					
	2018 (unaudited)			2017			2016		
	Principal share holders	Others	Total	Principal share holders	Others	Total	Principal share holders	Others	Total
					RO'000				
Interest income..................	16	4,149	4,165	40	6,275	6,315	-	3,165	3,165
Commission income..........	73	69	142	80	895	975	74	56	130
Interest expense.................	876	498	1,374	2,947	1,096	4,043	3,357	387	3,744
Other expenses..................	-	227	227	-	445	445	-	1,051	1,051

	As at 30 June			As at 31 December					
	2018 (unaudited)			2017			2016		
	Principal share holders	Others	Total	Principal share holders	Others	Total	Principal share holders	Others	Total
					U.S.$' 000				
Interest income	42	10,777	10,818	104	16,299	16,403	-	8,221	8,221
Commission income	190	179	369	208	2,325	2,531	192	145	337
Interest expense	2,275	1,294	3,569	7,655	2,847	10,502	8,719	1,005	9,724
Other expenses	-	590	590	-	1,156	1,156	-	2,730	2,730

The Bank's senior management compensation amounts are set out below for the six month period ended 30 June 2018 and the years ended 31 December 2017 and 31 December 2016.

Salaries and other short term benefits

	As at 30 June	As at 31 December	
	2018 (unaudited)	2017	2016
		RO '000	
Fixed	1,509	3,199	3,135
Discretionary	1,342	1,499	1,450
Total	**2,851**	**4,698**	**4,585**

	As at 30 June	As at 31 December	
	2018 (unaudited)	2017	2016
		U.S.$ '000	
Fixed	3,919	8,309	8,143
Discretionary	3,486	3,894	3,766
Total	**7,405**	**12,203**	**11,909**

FINANCIAL REVIEW

The following discussion contains an analysis of the audited results of operations of the Bank as at and for the years ended 31 December 2017 and 2016 and the unaudited results of operations of the Bank as at and for the six month period ended 30 June 2018 and 2017. The financial data disclosed in this financial review should be read in conjunction with the Bank's Financial Statements and the related notes thereto. Unless otherwise specified, the financial data discussed below has been extracted without material adjustment from the Bank's Financial Statements and the related notes thereto, as included elsewhere in this Base Prospectus. To present a consistent approach and for convenience only, the financial data for the years ended 31 December 2016 and 2017 and the six month period ended 30 June 2017 and 2018 has been translated from Omani Riyals to United States dollars using an exchange rate of U.S.$1 = RO 0.3850.

Overview

The Bank was established in the Sultanate of Oman in 1973 as a joint stock company (under registration no. 1003704) and is engaged in retail banking, wholesale banking and investment banking services.

As at 31 March 2018, the Bank was the third largest bank in Oman by total loans representing 11.18 per cent. of the total loans and 11.65 per cent of the total deposits of all banks in Oman (Source: Central Bank of Oman March 2018 Monthly Statistical Bulletin).

For the six month period ended 30 June 2018, the Bank achieved a profit of RO 25.4 million, representing a decrease of 2.4 per cent. compared to RO 26.1 million for the period ended 30 June 2017. For the year ended 31 December 2017, the Bank achieved a profit for the year of RO 44.0 million, compared to RO 55.8 million for the year ended 31 December 2016, a decrease of 21.1 per cent. Its total assets amounted to RO 3,448.9 million as at 30 June 2018, representing a decrease of 0.6 per cent. compared to RO 3,470.4 million as at 31 December 2017, which in turn constituted a decrease of 1.8 per cent. compared to RO 3,532.7 million as at 31 December 2016.

Total shareholders' equity attributable to the equity holders of the Bank amounted to RO 402.4 million as at 30 June 2018, representing a decrease of 6.6 per cent. as compared to RO 430.8 million as at 31 December 2017, which in turn constituted an increase of 1.9 per cent. from RO 422.9 million as at 31 December 2016.

Currently, the Bank is required to maintain a minimum total capital adequacy ratio of 12.875 per cent as per Central Bank of Oman’s guidelines. As at 30 June 2018, the Bank's total capital adequacy ratio was 15.9 per cent. after considering the IFRS 9 adjustments, compared to 17.34 per cent. as at 31 December 2017 and 17.4 per cent. as at 31 December 2016. The Bank's Tier 1 capital ratio was 15.2 per cent. as at 30 June 2018 compared to 16.1 per cent. as at 31 December 2017 and 16.0 per cent. as at 31 December 2016. Capital ratios as at 30 June 2018 are calculated without including interim profits, whereas capital ratios as at 31 December 2017 and 31 December 2016 are calculated to include full year retained profits.

As at 30 June 2018, the authorised ordinary share capital of the Bank comprised 2,000,000,000 ordinary shares of RO 0.100 each and the issued and fully paid-up ordinary share capital of the Bank comprised 1,626.0 million ordinary shares of RO 0.100 each. As at 30 June 2018, 34.9 per cent. of the Bank's issued share capital was held by Commercial Bank of Qatar. The Bank operates as one of Commercial Bank's "alliance banks", enabling it to partner with other alliance banks on specific cross- border/international transactions (see "*Description of The National Bank of Oman SAOG – Capital Structure – Commercial Bank*").

A discussion of the Bank's significant accounting policies is provided at Note 3 to the Bank's Financial Statements.

Significant Factors Affecting Results of Operations

The Bank's revenues and results of operations during the periods under review have been affected by the following factors:

Market yields and Cost of deposits

According to the Central Bank of Oman's monthly statistical bulletin, market yields increased from 4.83 per cent. in December 2016 to 5.04 per cent. in December 2017 and to 5.15 per cent. in May 2018. The cost of deposits increased from 1.42 per cent. in December 2016 to 1.59 per cent. in December 2017 and to

1.646 per cent. in May 2018 (Source: Central Bank of Oman May 2018 Monthly Statistical Bulletin, Central Bank of Oman December 2017 and December 2016 Monthly Statistical Bulletins). This is partially a result of the tightening liquidity and the efforts by the banks in repricing the loans.

Cost of funds

The cost of funds of the Bank significantly affects its profitability. The Bank's overall cost of funds increased significantly from 1.43 per cent. for the year ended 31 December 2016 to 1.95 per cent. during the year ended 31 December 2017, and further increased to 2.14 per cent. during the six month period ended 30 June 2018, principally due to rising global interest rates which resulted in an increase in borrowing costs in Oman during these periods. The average CBO repo rate was 1.02 per cent. during 2016 while it increased to 1.59 per cent. in 2017 reflecting an increase of 55 per cent., which in turn increased to 2.35 per cent. in the first half of 2018, representing an increase of 48 per cent. Similarly, average 3 month USD LIBOR (indicative of interbank borrowing cost) increased from an average of 0.74 per cent. during 2016 to 1.26 per cent. during 2017, reflecting an increase of 69 per cent which in turn increased to 2.17 per cent. in the first half of 2018, representing an increase of 72 per cent. Accordingly, the Bank's cost of funds from both customer and interbank sources increased between 2016 and 2018.

Asset volume shrinkage in UAE

The Bank's assets in UAE reduced to RO 106.9 million as at 30 June 2018 from RO 153.7 million as at 31 December 2017, which in turn reduced substantially from RO 262.0 million as at 31 December 2016. The reduction in volume in the six month period ended 30 June 2018 and in the year ended 31 December 2017 was principally as a result of the Bank's decision to exit certain high risk accounts due to the prevailing operating environment in UAE.

Credit loss expenses

The Bank experienced volatility in net credit loss expenses in the years ended 31 December 2016 and 31 December 2017. The Bank had to take higher provisions in its UAE operations due to customer frauds. The Bank has since taken several steps to improve its internal control process, which also resulted in exiting certain high risk customers. In 2018, the Bank adopted IFRS 9 (with a transition date of 1 January 2018) which resulted in certain changes in accounting policies and adjustments to the amounts recognised in the financial statements. For more information see "*– Impairment charges & provisions held*". This is discussed in more detail below.

Central Bank of Oman regulatory guidelines (2012 - 2018)

The Central Bank of Oman's regulatory guidelines issued in 2012 reduced the debt burden ratio for individuals (the ratio of equated monthly instalment to borrowers' income) from 65 per cent. to 50 per cent. The Bank is required to undertake diligence to ensure that this limit is not surpassed when entering into new loan agreements. Central Bank of Oman guidelines also:

- reduced the permitted interest rate cap on loans from banks to individuals from 8 per cent. to 6 per cent.;
- reduced the Bank's lending limit (excluding mortgages) from 40 per cent. to 35 per cent. of gross loans and advances;
- limited the tenor of unsecured loans to individual clients to a maximum of 10 years; and
- limited the services charges on insurance premium charged to the customers.
- These guidelines have had a negative impact on the Bank's retail earnings since 2012. See "*The Sultanate of Oman Banking System and Prudential Regulations*".

Furthermore, in March 2018, CBO issued a range of regulatory amendments which are expected to strengthen the capacity of the banks operating in the Sultanate of Oman to continue providing liquidity and granting credit to various projects which, in turn, is expected to stimulate economic growth in 2018, including:

- Capital Adequacy – Capital adequacy ratio reduced from 12 per cent. to 11 per cent, by reduction to Tier 2 capital requirements.

- Lending Ratio - Local inter-bank net borrowing to be included in the lending ratio calculation. This will have the impact of extending more credit by the banking sector.

- Risk Weighted Assets – Removed the regulatory restrictions imposed on the risk weights to claims on sovereign and central banks. This requirement will enable banks to invest surpluses in good quality sovereign debts.

- Maturity Adjusted Liabilities - Increased the limit for the required liquidity gap maturities (as a percentage of cumulative liabilities) on all currencies from -15 per cent. to -20 per cent. for the 3 to 6 month and -25 per cent. for 6 to 12 month maturities. This is aimed at reducing the funding costs of banks from present levels.

- Non-Resident Limit - Increased the limit of credit exposure to non-residents and placement of banks' funds abroad to banks' local net worth from 50 per cent. to 75 per cent. This regulation will enable banks to invest their surplus foreign currencies in good overseas credits.

Results of operations for the six month period ended 30 June 2017 and 30 June 2018

Operating income

The following table sets out the principal components of the Bank's operating income for each period indicated.

	For the six month period ended 30 June (unaudited)				Percentage change
	2018		2017		2018/2017
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Interest income	71,928	186,826	72,502	188,317	(0.8)
Interest expense	(28,642)	(74,395)	(27,104)	(70,400)	5.7
Net interest income	**43,286**	**112,431**	**45,398**	**117,917**	**(4.7)**
Net income from Islamic financing and investment activities	1,169	3,036	1,517	3,940	(22.9)
Other operating income	19,103	49,618	18,743	48,683	1.9
Total operating income	**63,558**	**165,086**	**65,658**	**170,540**	**(3.2)**

The Bank's total operating income decreased by 3.2 per cent. to RO 63.6 million for the six month period ended 30 June 2018 compared to RO 65.7 million for the six month period ended 30 June 2017. This decrease was principally due to lower revenues due to asset shrinkage in UAE operations and increase in interest expenses in the Bank's Oman operations.

Interest income

The Bank's interest income decreased by 0.8 per cent. to RO 71.9 million for the six month period ended 30 June 2018 compared to RO 72.5 million for the six month period ended 30 June 2017. While Interest income increased in the Bank's Oman operations by 3.5 per cent. there was a 58.5 per cent. reduction in interest income in the Bank's UAE operations due to asset shrinkage, resulting in overall reduction in interest income for the Bank by 0.8 per cent.

Interest expense

The Bank's interest expense increased by 5.7 per cent. to RO 28.6 million for the six month period ended 30 June 2018 from RO 27.1 million for the six month period ended 30 June 2017. This increase was principally a result of a rise in the Bank's cost of funds. While interest expenses increased by 8.7 per cent. in Oman, it was partially offset by lower interest expenses in UAE, resulting in overall increase in interest expenses for the Bank.

Net income from Islamic financing and investment activities

The Bank's net income from Islamic financing and investment activities amounted to RO 1.2 million for the six month period ended 30 June 2018 compared to RO 1.5 million for the six month period ended 30 June 2017. This decrease was principally a result of a rise in the Bank's cost of funds.

Other operating income

The Bank's other operating income increased by 1.9 per cent. to RO 19.1 million for the six month period ended 30 June 2018 compared to RO 18.7 million for the six month period ended 30 June 2017, primarily due to increase in loan origination fees, income from investment in bonds, income from service charges, and net gains from foreign exchange dealing.

Operating expenses

The following table sets out the principal components of the Bank's total operating expenses for each period indicated.

	For the six month period ended 30 June (unaudited)				Percentage change
	2018		2017		2018/2017
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Staff costs	18,342	47,642	17,698	45,969	3.6
Other operating expenses	9,634	25,023	11,055	28,714	(12.9)
Depreciation	2,234	5,803	1,735	4,506	28.8
Total operating expenses	**30,210**	**78,468**	**30,488**	**79,190**	**(0.9)**

The Bank's total operating expenses decreased by 0.9 per cent. to RO 30.2 million for the six month period ended 30 June 2018 compared to RO 30.5 million for the six month period ended 30 June 2017. This decrease was principally a result of a decrease in other operating expenses.

Staff costs

The Bank's staff costs increased by 3.6 per cent. to RO 18.3 million for the six month period ended 30 June 2018 compared to RO 17.7 million for the six month period ended 30 June 2017 principally as a result of mandatory salary increases as per local regulations.

Other operating expenses

The Bank's other operating expenses decreased by 12.9 per cent. to RO 9.6 million for the six month period ended 30 June 2018 compared to RO 11.1 million for the six month period ended 30 June 2017. This decrease was principally a result of a decrease in establishment costs and operating and administration expenses.

Depreciation

The Bank's depreciation increased by 28.8 per cent. to RO 2.2 million for the six month period ended 30 June 2018 compared to RO 1.7 million for the six month period ended 30 June 2017. This increase was principally a result of the depreciation of the new head office building.

Impairment charges & provisions held

The following table sets out the principal components of the Bank's net total impairment losses for each year indicated.

	For the six month period ended 30 June (unaudited)				Percentage change
	2018		2017		2018/2017
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Credit loss expense – customer loans	(7,908)	(20,540)	(9,810)	(25,481)	(19.4)
Recoveries and releases from provision for credit losses	1,121	2,912	1,673	4,345	(33.0)
Recoveries and releases from loans and advances written off	3,211	8,340	3,162	8,213	1.5
Others	-	-	(18)	(47)	(100.0)
Total impairment losses (net)	**(3,576)**	**(9,288)**	**(4,993)**	**(12,969)**	**(28.4)**

The Bank's total impairment losses reduced by 28.4 per cent. to RO 3.6 million for the six month period ended 30 June 2018 compared to RO 5.0 million for the six month period ended 30 June 2017. The variances are explained in the sections below;

Credit loss expense - customers loans

The Bank's credit loss expense - customer loans reduced by 19.4 per cent. to RO 7.9 million for the six month period ended 30 June 2018 compared to RO 9.8 million for the six month period ended 30 June 2017. For the six month period ended 30 June 2017 the Bank has created substantial loan loss provisioning owing to delinquencies in UAE loans and advances. Comparatively the provisioning requirement for the six month period ended 30 June 2018 was lower as the delinquencies were kept under control. Further, the Bank has adopted new standards on IFRS 9 effective from 1 January 2018. This has made a paradigm shift in the credit loss provisioning. The Bank has completed a very conservative implementation of IFRS 9 which it believes is appropriate for the current uncertain market condition.

Recoveries and releases from provision for credit losses

The Bank's recoveries and releases from provision for credit losses decreased by 33.0 per cent. to RO 1.1 million for the six month period ended 30 June 2018 compared to RO 1.7 million for the six month period ended 30 June 2017. This variance represents less corporate recoveries in the six month period ended 30 June 2018 compared to the six month period ended 30 June 2017, as explained above at *"Significant Factors Affecting Results of Operations"*.

Recoveries from loans and advances written off

The Bank's recoveries from loans and advances written off marginally increased by 1.5 per cent. to RO 3.21 million for the six month period ended 30 June 2018 compared to RO 3.16 million for the six month period ended 30 June 2017. This is as a result of an improved recoveries from the Bank's portfolio of retail debts written off.

Profit for the period

As a result of the foregoing, the Bank's profit for the six month period ended 30 June 2018 amounted to RO 25.4 million compared to RO 26.1 million for the six month period ended 30 June 2017, representing a decrease of 2.4 per cent.

Total comprehensive income for the period

The following table sets out the principal components of the Bank's profit for each period indicated.

	For the six month period ended 30 June (unaudited)				Percentage change
	2018		2017		2018/2017
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Profit for the period	25,419	66,023	26,057	67,681	(2.4)
Other comprehensive income/(expense) for the period	(2,276)	(5,912)	(2,983)	(7,748)	(23.7)
Total comprehensive income for the period	**23,143**	**60,112**	**23,074**	**59,932**	**0.3**

The Bank's total comprehensive income increased by 0.3 per cent. to RO 23.1 million for the six month period ended 30 June 2018 compared to RO 23.1 million for the six month period ended 30 June 2017. This increase was principally a result of a decrease in other comprehensive expenses during the period.

Results of operations for the years ended 31 December 2016 and 31 December 2017

Operating income

The following table sets out the principal components of the Bank's operating income for each year indicated.

	For the year ended 31 December				Percentage change
	2017		2016		2017/2016
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Interest income	144,786	376,068	136,457	354,434	6.1
Interest expense	(54,396)	(141,288)	(38,351)	(99,613)	41.8
Net interest income	**90,390**	**234,780**	**98,106**	**254,821**	**(7.9)**
Net income from Islamic financing and investment activities	2,540	6,597	3,459	8,984	(26.6)
Other operating income	39,199	101,816	34,548	89,735	13.5
Total operating income	**132,129**	**343,193**	**136,113**	**353,540**	**(2.9)**

The Bank's total operating income decreased by 2.9 per cent. to RO 132.1 million for the year ended 31 December 2017 compared to RO 136.1 million for the year ended 31 December 2016. This decrease was principally a result of lower revenues in the Bank's UAE operations due to the shrinkage of the Bank's loan book, higher interest expense (reflecting the Bank's higher cost of funds during this period) and lower net income from Islamic financing and investment activities, which was partially offset by an increase in other operating income.

Interest income

The Bank's interest income increased by 6.1 per cent. to RO 144.8 million for the year ended 31 December 2017 compared to RO 136.5 million for the year ended 31 December 2016. While the interest income increased in Oman by 8.4 per cent., there was a reduction in the UAE due to lower asset volumes. The Bank was able to increase its interest income despite low incremental loan volume by maintaining the highest loan spreads among its competitors.

The overall effective annual yield for the year ended 31 December 2017 was 5.2 per cent. (compared to 4.9 per cent. for the year ended 31 December 2016).

Interest expense

The Bank's interest expense increased by 41.8 per cent. to RO 54.4 million for the year ended 31 December 2017 from RO 38.4 million for the year ended 31 December 2016. For the year ended 31 December 2017, the average overall effective annual cost of the Bank's funds was 1.95 per cent. (compared to 1.43 per cent. for the year ended 31 December 2016). This increase in the Bank's cost of funds was principally a result of an increase in interest rates across the sector. To minimise deposit costs, the Bank has continued to obtain low cost deposits and diversify its deposit base.

Net income from Islamic financing and investment activities

The Bank's net income from Islamic financing and investment activities amounted to RO 2.5 million for the year ended 31 December 2017 compared to RO 3.5 million for the year ended 31 December 2016. This decrease was principally a result of a rise in the Bank's cost of funds.

Other operating income

The Bank's other operating income increased by 13.5 per cent. to RO 39.2 million for the year ended 31 December 2017 compared to RO 34.5 million for the year ended 31 December 2016, primarily due to the Bank's continued effort to diversify its non-fund based sources of income. The Bank benefited from growth in the income generated by its trade related activities, income from point of sale and other alternative channels, fee based income from corporate loan origination and syndications, gain on foreign exchange dealings and income from investment activities such as dividend income and profit on sale of investment.

Operating expenses

The following table sets out the principal components of the Bank's total operating expenses for each year indicated.

	For the year ended 31 December				**Percentage change**
	2017		**2016**		**2017/2016**
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Staff costs..	37,778	98,125	37,882	98,395	(0.3)
Other operating expenses	22,528	58,514	21,918	56,930	2.8
Depreciation..	4,212	10,940	2,864	7,439	47.1
Total operating expenses............................	**64,518**	**167,579**	**62,664**	**162,764**	**3.0**

The Bank's total operating expenses increased by 3.0 per cent. to RO 64.5 million for the year ended 31 December 2017 compared to RO 62.7 million for the year ended 31 December 2016. This increase was principally a result of higher depreciation and other operating expenses.

Staff costs

The Bank's staff costs decreased by 0.3 per cent. to RO 37.8 million for the year ended 31 December 2017 compared to RO 37.9 million for the year ended 31 December 2016.

Other operating expenses

The Bank's other operating expenses increased by 2.8 per cent. to RO 22.5 million for the year ended 31 December 2017 compared to RO 21.9 million for the year ended 31 December 2016. This increase was principally a result of increased operating and administration costs driven by an increase in publicity, combined with higher rental expenses due to inflation indexed rental increases.

Depreciation

The Bank's depreciation increased by 47.1 per cent. to RO 4.2 million for the year ended 31 December 2017 compared to RO 2.9 million for the year ended 31 December 2016. This increase was principally due to capitalisation of the Bank's new head office in 2017.

Total impairment losses (net)

The following table sets out the principal components of the Bank's net total impairment losses for each year indicated.

	For the year ended 31 December				Percentage change
	2017		2016		2017/2016
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Credit loss expense - customers' loan	(25,113)	(65,229)	(19,646)	(51,029)	27.8
Recoveries and releases from provision for credit losses	3,007	7,810	2,569	6,673	17.0
Recoveries from loans and advances written off	6,470	16,805	7,191	18,678	(10.0)
Impairment losses on available for sale investments	(688)	(1,787)	(210)	(545)	227.6
Credit loss expense - bank loans	(26)	(68)	62	161	(141.9)
Total impairment losses (net)	**(16,350)**	**(42,469)**	**(10,034)**	**(26,062)**	**62.9**

The Bank's total impairment losses increased by 62.9 per cent. to RO 16.4 million for the year ended 31 December 2017 compared to RO 10.0 million for the year ended 31 December 2016. This adverse variance arises due to elevated provisions in the Bank's UAW loan book and lower recoveries in Oman.

The following table sets out the Bank's specific provisions, general provisions and reserved interest balances as at 31 December 2017 and 31 December 2016.

	As at 31 December			
	2017		2016	
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*
Specific Impairment	63,942	166,083	47,028	122,151
Collective Impairment	36,842	95,693	38,344	99,594
Reserved Interest	15,747	40,902	12,643	32,839

Credit loss expense - customers' loan

The Bank's credit loss expense - customers' loan increased by 27.8 per cent. to RO 25.1 million for the year ended 31 December 2017 compared to RO 19.6 million for the year ended 31 December 2016. This increase was principally a result of an increase in specific provisions on the Bank's UAE loans as well as an increase in collective provisions on the Bank's loans in Oman.

Recoveries and releases from provision for credit losses

The Bank's recoveries and releases from provision for credit losses increased by 17.0 per cent. to RO 3.0 million for the year ended 31 December 2017 compared to RO 2.6 million for the year ended 31 December 2016. This variance represents more corporate recoveries in the year ended 31 December 2017 compared to the year ended 31 December 2016, as explained above at *"Significant Factors Affecting Results of Operations"*.

Recoveries from loans and advances written off

The Bank's recoveries from loans and advances written off decreased by 10.0 per cent. to RO 6.5 million for the year ended 31 December 2017 compared to RO 7.2 million for the year ended 31 December 2016. This is as a result of a decline in recoveries from the Bank's portfolio of retail debts written off.

Impairment losses on available for sale investments

The Bank's impairment losses on available for sale investments increased to RO 0.7 million for the year ended 31 December 2017 compared to RO 0.2 million for the year ended 31 December 2016. This increase was principally a result of negative marked to market movement of the Bank's impaired investments.

Credit loss expense - bank loans

The Bank's credit loss expense - bank loans amounted to an expense of RO 26 thousand for the year ended 31 December 2017, compared to a release of RO 62 thousand for the year ended 31 December 2016. Central Bank of Oman requires that banks maintain general provision on loans to other banks. The charge and the release represent the movement in such general provision.

Profit for the year

As a result of the foregoing, the Bank's profit for the year ended 31 December 2017 amounted to RO 44.0 million compared to RO 55.8 million for the year ended 31 December 2016, representing a decrease of 21.1 per cent.

Total comprehensive income for the year

The following table sets out the principal components of the Bank's profit for each year indicated.

	For the year ended 31 December				Percentage change
	2017		2016		2017/2016
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Profit for the year	44,026	114,353	55,779	144,880	(21.1)
Other comprehensive income/(expense) for the year	(3,607)	(9,369)	(1,220)	(3,169)	195.7
Total comprehensive income for the year	**40,419**	**104,984**	**54,559**	**141,711**	**(25.9)**

The Bank's total comprehensive income for the year decreased by 25.9 per cent. to RO 40.4 million for the year ended 31 December 2017 compared to RO 54.6 million for the year ended 31 December 2016. This decrease was principally a result of the decrease in profit for the year and negative marked to market movement in the available for sale portfolio.

Financial condition as at 31 December 2016, 31 December 2017 and 30 June 2018

The following table sets out a breakdown of the principal components of the Bank's total assets as at the relevant dates.

Total Assets

	As at 30 June		As at 31 December				Percentage Change	
	2018 (unaudited)		2017		2016		2018/2017	2017/2016
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	*%*
Cash and balances with Central Banks	317,975	825,909	383,111	995,094	511,594	1,328,816	(17.0)	(25.1)
Due from banks and other money market placements (net)	155,677	404,356	138,670	360,182	115,330	299,558	12.3	20.2
Loans, advances and financing activities for customers (net)..	2,667,598	6,928,826	2,653,871	6,893,171	2,670,281	6,935,795	0.5	(0.6)
Financial investments	189,019	490,958	183,120	475,636	128,383	333,462	3.2	42.6
Premises and equipment..........	65,158	169,242	65,795	170,896	46,345	120,377	(1.0)	42.0
Other assets	53,482	138,914	45,785	118,922	60,750	157,792	16.8	(24.6)
Total assets	**3,448,909**	**8,958,205**	**3,470,352**	**9,013,901**	**3,532,683**	**9,175,800**	**(0.6)**	**(1.8)**

As at 30 June 2018, the Bank's total assets decreased by 0.6 per cent. to RO 3,448.9 million compared to RO 3,470.4 million as at 31 December 2017, which in turn constituted a 1.8 per cent. decrease compared to RO 3,532.7 million as at 31 December 2016.

The 0.6 per cent. decrease in total assets as at 30 June 2018 compared with 31 December 2017 and 31 December 2016 was primarily a result of the movement in cash and balances with CBO. The 1.8 per cent. decrease in assets as at 31 December 2017 compared with 31 December 2016 was primarily a result of decreases in cash and bank balances with Central Banks.

Cash and balances with Central Banks

As at 30 June 2018, the Bank's cash and balances with Central Banks amounted to RO 318.0 million compared to RO 383.1 million as at 31 December 2017, representing a decrease of 17.0 per cent., which in turn constituted a decrease of 25.1 per cent. compared to RO 511.6 million as at 31 December 2016. The 17.0 per cent. decrease in cash and balances with Central Banks as at 30 June 2018 was principally a result of investment of cash and balances in government development bonds and money market placements, which are high quality liquid assets with attractive yields. The decrease of 25.1 per cent. in cash and balances with Central Banks as at 31 December 2017, was due to the Central Bank of Oman amending reserve requirements on 30 March 2016 from requiring banks to hold 5 per cent. of deposit as cash to allowing banks to hold 3 per cent. of deposits as cash and 2 per cent. of deposits in the form of Government treasury bills, development bonds and sukuks. Accordingly, in 2017 the Bank transferred funds previously held as cash to Government development bonds which have a higher yield compared to cash, Government treasury bills and sukuks. In addition, the Bank has reduced its dues to banks and other deposits (See – *Liabilities – Due to Banks & Other Money Market Deposits*) which further led to the reduction in the cash position of the Bank.

Due from banks and other money market placements (net)

Amounts due from banks and other money market placements increased by 12.3 per cent. to RO 155.7 million as at 30 June 2018 compared to RO 138.7 million as at 31 December 2017, which in turn constituted an increase of 20.2 per cent. compared to RO 115.3 million as at 31 December 2016. The 12.3 per cent. increase in amounts due from banks and other money market placements as at 30 June 2018 was principally a result of reallocation from balances with the CBO, which are non-interest bearing. The 20.2 per cent increase in amounts due from banks and other money market placements as at 31 December 2017 was principally as a result of an increase in placement with banks and demand balances.

Loans, advances and financing activities for customers (net)

As at 30 June 2018, the Bank's loans, advances and financing activities for customers (net) amounted to RO 2,667.6 million as compared to RO 2,653.9 million as at 31 December 2017, representing an increase of 0.5 per cent., which in turn constituted a decrease of 0.6 per cent. compared to RO 2,670.3 million as at 31 December 2016. The increase in the Bank's loans, advances and financing activities for customers (net) as at 30 June 2018 was primarily a result of increases in both retail and corporate loans partially offset by increases in credit allowances due to the adoption of IFRS 9. The decrease in the Bank's loans, advances and financing activities for customers (net) as at 31 December 2017 was primarily a result of a reduction in the Bank's UAE loan portfolio to RO 107.7 million in the year ended 31 December 2017 from RO 203.2 million in the year ended 31 December 2016 offsetting the increase in the Bank's Oman loan portfolio to RO 2,537.2 million as at 31 December 2017 from RO 2,434.0 million as at 31 December 2016.

A further discussion of the Bank's loans, advances and financing activities is provided at Note 6 to the Bank's Annual Financial Statements for 2017 and 2016 and Note 5 to the Bank's interim condensed financial statements for the period ended 30 June 2018.

Types of loans, advances and activities

The following table sets out a breakdown of the type of the Bank's loans, advances and activities as at the relevant dates.

	As at 30 June (unaudited)		**As at 31 December**				**Percentage Change**	
	2018		**2017**		**2016**		**2018/ 2017**	**2017/ 2016**
	RO'000	*U.S.$ '000*	*RO'000*	*U.S.$ '000*	*RO'000*	*U.S.$ '000*	*%*	*%*
Overdrafts	93,060	241,714	99,990	259,714	87,419	227,062	(6.9)	14.4
Personal loans	1,372,983	3,566,190	1,360,285	3,533,208	1,339,213	3,478,474	0.9	1.6
Corporate and other loans......	1,338,970	3,477,844	1,310,127	3,402,927	1,341,664	3,484,843	2.2	(2.4)
Gross loans and advances......	2,805,013	7,285,748	2,770,402	7,195,849	2,768,296	7,190,379	1.2	0.1
Less: Allowance for credit losses and reserved interest	(137,415)	(356,922)	(116,531)	(302,678)	(98,015)	(254,584)	17.9	18.9
Net loans and advances.......	**2,667,598**	**6,928,826**	**2,653,871**	**6,893,171**	**2,670,281**	**6,935,795**	**0.5**	**(0.6)**

Loans, advances and financing activities by sector

The Bank has a diversified portfolio of loans, advances and financing activities to retail, corporate customers across a range of economic sectors on both a conventional and an Islamic basis. The following table sets out the Bank's gross loans and advances by sector as at the relevant dates.

	As at 30 June			**As at 31 December**					
	2018 (unaudited)			**2017**			**2016**		
	RO '000	*U.S.$ '000*	*%*	*RO '000*	*U.S.$ '000*	*%*	*RO '000*	*U.S.$ '000*	*%*
Personal.......................	1,372,936	3,566,068	48.9	1,360,285	3,533,207	49.1	1,339,213	3,478,474	48.4
Service	249,929	649,166	8.9	265,771	690,314	9.6	289,323	751,488	10.5
Construction................	189,172	491,356	6.7	193,337	502,174	7.0	243,184	631,647	8.8
Manufacturing.............	193,340	502,182	6.9	191,183	496,579	6.9	224,775	583,831	8.1
Financial institutions	210,766	547,444	7.5	188,844	490,504	6.8	156,253	405,852	5.6
Electricity, gas and water	187,387	486,719	6.7	166,249	431,816	6.0	41,640	108,156	1.5
Wholesale and retail trade.........................	153,582	398,914	5.5	146,184	379,699	5.3	152,776	396,821	5.5
Others..........................	88,665	230,299	3.2	106,115	275,624	3.8	125,870	326,936	4.5
Mining and quarrying...	77,699	201,816	2.8	76,790	199,455	2.8	56,902	147,797	2,1
Import trade.................	55,858	145,086	2.0	57,313	148,865	2.1	83,738	217,501	3.0
Transport and communication	20,025	52,013	0.7	11,614	30,166	0.4	46,447	120,642	1.7
Agriculture	4,829	12,543	0.2	5,737	14,901	0.2	7,147	18,564	0.3

	As at 30 June			As at 31 December					
	2018 (unaudited)			2017			2016		
	RO '000	*U.S.$ '000*	*%*	*RO '000*	*U.S.$ '000*	*%*	*RO '000*	*U.S.$ '000*	*%*
Government.................	829	2,153	0.0	980	2545	0.0	1,028	2,670	0.0
Gross loans and advances	**2,805,017**	**7,285,759**	**100.0**	**2,770,402**	**7,195,849**	**100.0**	**2,768,296**	**7,190,379**	**100.0**

Impairment provisions

Impairment of financial assets

At each relevant reporting date, the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include:

- indications that the borrower or a group of borrowers is experiencing significant financial difficulty
- default or delinquency in interest or principal payments;
- the probability that they will enter bankruptcy or other financial reorganisation,
- and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If such evidence exists, the impairment loss is recognised in the profit or loss for the year.

Loans and advances

For amounts due from banks and loans and advances to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, 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 has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 profit or loss for the year. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Recoveries from loans and advances written off'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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. 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. Provisions raised if any, are written back to profit and loss account after payment of twelve instalments without default after restructure in case of retail loans, and with respect to corporate loans, as agreed with the Central Bank of Oman.

An analysis of the credit quality of the Bank's loan and advances is set out below as at the relevant dates:

	Performing loans (neither Past due nor impaired)	Loans past due and not impaired	Non-performing loans	Gross loans
Balance as at 31 December 2017 – RO'000's	2,524,594	132,880	112,928	2,770,402
Balance as at 31 December 2017 – U.S.$'000s............	6,557,388	345,143	293,319	7,195,850
Balance as at 31 December 2016 – RO'000's	2,503,590	190,843	73,863	2,768,296
Balance as at 31 December 2016 – U.S.$'000s............	6,502,831	495,696	191,852	7,190,379

An ageing analysis of the Bank's loans and advances to customers (net) which are past due but not impaired is set out below as at the relevant dates:

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
31 December 2017 – RO'000's..................................	36,853	55,612	40,415	132,880
31 December 2017 – U.S.$000s................................	95,722	144,447	104,974	345,143
31 December 2016 – RO'000's..................................	42,539	53,307	94,997	190,843
31 December 2016 – U.S.$000s................................	110,491	138,460	246,745	495,696

Analysis of loans and provisions are presented as below as at the relevant dates:

	As at 30 June		As at 31 December			
	2018 (unaudited)		2017		2016	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Gross loans..	2,805,013	7,285,748	2,770,402	7,195,849	2,768,296	7,190,379
Reserve interest...	(19,176)	(49,808)	(15,747)	(40,902)	(12,643)	(32,839)
Loans net of reserve interest.........................	2,785,837	7,235,940	2,754,655	7,154,947	2,755,653	7,157,540
Non-performing loans	123,687	321,265	112,928	293,319	73,863	191,852
Reserve interest...	(19,176)	(49.808)	(15,747)	(40,902)	(12,643)	(32,839)
Non-performing loans net of reserve interest..	**104,511**	**271,457**	**97,181**	**252,417**	**61,220**	**159,013**

Financial investments

As at 30 June 2018, the Bank's financial investments increased by 3.2 per cent. to RO 189.0 million compared to RO 183.1 million as at 31 December 2017, which in turn constituted an increase of 42.6 per cent. as compared to RO 128.4 million as at 31 December 2016. As at 30 June 2018, the financial investments included investments in Oman Government Development bonds of RO 144.6 million and in equity shares and bonds, primarily listed in Oman and GCC countries, of RO 44.7 million.

Other assets

Other assets comprise receivables, accrued interest, customer acceptances, prepayments, fair value of derivatives and various overnight items due for collection. As at 30 June 2018, the Bank's other assets increased by 16.8 per cent. to RO 53.5 million as compared to RO 45.8 million as at 31 December 2017, which in turn constitutes a decrease of 24.6 per cent. from RO 60.8 million as at 31 December 2016. The increase in other assets as at 30 June 2018 is primarily a result of an increase in interest receivables during the period. The decrease in other assets as at 31 December 2017 is primarily a result of a decrease in interest receivable, fair value of derivatives and an increase in customers' indebtedness for acceptances.

Total Liabilities

The following table sets out a breakdown of the Bank's total liabilities as at the relevant dates.

	As at 30 June		As at 31 December				Percentage Change	
	2018 (unaudited)		2017		2016		2018/2017	2017/2016
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	*%*
Due to banks and other deposits.........	101,835	264,506	125,757	326,642	225,235	585,026	(19.0)	(44.2)
Customers' deposits and unrestricted investment accounts................	2,487,325	6,460,584	2,461,267	6,392,901	2,399,361	6,232,107	1.1	2.6
Euro medium term notes	229,066	594,977	230,906	599,756	233,105	605,468	(0.8)	(0.9)
Other liabilities..........	81,374	211,361	73,347	190,512	80,062	207,953	10.9	(8.4)
Taxation Liabilities ...	6,437	16,719	7,816	20,301	7,406	19,236	(17.6)	5.5
Total liabilities.........	**2,906,037**	**7,548,148**	**2,899,093**	**7,530,112**	**2,945,169**	**7,649,790**	**0.2**	**(1.6)**

As at 30 June 2018, the Bank's total liabilities amounted to RO 2,906.0 million compared to RO 2,899.1 million as at 31 December 2017, representing an increase of 0.2 per cent., which in turn constitutes a decrease of 1.6 per cent. as compared to RO 2,945.2 million as at 31 December 2016.

The increase in total liabilities as at 30 June 2018 was principally due to an increase in customer deposits and unrestricted investment accounts and other liabilities. The decrease in total liabilities as at 31 December 2017 was primarily as a result of decreases in amounts due to banks and other deposits, and other liabilities, respectively.

The Bank's customers' deposits and unrestricted investment accounts and due to banks (representing deposits placed by other banks with the Bank) and other money market deposits amounted to RO 2,589.2 million as at 30 June 2018, RO 2,587.0 million as at 31 December 2017 and RO 2,624.6 million as at 31 December 2016. Of these amounts, customers' deposits and unrestricted investment accounts amounted to RO 2,487.3 million as at 30 June 2018, RO 2,461.3 million as at 31 December 2017 and RO 2,399.4 million as at 31 December 2016 and represented 96.1 per cent., 95.1 per cent. and 91.4 per cent., respectively, of the Bank's total customers' deposits and unrestricted investment accounts and due to banks and other money market deposits. As at 30 June 2018, 31 December 2017 and 31 December 2016, the concentration of the Bank's customers' deposits and other money market deposits to its 20 largest depositors was 35.9 per cent. (RO 892.1 million), 34.65 per cent. (RO 852.9 million) and 36.1 per cent. (RO 865.3 million), respectively.

Due to banks and other money market deposits

As at 30 June 2018, the Bank's due to banks and other money market deposits amounted to RO 101.8 million compared to RO 125.8 million as at 31 December 2017, representing decrease of 19.0 per cent., which in turn constituted a decrease of 44.2 per cent. as compared to RO 225.2 million as at 31 December

2016. The decrease in the Bank's due to banks and other money market deposits as at 30 June 2018 and as at 31 December 2017 is attributed to the decrease in short term borrowing from overseas financial institutions. The decrease was due to a reduced requirement for short term funding by the Bank in 2017 compared to 2016, when the Bank required additional short term funding as a result of a potential large disbursement.

Customers' deposits and unrestricted investment accounts

As at 30 June 2018, the Bank's customers' deposits and unrestricted investment accounts amounted to RO 2,487.3 million compared to RO 2,461.3 million as at 31 December 2017, representing an increase of 1.1 per cent., which in turn constitutes an increase of 2.6 per cent as compared to RO 2,399.4 million as at 31 December 2016.

The 1.1 per cent. increase in customers' deposits and unrestricted investment accounts as at 30 June 2018 was due to current account increases as the Bank continues to focus on increasing its share of operational deposits. The 2.6 per cent. increase in customers' deposits and unrestricted investment accounts as at 31 December 2017 was due to an increase in term deposits and current account balances during the ordinary course of the Bank's business.

The following table sets out the break-down of funding from the Bank's customers' deposits and unrestricted investment accounts as at the relevant dates.

	As at 30 June		As at 31 December				Percentage Change	
	2018 (unaudited)		2017		2016		2018/2017	2017/2016
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	*%*
Current Accounts	931,568	2,419,657	878,304	2,281,309	850,334	2,208,660	6.1	3.3
Savings Accounts..........	577,272	1,499,408	582,521	1,513,041	603,851	1,568,444	(0.9)	(3.5)
Term Deposits..............	978,485	2,541,519	1,000,442	2,598,551	945,176	2,455,003	(2.2)	5.8
Total Deposits..............	**2,487,325**	**6,460,584**	2,461,267	6,392,901	2,399,361	6,232,107	**1.1**	2.6

Other liabilities

The Bank's other liabilities comprise accrued expenses, accrued interest, end of service benefits to employees, trade related payables and other payables related to staff and operational expenses. As at 30 June 2018, the Bank's other liabilities amounted to RO 81.4 million compared to RO 73.3 million as at 31 December 2017, representing an increase of 10.9 per cent., which in turn constitutes a decrease of 8.4 per cent. as compared to RO 80.1 million as at 31 December 2016.

The increase in these other liabilities as at 30 June 2018 was primarily a result of increase in interest payables and other accruals and liabilities under trade acceptance. The decrease in these other liabilities as at 31 December 2017 was primarily a result of a decrease in interest payables and other accruals and liabilities under trade acceptance that are classified under other liabilities and have equivalent assets grouped under "*Other Assets*".

Liabilities, subordinated debt and equity

The following table sets out the Bank's total liabilities, subordinated debt and equity as at the relevant dates.

	As at 30 June		As at 31 December				Percentage Change	
	2018 (unaudited)		2017		2016		2018/ 2017	2017/ 2016
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	*%*
Total liabilities	2,906,037	7,548,148	2,899,093	7,530,112	2,945,169	7,649,790	0.2	(1.6)
Subordinated debt..................	25,000	64,935	25,000	64,935	49,100	127,532	0.0	(49.1)
Total equity...........................	517,872	1,345,122	546,259	1,418,854	538,414	1,398,478	(5.2)	1.5
Total liabilities, subordinated debt and equity	**3,448,909**	**8,958,205**	**3,470,352**	**9,013,901**	**3,532,683**	**9,175,800**	**(0.6)**	**(1.8)**

As at 30 June 2018, the Bank's total liabilities, subordinated debt and equity amounted to RO 3,448.9 million as compared to RO 3,470.4 million as at 31 December 2017, representing decrease of 0.6 per cent., which in turn constitutes a decrease of 1.8 per cent. as compared to RO 3,532.7 million as at 31 December 2016.

Subordinated debt

As at 30 June 2018 the Bank's subordinated debt amounted to RO 25.0 million as compared to RO 25.0 million as at 31 December 2017, which in turn constitutes a decrease of 49.1 per cent. as compared to RO 49.1 million as at 31 December 2016. The reduction as at 31 December 2017 was a result of the repayment of subordinated debt in 2017.

As a percentage of the Bank's total liabilities, subordinated debt and equity, the Bank's subordinated debt constituted 0.7 per cent. as at 30 June 2018, 0.7 per cent. as at 31 December 2017 and 1.4 per cent. as at 31 December 2016. The following table provides an analysis of the Bank's subordinated debt as at 30 June 2018, 31 December 2017 and 31 December 2016.

	As at 30 June		**As at 31 December**			
	2018 (unaudited)		**2017**		**2016**	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
At 1 January	25,000	64,935	49,100	127,532	52,100	135,325
Repaid during the year	-	-	(24,100)	(62,597)	(3,000)	(7,793)
Total subordinated debt	**25,000**	**64,935**	**25,000**	**64,935**	**49,100**	**127,532**

Total equity

As at 30 June 2018, the Bank's total equity amounted to RO 517.9 million compared to RO 546.3 million as at 31 December 2017, representing a decrease of 5.2 percent., which in turn constitutes an increase of 1.5 per cent. as compared with RO 538.4 million as at 31 December 2016. This decrease as at 30 June 2018 was primarily due to payment of dividend to shareholders during the period. Further the retained earnings for the period include the Bank's profit of RO 25.4 million offset by opening IFRS 9 adjustments of RO 23.7 million and its Tier 1 Capital Securities coupon of RO 4.5 million. This increase as at 31 December 2017 was primarily due to the increase in the earnings retained by the Bank less dividend payments approved during 2017.

On 18 November 2015, the Bank issued RO 115.5 million of Perpetual Tier 1 Capital Securities (the "**Tier 1 Securities**"). The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its sole discretion on 18 November 2020 (the "**First Call Date**") or on any interest payment date thereafter subject to the prior consent of the applicable Omani regulatory authority. The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875 per cent. and thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest is noncumulative and payable at the Bank's discretion. These securities form part of the Tier 1 capital of the Bank and comply with Basel III requirements and Central Bank of Oman regulation (BM 1114).

The following table sets out a breakdown of the Bank's total equity as at the relevant dates.

	As at 30 June		**As at 31 December**				**Percentage change**	
	2018 (unaudited)		**2017**		**2016**		**2018/ 2017**	**2017/ 2016**
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	*%*
Share capital	162,595	422,325	154,852	402,213	147,478	383,060	5.0	5.0
Share premium	34,465	89,519	34,465	89,519	34,465	89,519	0.0	0.0
Legal reserve	51,617	134,070	51,617	134,070	49,159	127,686	0.0	5.0
Other non-distributable reserves	21,143	54,917	23,489	61,010	46,196	119,990	(10.0)	(49.2)
Proposed cash dividend	-	-	23,228	60,332	23,478	60,982	(100.0)	(1.1)

	As at 30 June		As at 31 December				Percentage change	
	2018 (unaudited)		2017		2016		2018/ 2017	2017/ 2016
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	*%*
Proposed stock dividend.	-	-	7,743	20,112	7,374	19,153	(100.0)	5.0
Retained earnings...........	132,552	344,291	135,365	351,598	114,764	298,088	(2.1)	18.0
Shareholders' equity attributable to the equity holders of the bank............................	402,372	1,045,122	430,759	1,118,854	422,914	1,098,478	(6.6)	1.9
Tier 1 Perpetual Bond	115,500	300,000	115,500	300,000	115,500	300,000	0.0	0.0
Total Equity..................	**517,872**	**1,345,122**	**546,259**	**1,418,854**	**538,414**	**1,398,478**	**(5.2)**	**1.5**

Contingent Liabilities and Commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised in the Bank's Financial Statements, they contain credit risk and are therefore part of the overall risk of the Bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

The following table sets out the Bank's contingent liabilities and commitments as at the relevant dates.

	As at 30 June		As at 31 December			
	2018 (unaudited)		2017		2016	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Guarantees...	353,528	918,255	364,920	947,844	463,564	1,204,062
Documentary letters of credit..............................	101,649	264,023	82,187	213,473	80,134	208,140
Undrawn commitment to lend.............................	180,586	494,000	162,827	422,927	238,031	618,262
	635,763	**1,676,278**	**609,934**	**1,584,244**	**781,729**	**2,030,464**

A further discussion of the Bank's contingent liabilities and commitments is provided at Note 22 to the Bank's Financial Statement ended 31 December 2017.

Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("**Basel**") and adopted by the Central Bank of Oman in supervising the Bank. The Bank is in compliance with all regulatory capital adequacy requirements applicable to it.

Capital management

The Bank's capital management is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value and maintain a strong credit rating, whilst always meeting minimum regulatory capital adequacy ratio requirements. In accordance with the Central Bank of Oman's guidelines, the Bank is required to report the capital component disclosures to the Central Bank of Oman's Banking Surveillance Department on a quarterly basis.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk profile of its activities. In order to maintain or adjust the capital structure, the Bank may adjust dividends payment to shareholders, return capital to shareholders or issue capital securities. The Bank's capital management policy was revised during the year to incorporate the regulatory changes.

Capital adequacy is measured using the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for international settlement was as follows:

	As at 30 June		As at 31 December			
	2018 (unaudited)		2017		2016	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Capital base						
Common equity Tier 1 - shareholders' funds.	375,459	975,218	401,588	1,043,086	393,112	1,021, 070
Additional Tier 1 - capital	115,500	300,000	115,500	300,000	115,500	300,000
Tier 2 - subordinated debt and collective impairment provisions	23,279	60,464	39,230	101,896	47,312	122,888
Total capital base..	**514,238**	**1,335,682**	**556,318**	**1,444,982**	**555,924**	**1,443,958**
Risk weighted assets						
Credit risk...	2,864,281	7,439,691	2,866,423	7,445,255	2,887,599	7,500,257
Operational risk..	252,475	655,779	252,475	655,779	241,288	626,722
Market risk...	123,158	319,891	87,989	228,543	59,900	155,584
Total risk weighted assets.............................	3,239,914	8,415,361	3,206,887	8,329,577	3,188,787	8,282,563
CET 1 Ratio	**11.6%**	**11.6%**	**12.50%**	**12.50%**	**12.30%**	**12.30%**
Tier 1 Ratio...	**15.2%**	**15.2%**	**16.10%**	**16.10%**	**16.00%**	**16.00%**
Risk asset ratio (Basel II norms)	**15.9%**	**15.9%**	**17.30%**	**17.30%**	**17.40%**	**17.40%**

The following table sets out the elements of the Bank's capital and risk weighted assets as at the relevant dates.

	As at 30 June		As at 31 December			
	2018 (unaudited)		2017		2016	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Tier I Capital (after supervisory deductions).	490,959	1,275,218	517,088	1,343,086	508,612	1,321,070
Tier II Capital (after supervisory deductions and up to eligible limits)	23,279	60,465	39,230	101,896	47,312	122,888
Total Regulatory Capital	**514,238**	**1,335,683**	**556,318**	**1,444,982**	**555,924**	**1,443,958**
Risk Weighted Assets - Banking Book	2,864,281	7,439,691	2,866,423	7,445,255	2,887,599	7,500,257
Risk Weighted Assets - Operational Risk..	252,475	655,779	252,475	655,779	241,288	626,722
Risk Weighted Assets - Trading Book	123,158	319,891	87,989	228,543	59,900	155,584
Total Risk Weighted Assets — Whole bank	**3,239,914**	**8,415,361**	**3,206,887**	**8,329,577**	**3,188,787**	**8,282,563**

A further discussion of the Bank's capital and risk weighted assets as at 31 December 2017 is contained in the Bank's Basel II and III – Pillar III Report 2017 which is contained in the Bank's 2017 Annual Report.

Credit risk mitigation

The Bank manages, limits and controls concentrations of credit risk, in particular with respect to individual counterparties and groups, as well as 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 and Board Risk Committee.

Management is confident that the Bank has suitable policies to measure and control the credit risk, however, risks may arise from adverse changes in the credit quality and recoverability of loans and amounts due from counterparties. See "*Risk Factors – Risks Relating to the Bank – Commercial and Market risks - Credit risk*". In addition, credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

The following table sets out an analysis of the credit quality of the Bank's loan and advances.

	Performing loans (neither past due nor impaired)	Loans past due and not impaired	Non performing loans	Gross loans
		RO'000		
Balance as at 1 January 2017	2,503,590	190,843	73,863	2,768,296
Additions during the year	792,420	119,366	90,248	1,002,034
Attrition during the year	(771,416)	(177,329)	(41,819)	(990,564)
Written-off during the year	-	-	(9,364)	(9,364)
Balance as at 31 December 2017 – RO'000s	**2,524,594**	**132,880**	**112,928**	**2,770,402**
Balance as at 31 December 2017 – U.S.$'000s	**6,557,388**	**345,143**	**293,319**	**7,195,850**
Balance as at 31 December 2016 – RO'000s	2,503,590	190,843	73,863	2,768,296
Balance as at 31 December 2016 – U.S.$'000s	6,502,831	495,696	191,852	7,190,379

An ageing analysis of the Bank's loans and advances to customers (net) which are past due but not impaired are set out below:

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
Loans and advances to customers (net) at 31 December 2017 – RO'000s	**36,853**	**55,612**	**40,415**	**132,880**
31 December 2017 – U.S.$'000s	**95,722**	**144,447**	**104,974**	**345,143**
31 December 2016 – RO'000s	42,539	53,307	94,997	190,843
31 December 2016 – U.S.$'000s	110,491	138,460	246,745	495,696

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 the 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.

The Bank's retail housing loans are secured by mortgage over the residential property. The Bank's Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The following table sets out the Bank's collateral held and other credit enhancement held against loan and advances granted as at 31 December 2017 and 31 December 2016.

	Performing loans (neither past due nor impaired)	Loans past due and not impaired	Non performing loans	Total
		RO'000		
Collateral available	2,022,267	96,566	21,253	2,140,086
Guarantees available	1,390	-	-	1,390
Government Soft Loans*	923	-	2,579	3,502
Balance as at 31 December 2017	**2,024,580**	**96,566**	**23,832**	**2,144,978**
Balance as at 31 December 2017 - U.S.$'000	**5,258,649**	**250,821**	**61,901**	**5,571,371**
Balance as at 31 December 2016	1,625,605	101,665	74,739	1,802,009
Balance as at 31 December 2016 - U.S.$'000	4,222,351	264,065	194,127	4,680,543

* Government Soft Loans are guaranteed by the Government to the extent of the outstanding principal.

A discussion of the Bank's key credit risks is provided at "*Description of The National Bank of Oman SAOG - Risk Management - Credit Risk*".

Concentrations

The Bank also manages, limits and controls concentrations of credit risk through diversification of lending activities so as to avoid undue concentrations of individuals or groups of customers in specific locations or businesses. The distribution of the Bank's assets, liabilities and contingent items by geographical regions as at 31 December 2017 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
			RO'000		
Cash and balances with central banks	361,419	19,182	2,510	-	383,111
Due from banks and other money market placements (net)	26,357	14,255	1	98,057	138,670
Loans, advances and financing activities for customers (net)	2,537,245	107,724	3	8,899	2,653,871
Financial investments	171,711	9,252	-	2,157	183,120
Premises and equipment	65,096	556	143	-	65,795
Other assets	34,888	10,394	503	-	45,785
Total assets	**3,196,716**	**161,363**	**3,160**	**109,113**	**3,470,352**
Due to banks and other money market deposits	508	26,135	13	99,101	125,757
Customers' deposits and unrestricted investment accounts	2,418,602	41,488	1,177	-	2,461,267
Euro medium term notes	230,906	-	-	-	230,906
Other liabilities	67,271	5,764	312	-	73,347
Taxation	6,673	1,032	111	-	7,816
Subordinated debt	25,000	-	-	-	25,000
Shareholders' equity	429,979	(1,213)	1,993	-	430,759
Tier 1 perpetual bond	115,500	-	-	-	115,500
Liabilities and shareholders' equity	**3,294,439**	**73,206**	**3,606**	**99,101**	**3,470,352**
Contingent liabilities	**396,486**	**26,304**	**10**	**24,307**	**447,107**

	Sultanate of Oman	UAE	Egypt	Others	Total
			U.S.$'000		
Cash and balances with central banks	938,752	49,823	6,519	-	995,094
Due from banks and other money market placements (net)	68,460	37,026	3	254,693	360,182
Loans, advances and financing activities for customers (net)	6,590,246	279,803	8	23,114	6,893,171
Financial investments	446,002	24,031	-	5,603	475,636
Premises and equipment	169,081	1,444	371	-	170,896
Other assets	90,618	26,998	1,306	-	118,922
Total assets	**8,303,159**	**419,125**	**8,207**	**283,410**	**9,013,901**
Due to banks and other money market deposits	1,319	67,883	34	257,406	326,642
Customers' deposits and unrestricted investment accounts	6,282,083	107,761	3,057	-	6,392,901
Euro medium term notes	599,756	-	-	-	599,756
Other liabilities	174,731	14,971	810	-	190,512
Taxation	17,332	2,681	288	-	20,301
Subordinated debt	64,935	-	-	-	64,935
Shareholders' equity	1,116,828	(3,151)	5,177	-	1,118,854

	Sultanate of Oman	UAE	Egypt	Others	Total
			U.S.$'000		
Tier 1 perpetual bond	300,000	-	-	-	300,000
Liabilities and shareholders' equity	**8,556,984**	**190,145**	**9,366**	**257,406**	**9,013,901**
Contingent liabilities	**1,029,834**	**68,322**	**26**	**63,135**	**1,161,317**

The distribution of the Bank's assets, liabilities and contingent items by geographical regions as at 31 December 2016 was as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
			RO'000		
Cash and balances with central banks	483,349	25,716	2,529	-	511,594
Due from banks and other money market placements (net)	15,400	10,816	116	88,998	115,330
Loans, advances and financing activities for customers (net)	2,433,983	203,248	3	33,047	2,670,281
Financial investments	114,508	11,100	-	2,775	128,383
Premises and equipment	45,720	486	139	-	46,345
Other assets	48,987	11,323	440	-	60,750
Total assets	**3,141,947**	**262,689**	**3,227**	**124,820**	**3,532,683**
Due to banks and other money market deposits	756	36,583	2,695	185,201	225,235
Customers' deposits and unrestricted investment accounts	2,303,115	95,080	1,166	-	2,399,361
Euro medium term notes	233,105	-	-	-	233,105
Other liabilities	68,358	11,413	291	-	80,062
Taxation	7,113	189	104	-	7,406
Subordinated debt	49,100	-	-	-	49,100
Shareholders' equity	415,113	6,033	1,768	-	422,914
Tier 1 perpetual bond	115,500	-	-	-	115,500
Liabilities and shareholders' equity	**3,192,160**	**149,298**	**6,024**	**185,201**	**3,532,683**
Contingent liabilities	**446,421**	**35,208**	**2890**	**59,179**	**543,698**

	Sultanate of Oman	UAE	Egypt	Others	Total
			U.S.$'000		
Cash and balances with central banks	1,255,452	66,795	6,569	-	1,328,816
Due from banks and other money market placements (net)	40,000	28,094	301	231,163	299,558
Loans, advances and financing activities for customers (net)	6,322,034	527,917	8	85,836	6,935,795
Financial investments	297,423	28,831	-	7,208	333,462
Premises and equipment	118,754	1,262	361	-	120,377
Other assets	127,239	29,410	1,143	-	157,792
Total assets	**8,160,902**	**682,309**	**8,382**	**324,207**	**9,175,800**
Due to banks and other money market deposits	1,964	95,021	7,000	481,041	585,026
Customers' deposits and unrestricted investment accounts	5,982,117	246,961	3,029	-	6,232,107
Euro medium term notes	605,468	-	-	-	605,468
Other liabilities	177,553	29,644	756	-	207,953
Taxation	18,475	491	270	-	19,236
Subordinated debt	127,532	-	-	-	127,532
Shareholders' equity	1,078,216	15,670	4,592	-	1,098,478
Tier 1 perpetual bond	300,000	-	-	-	300,000
Liabilities and shareholders' equity	**8,291,325**	**387,787**	**15,647**	**481,041**	**9,175,800**
Contingent liabilities	**1,159,535**	**91,449**	**7506**	**153,712**	**1,412,202**

Segmental information

For management purposes, the Bank's business activities are organised into the following operating segments:

- retail banking;

- wholesale banking;
- commercial banking; and
- funding center.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Set out below is a summary of certain financial information in relation to each operating segment for the six month period ended 30 June 2018 and the years ended 31 December 2017 and 31 December 2016:

As at / for the six month period ended 30 June 2018 (unaudited)	**Retail Banking**	**Wholesale banking**	**Commercial banking**	**Funding Center**	**Total**
			RO' 000		
Operating income	26,972	22,883	8,117	5,586	63,558
Profit/(loss)	10,629	21,713	(8,265)	1,341	25,419
Total assets	1,281,654	1,167,712	408,050	591,493	3,448,909

As at / for the year ended 31 December 2017	**Retail Banking**	**Wholesale banking**	**Commercial banking**	**Funding Center**	**Total**
			RO' 000		
Net Income	42,427	27,146	15,165	8,192	92,930
Other income	13,837	18,116	4,194	3,052	39,199
Operating profit	18,098	33,392	4,897	11,224	67,611
Impairment provisions (net) and taxation	(2,542)	426	(11,819)	(9,650)	(23,585)
Profit/(loss)	**15,556**	**33,818**	**(6,922)**	**1,574**	**44,026**
Total assets	**1,256,293**	**1,152,082**	**449,745**	**612,232**	**3,470,352**
Total liabilities and equity	**814,830**	**1,369,017**	**426,059**	**860,446**	**3,470,352**

As at / for the year ended 31 December 2016	**Retail Banking**	**Wholesale banking**	**Commercial banking**	**Funding Center**	**Total**
		RO' 000			
Net Income	40,814	28,188	18,098	14,465	101,565
Other income	13,405	14,516	4,575	2,052	34,548
Operating profit	17,809	30,898	8,503	16,240	73,449
Impairment provisions (net) and taxation	(3,038)	3,443	(10,816)	(7,259)	(17,670)
Profit/(loss)	**14,771**	**34,341**	**(2,313)**	**8,980**	**55,779**
Total assets	**1,236,289**	**1,093,872**	**558,233**	**644,288**	**3,532,683**
Total liabilities and equity	**817,441**	**1,275,681**	**527,563**	**911,998**	**3,532,683**

For a more detailed analysis in relation to each of the operating segments, see "*Business Activities*" in the "*Description of The National Bank of Oman SAOG*".

SOVEREIGN OVERVIEW

Introduction

Oman is the second largest country by geographical area among the states of the GCC region, after Saudi Arabia. It is spread over 309,500 square kilometres (source: Oman National Centre for Statistics and Information (NCSI) data published August 2018) and has a 2,092 kilometre coastline (source: Oxford Business Group's Report: Oman 2018 ("**OBG's 2018 Oman Report**"). It is strategically placed at the mouth of the Arabian Gulf. It is divided into eleven main governorates (Muscat, Musandam, Al Buraimi, Al Dakhiliyah, Al Batinah North, Al Batinah South, Al Sharqiyah North, Al Sharqiyah South, Al Dhahirah, Al Wusta and Dhofar). The governorate of Musandam is an exclave of Oman, separated from the rest of Oman by the United Arab Emirates. The governorates are subdivided into a total of 59 provinces or Wilayats. Muscat is the political and business capital. Other prominent cities are Salalah, Sohar, Sur, Nizwa and Khasab. Arabic is the national and official language, but the use of English is widespread, especially in business transactions.

His Majesty Sultan Qaboos bin Said Al-Said rules the country through Sultani decrees. His Majesty the Sultan enacted the Basic Statute of the State in 1996, also called the Basic Law, which codifies some of the basic rights of both citizens and the government and effectively serves as the Constitution of Oman. The administrative system of the state comprises the Diwan of Royal Court, the Council of Ministers and the Council of Oman (Majlis Oman). The Council of Oman is a consultative council of two chambers. The upper chamber, the State Council (or the Majlis Al Dawla), has advisory powers only and its members are appointed by His Majesty the Sultan. Members of the lower chamber, the Consultative council (or the Majlis Al Shura), are elected for a term of four years. The most recent elections were held in October 2015 with the next elections expected in October 2019 (source: OBG's 2018 Oman Report).

As at 15 August 2018, the population of Oman was approximately 4.61 million, with Omani nationals comprising 2.6 million (56.00 per cent.) and expatriates comprising 2.0 million (44.00 per cent.) of the overall figure (source: NCSI data published 15 August 2018). This represents an increase in population of 66.4 per cent. compared to the 2010 Oman census, which reported a population of 2.77 million. This growth in population is due to an increase in the expatriate population as well as an increase in birth rates. The population of Oman is relatively young. The United States Central Intelligence Agency World Factbook dated 7th August 2018 indicated that the population's median age was 25.6 years. A key target of government policy is providing adequate employment opportunities for its young national population.

Oman pursues an independent foreign policy with the aim of fostering good relations with its neighbours and other countries and has a non-confrontational and pragmatic approach to foreign relations. Oman has been a member of the United Nations since 1971. Oman became a member of the International Monetary Fund and the International Bank for Reconstruction and Development in 1971. Oman became a member of the World Trade Organisation in 2001.

Oman joined the Arab League in 1971 and the Organisation of the Islamic Conference in 1972. It became a member of the Non-Aligned Movement in 1973. It is a founder member of the GCC, which also includes Saudi Arabia, Kuwait, Bahrain, the UAE and Qatar. It chaired the GCC in 1996 and 2001. While Oman is not a member of the Organisation of Petroleum Exporting Countries, as the other members of the GCC are, Oman is a member of the GCC's Permanent Committee for Petroleum Cooperation.

Oman's current economic focus is on long-term planning. It is currently in its ninth five-year economic development plan of strategy covering the period 2016-2020. Since 1996, the five-year plans have been designed to achieve "**Vision 2020**" (adopted in June 1995), which is the Government's economic planning strategy outlining Oman's long term target of economic diversification, away from reliance on hydrocarbons, and towards, among other strategies, labour sector development. The ninth five-year plan envisages a continued drive towards social development, economic diversification of many production sectors and the ideal utilisation of available natural resources. Also planned are the ongoing implementation of the country's mega and priority infrastructure projects such as the Al Batinah Expressway, airport projects, the railway network, the special economic zone at Duqm, key seaport upgrades and BP's Khazzan project. Oman has also embarked on a new initiative – Tanfeedh – that aims mainly at linking the strategies of the main vital sectors of manufacturing, tourism, transport & logistics, mining and fishing to each other in order to diversify the national income resources and fulfil the objectives of the ninth five year development plan 2016 – 2020. The initiative also works towards sustainable participation between the public and private sectors (source: OBG's 2018 Oman Report).

Ratings

The most recent long-term foreign and local currency sovereign rating assigned to Oman by Moody's Investors Service Pte. Ltd. (**"Moody's Investors Service"**) is Baa3 (outlook negative), by Standard & Poor's Credit Market Services Europe (**"S&P"**) is BB (outlook stable) and by Fitch Ratings Ltd. (**"Fitch"**) is BBB- (outlook negative).

Economic Overview

According to the NCSI, Oman's GDP rose by 8 per cent to RO 27.8 billion at the end of 2017 from RO 25.7 billion at the end of 2016. This followed contractions in the Omani economy in nominal terms in 2016 and 2015, mainly due to a steep decline in hydrocarbon activities, after a sustained robust expansion over five years (2010-2014) (source: OBG's 2018 Oman Report).

The added value of oil activities increased by 20.8 per cent. to RO 8.4 billion at the end of 2017 from RO 7 billion at the end of the previous year, while non-oil GDP increased by 3 per cent in 2017 (Source: NCSI data obtained on 13 August 2018). Furthermore, the growth in petroleum activities was credited to the value addition from crude oil, which grew by 23.0 per cent, while the value addition emanating from natural gas witnessed a growth of 10.5 per cent. The rise in petroleum activities contributed 64.7 per cent to the growth of nominal GDP. . Among non-oil sectors, non-petroleum industrial activities grew by 1.8 per cent in 2017 and the agriculture and fishing sector witnessed a growth of 7.0 per cent in 2017.(source: Central Bank Annual Report 2017).

Oman's budget deficit fell by around RO 1.5 billion by the end of 2017 registering at about RO 3.8 billion compared to RO 5.3 billion at the end of 2016. Oman sold its crude oil at an average price of U.S.$51.30 per barrel during 2017, which was 28 per cent. higher than the average price of U.S.$40.10 per barrel in 2016. Oman's 2018 state budget aims to achieve a minimum of 3 per cent. real GDP growth this year, which is expected to be driven by a recovery in oil prices and the government's efforts to diversify the economy and improve the investment climate (source: NCSI data obtained on 15 August 2018).

Annual Indicators

The following table sets out the major macroeconomic indicators for Oman for the years indicated based on Central Bank data:

	2013	**2014**	**2015**	**2016**	**2017[1]**
Real GDP (*RO millions*)....................................	30,061	31,451	13,552	25,694	13,001
GDP Growth rate (%)..	2.4	4.6	-14.2	-5.1	12.3
CPI Inflation Rate (%).......................................	1.1	1.1	0.08	1.1	1.6

(1) The figures for Real GDP and GDP growth rate are for the six month period ended 30 June 2017. The figure for CPI inflation rate is for the 11 month period ended 30 November 2017

THE SULTANATE OF OMAN BANKING SYSTEM AND PRUDENTIAL REGULATIONS

Overview

The Oman banking system comprises commercial banks, specialised banks (such as Oman Housing Bank, as highlighted below), Islamic banks and windows, non-bank finance and leasing companies and money exchange establishments. As at 31 December 2017, the number of conventional commercial banks stood at 16, of which 7 were locally incorporated and 9 were branches of foreign banks. The locally incorporated conventional commercial banks are the Bank, bank muscat SAOG, HSBC Bank Oman SAOG, Oman Arab Bank SAOC, Bank Dhofar SAOG, Bank Sohar SAOG and Ahli Bank SAOG (source: Central Bank Annual Report 2017). The largest bank by a significant margin is bank muscat SAOG, which had approximately RO 11.10 billion (U.S.$28.8 billion) in assets as at 30 September 2017 (source: bank muscat SAOG unaudited financial report: December 2017).

The Oman banking system is fairly concentrated, with the three largest local banks (bank muscat SAOG, the Bank and Bank Dhofar SAOG) accounting for approximately two thirds of total credit in the banking system (source: Central Bank Annual Report 2017).

As at 31 May 2018, commercial banks in Oman had, total deposits of RO 22.3 billion compared to RO 21.5 billion as of 31 December 2017 and total credit of RO 20.3 billion compared to RO 20.3 billion as of 31 December 2017 (Central Bank's May 2018 Monthly Report and Central Bank's December 2017 Monthly Report). The Oman banking system includes two Government owned specialised banks, namely, Oman Housing Bank and Oman Development Bank which were established by the Government to provide long term financing to low and middle income nationals as well as to providing loans to development projects including agriculture, fisheries, livestock, tourism and traditional craftsmanship. Interest rates on loans advanced by the two specialised banks are subsidised by the Government. As at 31 March 2017, Oman Housing Bank and Oman Development Bank operated with a network of 23 branches (source: Central Bank Annual Report 2017).

Also, prominent in the sector is a group of six non-bank financial services providers, commonly referred to as 'Leasing companies'. Leasing companies are regulated by the Central Bank and engage in leasing, hire purchase, debt factoring and similar asset based financing in Oman. The core business of leasing companies in Oman is financing the purchase of vehicles and other assets, primarily by small and medium sized enterprises as well as retail and corporate customers. (source: OBG's 2018 Oman Report). As of 31 December 2017, leasing companies in Oman operated with a network of 41 branches (source: Central Bank Annual Report 2017).

Islamic Banking

In December 2012, the Oman Banking Law was amended by Sultani Decree 69/2012 (promulgated on 6 December 2012) to allow the Central Bank to licence the conduct of banks in Oman to carry out Islamic banking business through either fully fledged Islamic banks or windows of conventional banks. Oman was the last of the GCC countries to introduce Islamic banking.

The objective behind the introduction of Islamic banking in Oman was to diversify and widen the pool of banking products available to retail and corporate customers. Along with an amendment to the Banking Law, the Islamic Banking Regulatory Framework (the "**IBRF**") was issued to provide detailed and comprehensive guidance on all aspects of Islamic banking. For example, the IBRF sets out the requirements for obtaining an Islamic banking license from the Central Bank, the various accounting and reporting standards that Islamic banks licensed by the Central Bank are required to comply with as well as the supervisory role of the Central Bank in relation to the various Islamic banking practices and products.

The introduction of Islamic banking in Oman is an important milestone as it added a number of new entrants to the banking system enhancing the competitive environment in terms of efficiency and innovation as well as providing customers with the benefit of choosing between conventional and Islamic banking products. As of 31 December 2017, there were two full-fledged locally incorporated Islamic banks, namely, Bank Nizwa SAOG and Al Izz Islamic Bank SAOG. Bank Nizwa SAOG commenced operations in December 2012 and Al Izz Islamic Bank SAOG commenced operations towards the end of 2013. A number of conventional banks, including the Bank, bank muscat SAOG and Bank Dhofar SAOG have established windows for Islamic banking (source: Central Bank's Annual Report 2017).

According to the published information by Islamic banks and windows in Oman, banks had provided financing to the value of RO 3.03 billion compared to RO 2.42 billion at 31 December 2016 and had total deposits of RO 2.97 billion compared to RO 2.1 billion at 31 December 2016 (source: Central Bank's Annual Report 2017). The total assets of Islamic banks and windows in Oman stood at RO 4 billion, equal to approximately 12.5 per cent. of the total assets in the banking system (source: Central Bank's May 2018 Monthly Report).

International banks

The Oman Foreign Capital Investment Law (promulgated by Sultani Decree No. 102/1994, (as amended)) mandates that foreign companies can take no more than a 70 per cent. stake in a locally incorporated firm. A new foreign capital investment law is currently being drafted by the Ministry of Commerce and Industry, among others, to allow for 100 per cent. foreign ownership in companies incorporated in Oman. There is no indication of when the new law will be issued. Local operation through 100 per cent. foreign branches is permitted (subject to certain conditions being satisfied) in many sectors, including the banking sector. The foreign banks operating in Oman through branches include Standard Chartered Bank, Habib Bank, Bank Melli Iran, Bank Saderat Iran, Bank of Baroda, State Bank of India, First Abu Dhabi Bank, Bank Beirut and Qatar National Bank (source: Central Bank Annual Report 2017).

Recent Developments and Trends

The Board of Directors has expressed an interest in and has commenced discussions with Bank Dhofar S.A.O.G. to explore the possibility of a merger between the two banks, subject to agreeing commercial terms, satisfactory due diligence and obtaining all necessary corporate approvals (including shareholders' approval) and regulatory approvals. Discussions between the two banks are currently ongoing on the potential terms of the merger, the optimum legal structure of the combined entity and the method and timing for the implementation and execution of the proposed merger. Such discussions are still at a preliminary stage and no substantive developments are expected to take place in connection with the proposed merger at or around the time of issuances under the Programme.

Bank Regulation in Oman

The Central Bank of Oman

The Central Bank was established in the beginning of 1974 and was a result of the steady evolution of the monetary system in Oman, coupled with the vast economic development in the country. The two monetary authorities which preceded the establishment of the Central Bank were the Muscat Currency Authority and the Oman Currency Board.

The Central Bank acts as the depository agency for the Government and is responsible for regulating and supervising Oman's commercial banks, specialised banks and finance and leasing companies. Money exchange companies are also regulated by the Central Bank. Amongst its other responsibilities, the Central Bank is responsible for making advance payments to the Government in respect of temporary deficiencies in current revenues and further manages loans on behalf of the Government. Additionally, the Central Bank is responsible for accepting deposits from banks operating in Oman and other foreign central banks. In particular, the Central Bank accepts two types of deposits from commercial banks, namely those deposits required by the Banking Law and voluntary deposits deposited by commercial banks (source: Central Bank website data obtained on 14 August 2018). The Central Bank is also responsible for advancing credit to local banks and engaging in investment activities through trading in investment products. In addition to the above mentioned functions, the Central Bank acts as a clearing house for all banks operating in Oman and is responsible for issuing the national currency and supervising its circulation and value.

Omani banks are subject to the Banking Law, promulgated by Sultani Decree 114/2000 (as amended) and banking regulations issued by the Central Bank. Banks are also required to comply with (amongst other laws of general application) the Commercial Companies Law promulgated by Sultani Decree 4/1974 (as amended), the Law of Commerce promulgated by Sultani Decree 55/1990 (as amended), the Oman Labour Law promulgated by Sultani Decree 35/2003 (as amended), the Capital Markets Law promulgated by Sultani Decree 80/98 (as amended) and the Social Insurance Law promulgated by Sultani Decree 72/1991 (as amended).

Banking Laws and Regulations

Several regulatory and supervisory initiatives have been implemented by the Central Bank to develop a competitive and sound banking system. Bringing about greater financial inclusion, developing sound risk management systems, and broadening prudential norms have been the core of the recent regulatory and supervisory directives issued by the Central Bank. Below is a summary of the main Omani banking laws and regulations:

Capital Requirements

Pursuant to Central Bank Circular BM 1019 issued on 9 April 2007, a minimum paid up capital requirement of RO 100 million is required to establish a new local commercial bank and a minimum paid up capital requirement of RO 20 million is required to establish a foreign bank in Oman. Existing banks (such as the Bank) are required to meet this requirement progressively.

Capital Adequacy

In line with international best practices, the Central Bank issued two concept papers titled 'Regulatory Capital under Basel III' and 'Composition of Capital Disclosure Requirements' (Central Bank Circular No BM 1114 issued on 17 November 2013). The two concept papers are based on the rules issued by the Basel Committee on Banking Supervision and provide for guidelines on regulatory capital and disclosure requirements under Basel III. The guidelines set out in the concept papers emphasize the importance of insuring that risk exposures of a bank are backed by an adequate amount of high quality capital which absorbs losses on a going concern basis.

The guidelines issued by the Central Bank require banks operating in Oman to have a robust capital adequacy framework which comprises of a total capital adequacy ratio of 12 per cent. of risk weighted assets. Common equity tier 1 capital should be maintained at a minimum level of 7 per cent. and tier 1 capital at a minimum level of 9 per cent. of risk weighted assets, with effect from 31 December 2013. In addition, commencing on 1 January 2014, a capital conservation buffer of 2.5 per cent. of risk weighted assets, comprised of common equity tier 1 have to be achieved over four years in four equal instalments of 0.625 per cent. Banks in Oman must fully comply with the capital conservation buffer. Net Stable Funding Ratio ("**NSFR**") together with Liquidity Coverage Ratio ("**LCR**") are the key reforms proposed by the Basel Committee to promote a more resilient banking sector. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off balance sheet activities. The NSFR limits overreliance on short-term wholesale funding and encourages better assessment of funding risks across all on and off balance sheet items, and promotes funding stability. The NSFR as of 31 December 2017 for the Bank is 110 per cent.

The Central Bank introduced a Prompt Corrective Action framework (the "**PCA**") in 2005, which makes it mandatory for banks to take corrective actions if their total capital adequacy ratio falls below a certain level. The corrective actions consist if certain mandatory and discretionary actions that apply to each relevant trigger point set by the Central Bank. Currently, the PCA will be triggered if the total capital adequacy ratio of a bank falls below 13. per cent.

Framework for Domestic Systemically Important Banks (D-SIBs)

Instruments issued in excess of the Basel III limits for recognition will be phased out by 31 December 2022. The Basel Committee's LCR promotes the short term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario lasting thirty calendar days. Since 1 January 2018, the standard LCR has been set at a minimum of 100 per cent. in Oman. In January 2015, the Central Bank issued a framework for D-SIBs which sets out a list of recommendations and requirements for banks identified as systemically important in Oman. The framework is based on the recommendations of the Basel Committee on Banking Supervision and requires banks identified as systemically important to comply with certain exclusive requirements to prevent their failure. For example, D-SIBs will be subject to an enhanced capital surcharge (comprised of common equity tier 1 capital) of 1 to 2.5 per cent. (with a potential "un-populated" bucket of 3.5 per cent., similar to the calibration under the Basel III framework) of risk-weighted assets in increments of 0.5 per cent., based on their relative systemic importance. Further, D-SIBs in Oman are required to conduct rigorous stress testing exercises, implement a well-defined crisis management system and build a robust recovery and resolution mechanism (which may include creation of a "resolution fund", provisions for inherent bail-in mechanisms, enabling asset sales and taking other measures to ensure depositors are protected). Further, D-SIBs are required to submit a vision statement to the Central Bank outlining their medium and long term projections and the strategies they have implemented to address systemic risk. As part of the framework, the Central Bank has also set out measures relating to the enhancement of its supervisory regime and how it will work with D-SIBs more effectively to monitor and assess their ongoing operational and financial performance. While based on back-tested data between 2010 to 2013 five banks could potentially be designated as D-SIBs, the Central Bank has, at the date of this Prospectus, designated only one bank as a D-SIB and not identified the Bank as a D-SIB. The Central Bank's decision to designate a bank as a D-SIB is, however, subject to ongoing regulatory review and the Bank could become subject to such designation by the Central Bank in the future.

Lending Ratio

Pursuant to Central Bank Circular BM 1051 issued on 23 December 2008, no licensed bank in Oman is permitted to lend (whether by loans, discounts, advances or overdrafts and whether secured on unsecured) when such lending in aggregate exceeds 87.5 per cent. of the bank's deposits. Deposits of the bank are determined as the sum of a bank's total demand deposits, saving deposits, time deposits, margin accounts, net amounts due to head office or the bank's own branches abroad, net amount due to other banks abroad and capital funds. Central Bank Circular BM 1155, issued on 20 March 2018, modified the aforementioned circular with the effect that local inter-bank positions are now taken into account for lending ratio purposes. Borrowings and placements are therefore now included in a bank's deposit base (where such borrowings and placements are from other commercial banks) and any lendings and placements made to other commercial banks are reduced from its deposit base (for lending ratio purposes).

Reserves against Deposits

Pursuant to Article 62 of the Banking Law all banks operating in Oman are required to maintain a deposit with the Central Bank, in an amount, which when added to the aggregate amount of currency and coin, foreign and domestic, held by such bank shall be: i) not more than 40 per cent. of the total daily amount of all demand and saving deposits made with such bank within Oman; and ii) not more than 30 per cent. of the total daily amount of all time deposits with such bank within Oman.

Pursuant to Central Bank Circular BM 1050 issued on 23 December 2008, as amended by Central Bank Circular BM 1143 issued on 30 March 2016, the percentage of the total amount of reserves against time, savings and demand deposits is currently 5 per cent.

Pursuant to Central Bank Circular BM 1143 issued on 30 March 2016, the reserve maintenance requirement of 5 per cent. is now allowed to be kept in the form of Government bonds, sukuks and treasury bills up to a maximum of 2 per cent. and the remainder must be kept in the form of a clearing account balance.

Lending Limits

Diversification of risks is a key precept in banking. Past experiences indicate that substantial loan losses were triggered by credit concentration to connected counterparties or related parties. Besides individual exposures, credit concentrations also involve excessive exposure to sectors, industries and countries leading to risk implications in the loan books of banks (Central Bank Circular BM 1024 issued on 22 September 2007). To maintain financial stability, the Central Bank has issued a number of limits and rules with the objective of limiting potential losses arising out of excessive concentration of credit risk:

Loans to a single borrower: pursuant to Article 68(b) of the Banking Law the total direct or contingent obligation to any licensed bank by any borrower, other than the Government, shall not exceed 15 per cent. of the total net worth of such licensed bank. Article 5 of the Banking Law defines net worth as the aggregate amount of the assets less liabilities both within and outside Oman, other than capital and surplus of a licensed bank.

Lending to non-residents: the credit exposure to non-residents and placement of bank funds abroad has been re-examined by the Central Bank due to the risks associated with such exposures. Accordingly, the Central Bank has reviewed some of the existing regulatory norms with regard to cross border exposures of banks and certain modifications have been made with regards to the limits placed on the aggregate credit exposures to non-residents and their related parties. In particular, pursuant to a Central Bank Circular BM 1120 issued on 31 March 2014, a bank operating in Oman must not lend:

- more than 2.5 per cent. of its local net worth to a non-resident borrower and its related parties. Local net worth of a licensed bank is the total regulatory capital reduced by exceptional investments under Article 65(e) of the Banking Law and reduced by the assigned capital for overseas subsidiaries, associates or affiliates mandated for deduction from capital as per specific Central Bank directions (source: Central Bank Circular BM 988 issued on 31 May 2005);

- more than 20 per cent. of its local net worth in aggregate to all non-resident borrowers (other than banks) and their related parties;

- more than 30 per cent. of its local net worth in aggregate to all non-resident borrowers (including banks) and their related parties. Further, any single credit exposure of U.S.$ 5 million or above to a non-resident borrower other than a non-resident bank shall only be undertaken through syndication; and

- pursuant to Central Bank Circular BSD/2018/3 issued on 20 March 2018, the prudential limits for credit exposures and placement of bank funds abroad under Central Bank Circular BM 1120 have been revised to the following limits, with effect from 1 April 2018:

Limits as per BM 1120	**Revised Limits**
Aggregate credit (funded and non-funded) exposure to all non-resident borrowers and related parties (both banks and other than banks) – limit at 50% of local net worth	75% of local net worth of the bank
Total placements with related parties and total placements with non-related parties – limit each at 50% of local net worth	75% of local net worth of the bank
Aggregate placements and credit exposures to all related and non-related parties – limit at 50% of local net worth	75% of local net worth of the bank

Banks were also instructed in 2014 to take effective measures in regards to the Foreign Accounts Tax Compliance Act ("**FATCA**") to identify their target customers and obtain their consent for making the necessary disclosures.

Loans to SMEs: In an effort to develop the SME sector in Oman, the Government and the Central Bank took measures towards encouraging prospective entrepreneurs. The Central Bank directive to banks is to implement a liberal lending policy for SMEs and to achieve a minimum of 5 per cent. of their total credit allocation to SMEs (source: Central Bank Circular BM 1141 issued on 12 January 2016 and Central Bank Circular BM 1150 issued on 26 April 2017), SMEs are:

- micro enterprises, being those which have between 1 and 5 employees and an annual turnover of less than RO 100,000;

- small enterprises, being those which have between 6 and 25 employees and an annual turnover of between RO 100,000 and 500,000; and

- medium enterprises, being those which have between 26 and 99 employees and an annual turnover of between RO 500,000 and 3,000,000.

Loans to directors and senior management: pursuant to Article 68(b) of the Banking Law the total direct or contingent obligation to any licensed bank by a senior member in the management of the licensed bank and any related parties shall not exceed 10 per cent. of the amount of net worth of such bank. The aggregate of lending to all senior members and any related parties shall not exceed 35 per cent. of the amount of the net worth of the licensed bank.

In addition to imposing a limit on the aggregate lending to directors and senior management, the Central Bank requires banks to remove members of senior management who have doubtful or classified loans with the bank (Central Bank Circular BM 985 issued on 15 February 2005).

Loans secured by real estate: in accordance with Article 68(e) of the Banking Law a bank operating in Oman is not permitted to make any loan secured by real estate when either the total value of real estate held by the bank, or the aggregate amount of the outstanding loans against which the real estate is held, whichever is lower, exceed 60 per cent. of the net worth of such licensed bank within Oman or 60 per cent. of all time and saving deposits other than Government and inter-bank deposits of such licensed banks, whichever is greater.

Ceiling on personal loans and mortgages: pursuant to Central Bank Circular BM 1109 issued on 23 May 2013 and in light of the rise in personal loan indebtedness, the ceiling imposed on the aggregate of personal loans banks may advance is currently 35 per cent. of total credit whilst mortgages continue to have a ceiling of 15 per cent. of total credit.

As per Central Bank Circular ref. IBD/IBEs/2017/356 dated 30 August 2017, Islamic banks and windows were permitted a combined maximum housing and non-housing personal finance limit of 50 per cent. of total finance until 31 December 2017. They are required to reduce their housing finance to 35 per cent. of total finance by 31 December 2018.

Bank Credit and Statistics Bureau

Pursuant to Central Bank Regulation BM/53/9/2011 issued on 11 January 2011 the board of governors of the Central Bank adopted a Bank Credit and Statistics Bureau ("**BCSB**"). The BCSB is a centralised statistical bureau maintained by the Central Bank. Amongst other things, the primary function of the BCSB is to collect and synthesise financial information on current and prospective borrowers, guarantors and account holders as well as connected counter parties of licensed banks. The BCSB is responsible for providing reports to licensed banks with the objective of facilitating the smooth functioning of the credit market. Banks and finance companies operating in Oman must report credit and financial information of any current or prospective borrower or guarantor and its related parties on a monthly basis.

Loan Loss Provisioning

The Central Bank has directed banks to have appropriate systems to classify loans on the basis of well-defined credit weaknesses and to have robust provisioning in place. Pursuant to Central Bank Circular BM 977 issued on 25 September 2004 non-performing loans should be classified as either standard, special mention, substandard, doubtful or loss depending on the number of days the credit has been due.

The Central Bank Circular provides that any proposed settlement for less than full value of delinquent debt of directors or management requires the prior approval of the Central Bank. Loans in arrears for more than 90 days are classified as non-performing. Of these, banks have to provide 25 per cent., 50 per cent., and 100 per cent. against loans classified as sub-standard, doubtful and losses, respectively. In addition to specific provisions for classified loans, banks are required to create general loan loss provisions, at a minimum of 1 per cent. of their corporate loans which are categorised as "Standard" and "Special Mention". Further, a minimum general loss provision of 2 per cent. of personal loans categorised as "Standard" and "Special Mention" must be maintained by all banks operating in Oman.

IFRS 9 Implementation and Reporting

The International Accounting Standards Board issued IFRS 9 on Financial Instruments in July 2014 as a replacement of the existing standard IAS 39 on Financial Instruments: Recognition and Measurement. The new standard, formulated to address accounting issues of the global financial crisis of 2007-2008, represents a paradigm shift in accounting for financial instruments with a specific focus on their impairment. It simplifies and proposes a single objective model for classification and measurement of financial instruments, proposes simple business oriented rules for hedge accounting and lays down norms affecting accounting policy/procedure changes and more detailed/transparent financial statement disclosures.

All three phases of IFRS 9 are effective from the year beginning on or after 1 January 2018. The three phases are: (i) classification and measurement of financial assets; (ii) impairment; and (iii) hedging.

The Central Bank issued Circular BM 1149 on implementation of IFRS 9 on 13 April 2017, which aimed to promote consistency, comparability in reporting across Omani banks, provide a robust alternate while replacing existing prudential norms under Central Bank Circular BM 977, set out management's responsibilities and requirements for board approved IFRS 9 policies, policy deviation reporting and norms for creating a regulatory impairment reserve.

Bank Deposit Insurance Scheme

Pursuant to Sultani Decree No 9/1995 promulgating the law of Banking Deposit Insurance System (as amended), a scheme was established by the Central Bank. The objectives of establishing the bank deposit insurance scheme are to provide comprehensive deposit insurance cover, sustain public confidence in the financial soundness of the banking system and to assist banks in financial difficulty. Deposits placed by a natural or juristic person with any bank operating in Oman are protected by the deposit insurance scheme up to an amount of RO 20,000. The deposits covered by the scheme include saving deposits, current deposits, temporary deposits, time deposits, Government deposits and any other deposits of the same nature.

Banks in Oman are required to register with the bank deposit insurance scheme and to pay an annual insurance premium of 0.05 per cent. of annual average deposits to the Central Bank to support this system.

Loan and Interest Rate Ceilings

As a result of the rising level of individual loan indebtedness the Central Bank imposed an aggregate quantitative ceiling on personal loans and mortgages. A debt service ratio has been capped at 50 per cent. of net salary receipts on personal loans and 60 per cent. on mortgages. Further, banks in Oman are only permitted to advance personal loans (other than mortgages) after 24 months of satisfactory conduct of an existing loan or after 50 per cent. of an existing loan is repaid (Central Bank Circular 1094 issued on 23 May 2012).

In light of the global decline in interest rate trends, the Central Bank decided to reduce the interest rate ceiling on personal loans and mortgages from 7 per cent. to 6 per cent., with effect from October 2013. The Central Bank requires banks in Oman to treat the 6 per cent. ceiling as the maximum and not an entitlement. Banks in Oman are encouraged to offer competitive rates consistent with international market forces and to ensure the flow of credit to all sectors including agriculture, industry as well as to small to medium enterprises (Central Bank Circular BM 1112 issued on 2 October 2013).

Maturity Mismatch Ceiling

Pursuant to Central Bank Circular BSD/2018/2 issued on 20 March 2018, cumulative gaps in Omani Rial, US Dollars and other currencies have been revised from the limits set originally in Circular BM 955 dated 7 May 2003 and may not exceed the following limits of a bank's cumulative liabilities in each of the five designated time bands. These revised limits took effect on 1 April 2018:

Time Band	**Limits as per Central Bank Circular BSD/2018/2**
Up to one month	15%
1-3 months	15%
3-6 months	20%
6-9 months	25%
9-12 months	25%

Banks may fix their own limits on mismatches for time bands greater than one year.

Investment Criteria

Article 65 of the Banking Law sets out the general credit and investment powers of banks as follows. A domestic bank may:

- purchase, sell, accept or negotiate: items and bonds, notes, debentures, treasury bills, bonds issued by the Government, written securities guaranteed by the government and tangible and intangible property. In accordance with Central Bank Circular BM 938 issued on 13 May 2002, as amended by Central Bank Circular BM 1144 issued on 12 April 2016, the total aggregate value of a bank's investment in the Government development bonds must not exceed 45 per cent. of the bank's net worth;

- receive upon deposit or for safekeeping, money, securities, papers of any kind or any other personal property;

- open accounts with the Central Bank, and utilise the Central Bank as a clearing house;

- open accounts with other local or overseas banks;

- purchase, hold and sell for its own account bonds, notes, debentures and other evidences of an obligation for the payment of money **provided that** such obligations are not in default at the time of acquisition by the bank and that the aggregate value of such investments does not exceed 10 per cent. of the bank's net worth of the licensed bank and that any investment in a particular security does not exceed 5 per cent. of the net worth of the bank. Investments in companies domiciled outside Oman should not exceed 25 per cent. of the 10 per cent. ceiling mentioned above;

- purchase, hold and sell for its own account securities issued or guaranteed by the Government or any foreign government **provided that** such securities are publicly traded and have a maturity period of not more than 90 days. Investment in shares and securities if the corporation is formed by the Government should not exceed 5 per cent. of the net worth of the bank;

- purchase, hold and sell for its own account shares and securities of corporations domiciled in or outside Oman **provided that** such investment if made in related companies or other licensed banks has been approved by the Central Bank, and that any such investment in a particular security does not exceed 5 per cent. of the shares of such corporation and that all such investments by the bank do not exceed 20 per cent. of the bank's net worth of the licensed bank. Further, investment in companies domiciled outside Oman should not exceed 25 per cent. of the 20 per cent. ceiling mentioned above; and

- purchase, hold and sell for its own account, foreign currency or other monetary assets in the form of cash, bullion, gold and any other metal utilised as a monetary asset.

Banks operating in Oman are required to strictly adhere to the investment limitations provided for in Article 65 of the Banking Law. The Central Bank expects banks to be reasonably conservative in investment decisions and to appropriately balance any risks associated with such investments. In addition, the Central Bank directs banks to implement a comprehensive investment policy approved by the bank's board of directors and to submit such policy to the Central Bank (Central Bank Circular BM 958 issued on 5 August 2003).

Foreign Exchange Trading

Pursuant to Central Bank Circular BM 341 issued on 10 March 1982, banks are permitted to take total foreign exchange positions, defined as the aggregate of all overbought and oversold position, of up to 40 per cent. of the bank's capital and reserves in Oman. The limit applies to all foreign currencies without exception. Banks in Oman are required to submit data to the Central Bank which shows their foreign exchange positions on a monthly basis. Specialised banks and leasing companies are not permitted to take positions in foreign exchange.

Future Transactions in Foreign Exchange and Commodity Hedging Products

Banks in Oman are not permitted to offer any complex derivative products such as Target Redemption Forwards, Range Accruals or any other similar structures which result in unlimited downside risk to the bank's customer. Plain vanilla derivative products can be offered for hedging purposes and banks are required to ensure that derivative transactions are not used for speculative purposes. Further, in undertaking hedging products banks are required to assess the overall hedging undertaken by the customer and to ensure that the total notional amount of derivative transactions is within the notional amount of the underlying exposure (Central Bank Letter BDD/CBS/NBO/2011/1700 issued on 28 February 2011).

Exchange Control and Foreign Exchange Rates

The Central Bank is responsible for Omani exchange rate and monetary policy. Since 1986 a stable exchange rate has been maintained between the Omani Rial and the U.S. Dollar through the Omani Rial being pegged to the US Dollar (RO 1= USD 2.6008) (source: Central Bank Annual Report 2017). There are no exchange controls (other than in relation to the Israeli currency) and capital may move freely to and from Oman.

Other Banking Law Requirements

The Banking Law imposes, among other things, the following requirements:

Regular reports: Pursuant to Article 72 of the Banking Law, each licensed bank must submit to the Central Bank an annual report, audited by independent auditors, and certain interim reports and monthly reports as prescribed from time to time by the regulations of the Central Bank. These reports must be accurate and must include, but not be limited to, information reflecting the financial condition both within and outside Oman of that bank, showing in detail the assets and liabilities of the bank, the amount of domestic and foreign currency held by such bank and the amount, nature and maturities of all items and instruments, securities and other investments owned or held by such bank, to the extent that such information is related to the conduct of banking business, both within and outside Oman. In addition, licensed foreign banks must file copies of reports prepared within Oman for submission to banking authorities which have jurisdiction over them and which reflect the aggregate financial condition of all operations of the licensed bank.

Real and Personal Property and Secured Transactions: Pursuant to Article 66 of the Banking Law, a bank operating in Oman may purchase, acquire or hold, lease or otherwise convey real and personal property which has been conveyed to it in satisfaction of debts previously contracted in the normal course of banking business, which it has acquired at sales under judgment decrees or as the result of foreclosure sales and mortgages. However, all real property acquired by the bank or which has been transferred to it in these ways must be sold or otherwise disposed of by the bank within 12 months of the date of acquisition.

Omanisation of Personnel in Banking Sector

With the objective of raising job opportunities for Omanis, the Central Bank requires all banks operating in Oman to achieve an Omanisation ratio of at least 90 per cent. By December 2016 all banks operating in Oman must achieve an Omanisation ratio of 65 per cent. in relation to their Senior Management. This ratio is increased to 75 per cent. by December 2016. As regards to Middle Management, a ratio of 90 per cent. must be achieved by all banks by December 2016. Foreign banks may be exempt from achieving the Omanisation quota in relation to their chief executive officer and/ or country managers. All banks operating in Oman are required to provide adequate training to Omani employees (Central Bank Circular BM 1105 dated 31 March 2013).

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Omani Tax Law

The statements herein regarding taxation are based on the laws in effect in Oman as at the date of this Base Prospectus and are subject to any changes of law occurring after such date. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisors concerning the overall tax consequences of their acquiring, holding, and disposing of Notes, including in particular the effect of any local laws.

Payment of all amounts payable by the Issuer to the holders of Notes in respect of the Notes themselves may be made free and clear of withholding or other taxes imposed by Oman or by any authority thereof or therein having power to tax.

Withholding Tax

There is a withholding tax levy on certain payments as provided by the Oman Income Tax Law (Sultani Decree No. 28/2009, as amended) and its Executive Regulations (MD 30/2012, as amended) (the "**Oman Income Tax Law**"). Under Article 52 of the Oman Income Tax Law, as amended by Sultani Decree 9/2017 which came into force on 27 February 2017 (the "**Tax Amendments**"), withholding tax is payable on the following categories of income accrued in Oman:

(a) royalties;

(b) remuneration for conducting research and development;

(c) remuneration for using or the right to use computer software;

(d) fees for management or performance of services; and

(e) payment of dividends on shares or interest.

Withholding tax is levied on the gross amount of the above categories of income paid or credited to the account of any non-resident person as specified in Article 40 of the Oman Income Tax Law, (being foreign persons that do not have a permanent establishment in Oman and those that carry on business through a permanent establishment but do not include the accrued income in the gross income of that permanent establishment). Companies in Oman making payment to foreign persons of the nature specified above are obliged to deduct withholding tax at source at the rate of 10 per cent. on the gross amount paid or credited and to remit it to the Secretariat General for Taxation not later than fourteen (14) days from the end of the month in which that amount has been paid or credited, whichever is earlier.

Should withholding tax be applied to arrangement, agency or commitment fees, any contractual provision which provides for a gross up will protect against the withholding.

Payments of interest by the Issuer to non-Omani holders of the Notes will be subject to withholding tax of 10 per cent. in accordance with the Oman Income Tax Law.

With regards to any such withholding and/or deductions made on account of withholding tax payable in respect of payments under the Notes, the Issuer shall be required to pay such additional amounts in respect of such withholding or deduction in accordance with Condition 15 such that the holders of the Notes will receive the full amount which would have otherwise been receivable by them in the absence of such withholding or deduction.

Capital Gains Taxes in Oman

Under the Oman Income Tax Law, gains on the sale or redemption of the Notes made by holders of Notes who are tax payers in Oman will be subject to a tax of 15 per cent. of the annual taxable profits of the tax payers, if such income forms part of the business profits and the holders of the Notes are not exempted otherwise under the Oman Income Tax Law.

Other Taxes in Oman

No stamp, issue, registration fees or similar direct or indirect taxes or duties will be payable in Oman in connection with the issuance, delivery, or execution of the Notes by the Issuer.

Proposed introduction of VAT in Oman

The GCC member states have agreed a framework for the introduction of VAT. There is currently no VAT applicable in Oman, but the Secretariat General of Taxation has indicated that VAT is expected to be implemented in Oman in 2019.

Capital Gains Taxes in Oman

Under the Oman Income Tax Law, gains on the sale or redemption of the Notes made by holders of Notes who are tax payers in Oman will be subject to a tax of 15 per cent. of the annual taxable profits of the tax payers, if such income forms part of the business profits and the holders of the Notes are not exempted otherwise under the Oman Income Tax Law.

Other Taxes in Oman

No stamp, issue, registration fees or similar direct or indirect taxes or duties will be payable in Oman in connection with the issuance, delivery, or execution of the Notes by the Issuer.

Proposed introduction of VAT in Oman

The GCC member states have agreed a framework for the introduction of VAT. There is currently no VAT applicable in Oman, but the Secretariat General of Taxation has indicated that VAT is expected to be implemented in Oman in 2019.

Dubai and the United Arab Emirates

The following summary of the anticipated tax treatment in the UAE in relation to the payments on the Notes is based on the taxation law and practice in force at the date of this Base Prospectus and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Notes and the receipt of any payments with respect to such Notes under the laws of the jurisdictions in which they may be liable to taxation.

There is currently in force in Dubai legislation establishing a general corporate taxation regime (the Dubai Income Tax Decree 1969 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE or Dubai taxation in respect of payments of interest or principal on debt securities (including the Notes). In the event of the imposition of any withholding, the relevant Obligor has undertaken to gross-up any payments subject to certain limitations, as described in Condition 7 (*Taxation*).

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to revise taxes on a federal basis for the purposes of funding its budget. It is not known whether this right will be exercised in the future.

With effect from 1 January 2018, the UAE (together with certain of the other GCC states) has implemented a VAT regime at a rate of 5 per cent. The UAE national legislation implementing this framework agreement was published on 23 August 2017 (UAE Federal Decree Law No. 8 of 2017) and, on 28 November 2017, the UAE Ministry of Finance published accompanying VAT implementing regulations.

The UAE has entered into double taxation arrangements with certain other countries, but these are not extensive in number.

The proposed financial transactions tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

U.S. Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as FATCA, a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Trustee may be classified as a foreign financial institution for these purposes. A number of jurisdictions (including the U.A.E. and the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements ("**IGAs**") with the United States to implement FATCA, which modify the way in which FATCA applies in their jurisdictions. Under the provisions of the IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. Noteholders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Arab Banking Corporation (B.S.C.), Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Emirates NBD Bank PJSC, First Abu Dhabi Bank PJSC, the National Bank of Oman SAOG and Standard Chartered Bank (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in the amended and restated dealer agreement dated 7 September 2018 (the "**Dealer Agreement**") and made between, amongst others, the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

General

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering materials, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in a supplement to this Base Prospectus.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered and sold any Notes, and will offer and sell any Notes: (a) as part of their distribution at any time; and (b) otherwise until 40 days after the completion of the distribution of all Notes of the Series of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who purchases Notes of a Series (or in the case of a sale of a Series of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Series to be purchased by or through it or, in the case of a syndicated issue, the relevant lead manager) shall determine and certify to the Fiscal Agent the completion of the distribution of the Notes of such Series. On the basis of such notification or notifications, the Fiscal Agent has agreed to notify such Dealer of the end of the distribution compliance period with respect to such Series.

Each Dealer has also agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and U.S. Treasury regulations thereunder.

In respect of Bearer Notes where TEFRA D is specified in the applicable Final Terms, the relevant Dealer will be required to represent and agree that:

(a) except to the extent permitted under U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "**D Rules**"): (i) it has not offered or sold, and during the restricted period it will not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a United States person; and (ii) it has not delivered and it will not deliver within the United States or its possessions definitive Bearer Notes that are sold during the restricted period;

(b) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, it is acquiring Bearer Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(6) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010);

(d) with respect to each affiliate that acquires Bearer Notes from it for the purpose of offering or selling such Notes during the restricted period, it repeats and confirms the representations and agreements contained in subparagraphs (a), (b) and (c) on such affiliate's behalf; and

(e) it will obtain from any distributor (within the meaning of U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(4)(ii) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010)) that purchases any Bearer Notes from it pursuant to a written contract with such Dealer (other than a distributor that is one of its affiliates or is another Dealer), for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of sub-paragraphs (a), (b), (c) and (d) of this paragraph insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations thereunder, including the D Rules.

In respect of Bearer Notes where TEFRA C is specified in the applicable Final Terms, the relevant Dealer will be required to represent and agree that:

(a) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions in connection with the original issuance of the Bearer Notes; and

(b) in connection with the original issuance of the Bearer Notes it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of the Bearer Notes.

(c) Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Prohibition of Sales to EEA Retail Investors

Unless the applicable Final Terms in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the applicable Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

  (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the applicable Final Terms in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the EEA (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) ***Qualified investors***: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) ***Fewer than 150 offerees***: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) ***Other exempt offers***: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive

2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU and includes any relevant implementing measure in the Relevant Member State).

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than: (i) to "**professional investors**" within the meaning of the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**CO**") or which do not constitute an offer to the public within the meaning of the CO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" within the meaning of the SFO and any rules made under the SFO.

Malaysia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) this Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia ("**CMSA**"); and

(b) accordingly, the Notes have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Notes has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b), and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Notes. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Notes as aforesaid without the necessary approvals being in place.

Singapore

Each Dealer has acknowledged and each further Dealer appointed under the Programme will be required to acknowledge that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed that, and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than:

(a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA")) pursuant to Section 274 of the SFA;

(b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or

(c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Notification under Section 309B(1)(c) of the SFA – Unless otherwise stated in the relevant Final Terms, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Capital Market Authority resolution number 3-123-2017 dated 27 December 2017 (the "**KSA Regulations**"), made through a person authorised by the Capital Market Authority ("**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Dealer represents and agrees that any offer of Notes to a Saudi Investor will be made in compliance with the KSA Regulations.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

(i) an "**Exempt Offer**" in accordance with the Markets Rules (MKT Module) of the Dubai Financial Services Authority (the "**DFSA**") rulebook; and

(ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(f) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(g) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(h) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar (excluding the Qatar Financial Centre)

Each of the Dealers represents, warrants and agrees that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Notes in the State of Qatar, except: (a) in compliance with all applicable laws and regulations of the State of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Qatar Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that this Base Prospectus: (i) has not been, and will not be, registered with or approved by the Qatar Financial Centre Regulatory Authority and may not be publicly distributed in the Qatar Financial Centre; (ii) is intended for the original recipient only and must not be provided to any other person; and (iii) is not for general circulation in the Qatar Financial Centre and may not be reproduced or used for any other purpose.

Oman

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) This Base Prospectus has not been filed with nor registered as a prospectus with the Capital Market Authority of Oman pursuant to Article 3 of the Capital Market Law Sultani Decree 80/98, as amended (**Article 3**), will not be offered or sold as an offer of securities in Oman as contemplated by the Oman Commercial Companies Law) or Article 3, nor does it constitute a sukuk offering pursuant to the Sukuk Regulation issued by the Capital Market Authority of Oman (CMA Decision 3/2016); and

(b) the Notes have not been and will not be offered, sold or delivered, and no invitation to subscribe for or to purchase the Notes has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Oman to any person in Oman other than by an entity duly licensed by the Capital Market Authority of Oman to market non-Omani securities in Oman and then only in accordance with all applicable laws and regulations, including Article 139 of the Executive Regulations of the Capital Markets Law (Decision No. 1/2009, as amended).

State of Kuwait

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that no Notes will be offered, sold, promoted or advertised by it in the State of Kuwait other than in compliance with Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities.

No private or public offering of the Notes is being made in the State of Kuwait, and no agreement relating to the sale of the Notes will be concluded in the State of Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Notes in the State of Kuwait.

GENERAL INFORMATION

1. **Authorisation**

The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 8 May 2014 and by a resolution of the shareholders of the Issuer passed on 22 March 2011. The update of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 25 March 2018. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

2. **Listing of Notes**

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Main Securities Market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche.

Application has been made to Euronext Dublin for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Main Securities Market. The approval of the Programme in respect of Notes is expected to be granted on or around 7 September 2018. Unlisted Notes may be issued pursuant to the Programme.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of Euronext Dublin or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

3. **Legal and Arbitration Proceedings**

The Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the period covering the previous 12 months which may have or have had in the recent past a significant effect on the Issuer's financial position or profitability.

4. **Significant/Material Change**

There has been no significant change in the financial or trading position of the Issuer since 30 June 2018 and there has been no material adverse change in the prospects of the Issuer since 31 December 2017.

5. **Documents on Display**

Physical copies of the following documents may be inspected during normal business hours at the specified offices of the Fiscal Agent for a year from the date of this Base Prospectus:

(a) the Agency Agreement;

(b) the Deed of Covenant;

(c) the Programme Manual (which contains the forms of the Notes in global and definitive form);

(d) any Final Terms relating to Notes which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. In the case of any Notes which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the applicable Final Terms will only be available for inspection by the relevant Noteholders;

(e) a copy of this Base Prospectus;

(f) any future base prospectuses, information memoranda, supplements and applicable Final Terms (save that the applicable Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the

European Economic Area in circumstances where a Base Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuers and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference;

(g) the Articles of Association of the Issuer;

(h) the Interim Financial Statements; and

(i) the Annual Financial Statements.

This Base Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Main Securities Market will be published on the website of the Euronext Dublin (www.ise.ie).

6. **Clearing of the Notes**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

7. **Conditions for Determining Price and Yield**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Notes will be calculated on an annual or semi-annual basis using the relevant issue price at the relevant issue date for such Tranche. It is not an indication of future yield.

8. **Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer in the ordinary course of business for which they have received, and for which they may in the future receive, fees.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

9. **Auditors**

The current auditors of the Issuer are Ernst & Young LLC ("**EY**"). EY were appointed as auditors of the Issuer in the annual general meeting held on 27 March 2016. EY is regulated in the Sultanate of Oman by the Ministry of Commerce and Industry which has issued EY with a licence to practice as auditors. There is no professional institute of auditors in the Sultanate of Oman and, accordingly, EY is not a member of a professional body in the Sultanate of Oman. All of EY audit partners are members of the institutes from where they received their professional qualification.

10. **Shareholders rights**

The rights of any major shareholder in the Issuer are contained in the articles of association of the Issuer and the Issuer will be managed in accordance with those articles and with the provisions of, amongst other laws of general application, the Commercial Companies Law promulgated by Sultani Decree 4/1974 (as amended), the Law of Commerce promulgated by Sultani Decree 55/1990 (as amended) and the Code of Corporate Governance for Public Listed Companies (as amended).

INDEX TO FINANCIAL STATEMENTS

EY
Building a better working world

Ernst & Young LLC
P.O. Box 1750, Ruwi 112
3-4 th Floor
Ernst & Young Building
Al Qurum, Muscat
Sultanate of Oman

Tel: +968 24 559 559
Fax: +968 24 566 043
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of National Bank of Oman SAOG (the "Bank"), which comprise the statement of financial position as at 31 December 2016, 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 2016 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.

Other matter

The financial statements of the Bank for the year ended 31 December 2015 were audited by another independent auditor whose report dated 25 January 2016 expressed an unmodified 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.

1. Impairment of loans, advances and financing activities for customers

Impairment of loans, advances and financing activities 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 related to such loans and receivables.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (CONTINUED)

Key audit matters (continued)

1. Impairment of loans, advances and financing activities for customers (continued)

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 3.19 to the financial statements. Attention is also drawn to the critical accounting estimates and judgements, disclosures of loans and receivables and the credit risk management set out in notes 2.4.2, 6 and 30.1, respectively 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.

2. Impairment of available-for-sale investments

The Bank's available-for-sale portfolio comprises investments made in equity and debt instruments. Investments are impaired only when there is an objective evidence of impairment. We considered impairment of available-for-sale investment as key audit matter due to complexity involved in such determination and its materiality to the financial statements.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (CONTINUED)

Key audit matters (continued)

2. Impairment of available-for-sale investments (continued)

The accounting policy relating to impairment of available-for-sale investments, critical accounting estimates and judgements, the disclosures relating to impairment of available-for-sale investments and fair value measurement are set out in notes 3.19, 2.4.3, 7 and 33, respectively to the financial statements.

Our audit procedures comprised, amongst others, of a critical assessment of the Bank's methodology and the appropriateness of the impairment computation performed by the management on the Bank's available-for-sale investments. We evaluated the Bank's assessment of whether any objective evidence of impairment exists for each investments.

For equity investments, on a sample basis, we:

- assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments;
- evaluated the basis for determining the fair value of investments;
- tested the valuations of investments; and
- considered the price fluctuation / movement during the holding period to determine if the significant or prolonged criteria is met.

For debt instruments, on a sample basis, we assessed the creditworthiness of counter parties based on available market information and assessed the cash flows to consider any defaults based upon the contractual terms and conditions of the instruments.

We also assessed the appropriateness of the disclosures in the financial statements in accordance with IFRS.

Other information included in the Bank's 2016 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 2016 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 2016 Annual Report after the date of our auditor's report:

- Chairman'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.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (CONTINUED)

Other information included in the Bank's 2016 Annual Report (continued)

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.

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.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (continued)

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

- 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's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Sanjay Kawatra
Muscat
5 March 2017

ارنست ويونغ ش م م
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

2015	2016			2016	2015
USD'000	**USD'000**		Notes	**RO'000**	RO'000
		ASSETS			
790,878	**1,328,816**	Cash and balances with Central Banks	4	**511,594**	304,488
444,117	**299,558**	Due from banks and other money market placements (net)	5	**115,330**	170,985
6,582,075	**6,935,795**	Loans, advances and financing activities for customers (net)	6	**2,670,281**	2,534,099
406,904	**333,462**	Financial investments	7	**128,383**	156,658
90,055	**120,377**	Premises and equipment	8	**46,345**	34,671
162,425	**157,792**	Other assets	9	**60,750**	62,534
8,476,454	**9,175,800**	**TOTAL ASSETS**		**3,532,683**	3,263,435
		LIABILITIES AND EQUITY			
		LIABILITIES			
422,143	**585,026**	Due to banks and other money market deposits	10	**225,235**	162,525
5,843,704	**6,232,107**	Customers' deposits and unrestricted investment accounts	11	**2,399,361**	2,249,826
509,021	**605,468**	Euro medium term notes	12	**233,105**	195,973
207,668	**207,953**	Other liabilities	13	**80,062**	79,952
21,823	**19,236**	Taxation	14	**7,406**	8,402
7,004,359	**7,649,790**			**2,945,169**	2,696,678
135,325	**127,532**	Subordinated debt	15	**49,100**	52,100
7,139,684	**7,777,322**	**TOTAL LIABILITIES**		**2,994,269**	2,748,778
		EQUITY			
348,236	**383,060**	Share capital	16	**147,478**	134,071
89,519	**89,519**	Share premium	17	**34,465**	34,465
123,992	**127,686**	Legal reserve	18	**49,159**	47,737
105,444	**119,990**	Other non-distributable reserves	19	**46,196**	40,596
59,200	**60,982**	Proposed cash dividend	21	**23,478**	22,792
34,823	**19,153**	Proposed stock dividend	21	**7,374**	13,407
275,556	**298,088**	Retained earnings		**114,764**	106,089
1,036,770	**1,098,478**	**TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK**		**422,914**	399,157
300,000	**300,000**	Tier 1 Perpetual Bond	20	**115,500**	115,500
1,336,770	**1,398,478**	**TOTAL EQUITY**		**538,414**	514,657
8,476,454	**9,175,800**	**TOTAL LIABILITIES AND EQUITY**		**3,532,683**	3,263,435

The financial statements were authorised for issue on 25 January 2017 in accordance with a resolution of the Board of Directors.

……………………………………
Chairman

……………………………………
Chief Executive Officer

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

2015	**2016**		Notes	**2016**	2015
USD'000	**USD'000**			**RO'000**	RO'000
317,242	**354,434**	Interest income	23	**136,457**	122,138
(79,322)	**(99,613)**	Interest expense	24	**(38,351)**	(30,539)
237,920	**254,821**	**Net interest income**		**98,106**	91,599
9,683	**12,974**	Income from Islamic financing and investment activities		**4,995**	3,728
(1,535)	**(3,990)**	Unrestricted investment account holders' share of profit		**(1,536)**	(591)
8,148	**8,984**	**Net Income from Islamic financing and investment activities**		**3,459**	3,137
246,068	**263,805**	Net interest income and net income from Islamic financing and Investment activities		**101,565**	94,736
106,447	**89,735**	Other operating income	25	**34,548**	40,982
352,515	**353,540**	**Operating income**		**136,113**	135,718
(93,842)	**(98,395)**	Staff costs		**(37,882)**	(36,129)
(54,195)	**(56,930)**	Other operating expenses	26	**(21,918)**	(20,865)
(7,829)	**(7,439)**	Depreciation	8	**(2,864)**	(3,014)
(155,866)	**(162,764)**	**Total operating expenses**		**(62,664)**	(60,008)
196,649	**190,776**	**PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX**		**73,449**	75,710
(40,187)	**(51,029)**	Credit loss expense – customers' loan	6	**(19,646)**	(15,472)
4,725	**6,673**	Recoveries and releases from provision for credit losses	6	**2,569**	1,819
22,951	**18,678**	Recoveries from loans and advances written off		**7,191**	8,836
(3,935)	**(545)**	Impairment losses on available-for-sale investments	7	**(210)**	(1,515)
(18)	**161**	Credit loss write back / expense - bank loans		**62**	(7)
(16,464)	**(26,062)**	**TOTAL IMPAIRMENT LOSSES (NET)**		**(10,034)**	(6,339)
180,185	**164,714**	**PROFIT BEFORE TAX**		**63,415**	69,371
(24,065)	**(19,834)**	Taxation	14	**(7,636)**	(9,265)
156,120	**144,880**	**PROFIT FOR THE YEAR**		**55,779**	60,106
		OTHER COMPREHENSIVE (EXPENSE) INCOME			
		Items that are or may be reclassified subsequently to profit or loss			
3,070	**(2,450)**	Net movement on available-for-sale investments		**(943)**	1,182
(3,935)	**(545)**	Impairment losses on available-for-sale investments	7	**(210)**	(1,515)
1,932	-	Surplus on revaluation of buildings		-	744
177	**(174)**	Tax effect of net movement on available-for-sale investments		**(67)**	68
1,244	**(3,169)**	**OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR**		**(1,220)**	479
157,364	**141,711**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**54,559**	60,585
0.10	**0.08**	**Earnings per share: (USD) – Basic and diluted – (RO)**	28	**0.032**	0.039

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Attributable to equity holders of Bank										
	Share capital	Share premium	Legal reserve	General reserve	Other non-distributable reserves	Proposed cash dividend (note 21)	Proposed stock dividend (note 21)	Retained earnings	Total	Tier I perpetual bond	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2016	**134,071**	**34,465**	**47,737**	-	**40,596**	**22,792**	**13,407**	**106,089**	**399,157**	**115,500**	**514,657**
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	**55,779**	**55,779**	-	**55,779**
Net movement on available-for-sale investments	-	-	-	-	**(1,220)**	-	-	-	**(1,220)**	-	**(1,220)**
Dividend paid	-	-	-	-	-	**(22,792)**	-	-	**(22,792)**	-	**(22,792)**
Issue of bonus shares	**13,407**	-	-	-	-	-	**(13,407)**	-	-	-	-
Interest paid on Tier I perpetual bond	-	-	-	-	-	-	-	**(8,010)**	**(8,010)**	-	**(8,010)**
Proposed dividend	-	-	-	-	-	**23,478**	**7,374**	**(30,852)**	-	-	-
Transfers	-	-	-	-	**(3,000)**	-	-	**3,000**	-	-	-
Transfer to subordinated debt reserve (note 15)	-	-	-	-	**9,820**	-	-	**(9,820)**	-	-	-
Transfer to legal reserve (note 18)	-	-	**1,422**	-	-	-	-	**(1,422)**	-	-	-
Balance at 31 December 2016	**147,478**	**34,465**	**49,159**	-	**46,196**	**23,478**	**7,374**	**114,764**	**422,914**	**115,500**	**538,414**
Balance at 31 December 2016 – In USD'000	**383,060**	**89,519**	**127,686**	-	**119,990**	**60,982**	**19,153**	**298,088**	**1,098,478**	**300,000**	**1,398,478**
Balance at 1 January 2015	121,883	34,465	43,380	4,419	41,322	20,720	12,188	83,152	361,529	-	361,529
Total comprehensive income for the year										-	
Profit for the year	-	-	-	-	-	-	-	60,106	60,106	-	60,106
Net movement on available for sale investments	-	-	-	-	479	-	-	-	479	-	479
Dividend paid	-	-	-	-	-	(20,720)	-	-	(20,720)	-	(20,720)
Issue of bonus shares	12,188	-	-	-	-	-	(12,188)	-	-	-	-
Proceeds from Tier I perpetual bond	-	-	-	-	-	-	-	-	-	115,500	115,500
Tier I perpetual bond issuance cost	-	-	-	-	-	-	-	(1,151)	(1,151)	-	(1,151)
Interest on tier I perpetual bond	-							(1,086)	(1,086)		(1,086)
Proposed dividend	`	-	-	-	-	22,792	13,407	(36,199)	-	-	-
Transfers	-	-	-	(4,419)	(11,625)	-	-	16,044	-	-	-
Transfer to subordinated debt reserve (note 15)	-	-	-	-	10,420	-	-	(10,420)	-	-	-
Transfer to legal reserve (note 18)	-	-	4,357	-	-	-	-	(4,357)	-	-	-
Balance at 31 December 2015	134,071	34,465	47,737	-	40,596	22,792	13,407	106,089	399,157	115,500	514,657
Balance at 31 December 2015 – In USD'000	348,236	89,519	123,992	-	105,444	59,200	34,823	275,556	1,036,770	300,000	1,336,770

The attached notes 1 to 35 form part of these financial statements.

2015	2016		Notes	2016	2015
USD'000	**USD'000**			**RO'000**	RO'000
		OPERATING ACTIVITIES			
180,185	**164,714**	Profit before taxation		**63,415**	69,371
		Adjustments for:			
7,829	**7,439**	Depreciation	8	**2,864**	3,014
40,187	**51,029**	Writeback / provision for credit losses – customers' loans		**19,646**	15,472
18	**(161)**	Provision for credit losses - due from banks		**(62)**	7
3,935	**545**	Impairment losses on available for sale investments	7	**210**	1,515
(436)	**(31)**	Profit on sale of equipment (net)		**(12)**	(168)
(2,623)	**(4,447)**	Profit on sale of investments	25	**(1,712)**	(1,010)
(12,026)	**(11,514)**	Investment income		**(4,433)**	(4,630)
217,069	**207,574**	**Operating profit before changes in operating assets and liabilities**		**79,916**	83,571
(12,057)	**(38,062)**	Due from banks and other money market placements		**(14,654)**	(4,642)
135,091	**225,062**	Due to banks and other money market deposits		**86,649**	52,010
(604,566)	**(404,748)**	Loans, advances and financing activities for customers (net)		**(155,828)**	(232,758)
(19,299)	**5,153**	Other assets		**1,984**	(7,430)
187,231	**388,403**	Customers' deposits		**149,535**	72,084
-	**100,000**	Euro medium term notes		**38,500**	-
31,239	**(3,268)**	Other liabilities		**(1,258)**	12,027
(65,292)	**480,114**	**Cash from/(used in) operations**		**184,844**	(25,138)
(18,637)	**(22,358)**	Taxes paid		(8,608)	(7,175)
(83,929)	**457,756**	**Net cash from operating activities**		**176,236**	(32,313)
		INVESTING ACTIVITIES			
(121,979)	**(37,691)**	Purchase of non-trading investments		**(14,511)**	(46,962)
40,158	**34,527**	Proceeds from sale of non-trading investments		**13,293**	15,487
52,016	**77,922**	Proceeds from maturity of government development bonds		**30,000**	20,000
(39,657)	**(38,369)**	Purchase of premises and equipment	8	**(14,772)**	(15,269)
2,423	**255**	Disposal of premises and equipment		**98**	933
7,938	**9,545**	Income from bond and other investments	25	**3,675**	3,056
4,088	**1,969**	Dividend income	25	**758**	1,574
117	**(945)**	Translation differences on premises and equipment and tax		**(363)**	46
(54,896)	**47,213**	**Net cash from/(used in) investing activities**		**18,178**	(21,135)
		FINANCING ACTIVITIES			
(53,818)	**(59,200)**	Payment of dividend		**(22,792)**	(20,720)
(29,870)	**(7,791)**	Net movement in subordinated debt	15	**(3,000)**	(11,500)
300,000	**-**	Proceeds from Tier 1 perpetual bond		**-**	115,500
(2,821)	**(20,805)**	Interest on Tier 1 perpetual bond		**(8,010)**	(1,086)
213,491	**(87,796)**	**Net cash (used in)/from financing activities**		**(33,802)**	82,194
74,666	**417,173**	**INCREASE IN CASH AND CASH EQUIVALENTS**		**160,612**	28,746
813,338	**888,004**	Cash and cash equivalents at the beginning of the year		**341,881**	313,135
888,004	**1,305,177**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**502,493**	341,881
		REPRESENTING:			
789,579	**1,327,517**	Cash and balances with Central Banks	4	**511,094**	303,988
371,863	**188,920**	Due from banks (maturing within 3 months)		**72,734**	143,167
(273,438)	**(211,260)**	Due to banks (maturing within 3 months)		**(81,335)**	!105,274)
888,004	**1,305,177**			**502,493**	341,881

The attached notes 1 to 35 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale, investment and Islamic banking services within the Sultanate of Oman and overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt, the branches operate under a commercial bank license given by the respective Central Bank. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on the Muscat Stock Exchange and its Euro medium term notes are listed on Irish Stock Exchange.

The bank employed 1,544 employees as of 31 December 2016 (31 December 2015 – 1,506 employees).

2 BASIS OF PREPARATION

2.1 Basis of measurement

The financial statements are prepared under the historical cost convention as modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivatives, investments classified as available-for-sale and investments carried at fair value through profit and loss.

2.2 Functional and presentation currencies

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.3 Statement of compliance

The financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS), applicable regulations of the Central Bank of Oman and applicable requirements of the Commercial Companies Law of Oman, as amended and the Capital Market Authority of the Sultanate of Oman.

The bank presents its statement of financial position broadly in order of liquidity.

2.4 Significant accounting judgments and estimates

In the process of applying the bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

2.4.1 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 a going concern basis.

2 BASIS OF PREPARATION (Continued)

2.4.2 Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.) and concentrations of risks.

2.4.3 Impairment of equity investments

The bank treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

2.4.4 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

2.4.5 Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.4.6 Investment Funds

The bank acts as fund manager and investment advisor to investment funds. For all funds managed by the bank, the investors (whose number ranges from 30 to 100) are able to vote by simple majority to remove the bank as fund manager without cause, and the bank's aggregate economic interest is in each case less than 5%. As a result, the Bank has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

2.5 Standards, Amendments and interpretations that are not yet effective and have not been early adopted by the Bank

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 2016:

IFRS 9 'Financial instruments' (Annual periods beginning on or after 1 January 2018)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Bank plans to start the implementation of IFRS 9 in the first quarter of 2017 to ensure it is ready to adopt by 2018.

2 BASIS OF PREPARATION (Continued)

IFRS 15 Revenue from Contracts with Customers: IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plan to adopt the new standard on the required effective date. The Bank is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

IFRS 16 Leases: The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. 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. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

The following new or amended standards are not expected to have a significant impact on the bank's financial statements.

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
- Annual Improvements 2012-2014 Cycle
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures,
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting.

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been early adopted by the bank, are not expected to have a material impact on the bank's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

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.

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 where transaction costs is recorded as an expense.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.4 Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- 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; or
- 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; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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 'other operating income'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

3.5 Held-to-maturity

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income.

If the bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

3.6 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 those which are intended to be held for an indefinite period of time and which 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, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the statement of comprehensive income for the year. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of comprehensive income 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 for the year in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Derivative financial instruments and hedging activities

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:

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

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

(iii) 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. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of comprehensive income within 'Other operating income'.

At inception of the hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the profit or loss in 'Other operating income'. For situations where the hedged item is a forecast transaction, the bank also assesses whether the transaction is highly probable and an exposure to variations in cash flows that could ultimately affect the statement of comprehensive income.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss in other operating income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the profit or loss in other operating income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the Cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3.8 Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the profit or loss for the year. The losses arising from impairment are recognised in the profit or loss for the year in 'Credit loss expense'.

3.9 Determination of fair values

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. Details are set out in note 33.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 each 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.

3.10 Premises and equipment

Premises and equipment are initially recorded at cost or deemed cost. Revaluations of buildings are carried out every five years on an open market value for existing use basis by an independent valuer. Net surpluses arising on revaluation are credited to a capital reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings.

Land and capital work in progress are stated at cost and tested for impairment, if any. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress.

The rates of depreciation are based upon the following estimated useful lives:

- Buildings on freehold land 25 years
- Buildings on leasehold land 10 years
- Leasehold improvements 3 to 5 years
- Motor vehicles 4 years
- Furniture 10 years
- Equipment 5 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

3.11 Derecognition of financial assets and financial liabilities

Financial assets:

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

- 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 (a) the bank has transferred substantially all the risks and rewards of the asset, or (b) the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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 for the year.

3.12 Collateral pending sale

The bank occasionally 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 profit or loss for the year.

3.13 Deposits

All money market and customer deposits are carried at amortised cost using EIR.

3.14 Other borrowed funds

Other borrowings including subordinate private placements are recognised initially at their issue proceeds. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the period of the borrowings using EIR.

3.15 Taxation – current and deferred

Taxation is provided for based on the relevant tax laws of the respective countries, in which the bank operates.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss for the year except to the extent that it relates to items recognised directly to other comprehensive income, in which case it is recognised in equity.

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.16 Fiduciary assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Financial guarantees

In the ordinary course of business, the bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "other liabilities". Subsequent to initial recognition, the bank measures such guarantees at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fee in the profit or loss for the year in "Net fees and commission income" over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the profit or loss for the year. Any financial guarantee liability remaining is recognised in the statement of comprehensive income when the guarantee is discharged, cancelled or expires.

3.18 Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

3.19 Impairment of financial assets

The bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognised in the profit or loss for the year.

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, 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 has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 profit or loss for the year. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Recoveries from loans and advances written off'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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.

Held-to-maturity financial investments

For held-to-maturity investments the bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss for the year.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

Available-for-sale financial investments

For available-for-sale financial investments, the bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss for the year. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

3.20 Perpetual Bond

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.22 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'.

Fee and commission income

The bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, sale of insurance products are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised when the bank's right to receive the payment is established.

3.23 Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Leases

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

3.25 Staff terminal benefits

The terminal benefits for employees in Oman are provided in accordance with the Sultanate of Oman's labour law. The end of service benefits for employees in UAE are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE labour laws. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law.

3.26 Segment reporting

The bank's segmental reporting is based on the following operating segments: retail banking, wholesale banking, commercial banking and Funding Center. Segment results are reported to the Chief Executive Officer of the Bank, (being the chief operating decision maker) and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.27 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

3.28 Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3.29 Impairment of non-financial assets

The carrying amount of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication whether there is any indication of impairment. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.30 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.31 Foreign currency translation

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

4 CASH AND BALANCES WITH CENTRAL BANKS

2015	**2016**		**2016**	2015
USD'000	**USD'000**		**RO'000**	RO'000
116,047	**121,005**	Cash	**46,587**	44,678
21,158	**657**	Treasury bills with Central Banks	**253**	8,146
652,374	**1,205,855**	Other balances with Central Banks	**464,254**	251,164
789,579	**1,327,517**	**Cash and cash equivalents**	**511,094**	303,988
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
790,878	**1,328,816**	**Cash and balances with Central Banks**	**511,594**	304,488

The capital deposit above cannot be withdrawn without the approval of the Central Bank of Oman.

5 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

2015	**2016**		**2016**	2015
USD'000	**USD'000**		**RO'000**	RO'000
67,751	**65,501**	Loans and advances to banks	**25,218**	26,084
249,558	**145,657**	Placement with banks	**56,078**	96,080
127,146	**88,577**	Demand balances	**34,102**	48,951
444,455	**299,735**	**Due from banks and other money market placement**	**115,398**	171,115
(338)	**(177)**	Less: allowance for credit losses	**(68)**	(130)
444,117	**299,558**	**Net due from banks and other money market placement**	**115,330**	170,985

6 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET)

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
181,784	**227,062**	Overdrafts	**87,419**	69,987
3,091,415	**3,478,474**	Personal loans	**1,339,213**	1,190,195
2,991,280	**2,983,466**	Other loans	**1,148,634**	1,151,643
388,021	**313,782**	Loans against trust receipts	**120,806**	149,388
158,681	**187,595**	Bills discounted	**72,224**	61,092
6,811,181	**7,190,379**	**Gross loans and advances**	**2,768,296**	2,622,305
(199,332)	**(221,745)**	Allowance for credit losses	**(85,372)**	(76,743)
(29,774)	**(32,839)**	Reserved interest	**(12,643)**	(11,463)
6,582,075	**6,935,795**	**Net loans and advances**	**2,670,281**	2,534,099

The movement in the allowance for credit losses

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
		Allowance for credit losses		
179,733	**199,332**	Balance at beginning of the year	**76,743**	69,197
40,187	**51,029**	Provided during the year	**19,646**	15,472
(3,000)	**(5,268)**	Released/recovered during the year	**(2,028)**	(1,155)
(17,244)	**(22,945)**	Written off during the year	**(8,834)**	(6,639)
(344)	**(403)**	Translation difference	**(155)**	(132)
199,332	**221,745**	**Balance at end of the year**	**85,372**	76,743
		Reserved interest		
25,327	**29,774**	Balance at beginning of the year	**11,463**	9,751
7,192	**10,143**	Reserved during the year	**3,905**	2,769
(1,725)	**(1,405)**	Released/recovered during the year	**(541)**	(664)
(1,003)	**(5,545)**	Written off during the year	**(2,135)**	(386)
(17)	**(128)**	Translation difference	**(49)**	(7)
29,774	**32,839**	**Balance at end of the year**	**12,643**	11,463

A further analysis of allowances for credit losses is set out below:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
104,849	**122,151**	Specific impairment	**47,028**	40,367
94,483	**99,594**	Collective impairment	**38,344**	36,376
199,332	**221,745**		**85,372**	76,743

6 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET) (Continued)

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. At 31 December 2016, impaired loans on which interest is not being accrued or where interest has been reserved amounted to RO 74 million – USD 192 million (2015 – RO 62 million – USD 160 million).

During the year, the bank has written-off fully provided loans and advances amounting to RO 11 million – USD 28.5 million (2015: RO 7million – USD 18.2 million) against impairment provisions where the bank believes the possibility of a recovery is low. The bank will continue to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the profit or loss for the year.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location.

The table below analyses the concentration of gross loans and advances by various sectors.

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
3,091,415	**3,478,474**	Personal	**1,339,213**	1,190,195
778,873	**751,488**	Service	**289,323**	299,866
683,335	**631,647**	Construction	**243,184**	263,084
587,519	**583,831**	Manufacturing	**224,775**	226,195
229,444	**405,852**	Financial institutions	**156,253**	88,336
288,078	**396,821**	Wholesale and retail trade	**152,776**	110,910
349,774	**326,936**	Others	**125,870**	134,663
244,275	**217,501**	Import trade	**83,738**	94,046
59,964	**147,797**	Mining and quarrying	**56,902**	23,086
339,068	**120,642**	Transport and communication	**46,447**	130,541
139,114	**108,156**	Electricity, gas and water	**41,640**	53,559
20,288	**18,564**	Agriculture	**7,147**	7,811
34	**2,670**	Government	**1,028**	13
6,811,181	**7,190,379**	**Gross loans and advances**	**2,768,296**	2,622,305

The geographic distribution of loans and advances to customers, based on the location of the borrower is as follows:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
6,132,770	**6,524,971**	Sultanate of Oman	**2,512,114**	2,361,117
595,478	**579,169**	United Arab Emirates	**222,980**	229,259
1,130	**403**	Egypt	**155**	435
81,803	**85,836**	Others	**33,047**	31,494
6,811,181	**7,190,379**		**2,768,296**	2,622,305

7 FINANCIAL INVESTMENTS

The table below analyses the concentration of gross loans and advances by various sectors.

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
		A. Held for trading		
		Quoted investments- Oman		
-	7,792	Government Sukuk	3,000	-
170,048	160,364	Government Development Bonds	61,740	65,468
-	776	Equities	299	-
170,048	168,932		65,039	65,468
		Quoted investments- Foreign		
-	1,582	Equities	609	-
170,048	170,514	**Total held for trading**	65,648	65,468
		B. Available-for-sale		
		Quoted investments- Oman		
1,299	2,260	Banking and investment sector	870	500
413	366	Manufacturing sector	141	159
62,039	35,875	Service sector	13,812	23,885
112,379	-	Government Development Bonds	-	43,266
176,130	38,501		14,823	67,810
		Quoted investments- Foreign		
797	862	Banking and investment sector	332	307
9,610	9,356	Service sector	3,602	3,700
10,407	10,218		3,934	4,007
		Unquoted investments		
22,249	21,701	Banking and investment sector	8,355	8,566
9,047	9,047	Manufacturing sector	3,483	3,483
182	912	Service sector	351	70
31,478	31,660		12,189	12,119
218,015	80,379	**Total available-for-sale**	30,946	83,936
		C. Held-to-maturity		
		Quoted investments- Oman		
-	49,023	Government Development Bonds	18,874	-
-	15,000	Manufacturing sector	5,775	-
-	64,023		24,649	-
		Quoted investments- Overseas		
5,153	5,130	Banking sector	1,975	1,984
13,688	13,416	Government Development Bonds	5,165	5,270
18,841	18,546		7,140	7,254
18,841	82,569	**Total Held-to-maturity**	31,789	7,254
406,904	333,462	**TOTAL FINANCIAL INVESTMENTS**	128,383	156,658

7 FINANCIAL INVESTMENTS (Continued)

Government Development Bonds (GDBs) which were classified on 31 December 2015 as available-for-sale amounting to RO 42.9 million have been reclassified as held to maturity with effect from 1 January 2016. Out of this GDBs amounting to RO 30 million has matured during the year.

Included under unquoted available for sale investments are investments with a value of RO 3.92 million – USD 10.18 million (2015 – RO 3.87 million – USD 10.05 million), which are carried at cost, less any impairment losses, due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. All other available for sale investments are carried at fair value.

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment portfolio are as follows

Bank's portfolio	Carrying value		Bank's portfolio	Carrying value
%	USD'000	**2016**	%	RO'000
62.8	**209,387**	**Government Development Bonds- Oman**	**62.8**	**80,614**
		2015		
69.4	282,426	Government Development Bonds- Oman	69.4	108,734

Details of impairment movement

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
1,912	5,166	Balance at beginning of the year	1,989	736
3,935	545	Provided during the year	210	1,515
(681)	-	Released/recovered during the year	-	(262)
5,166	5,711	**Balance at end of the year**	2,199	1,989

During the year, the bank has recorded RO 0.2 million – USD 0.52 million (2015 RO 1.52 million - USD 3.95 million) as impairment losses against its available for sale investments. The impairment loss on available for sale investments is recognised in view of either a significant or prolonged decline in the fair value of the investment below cost.

8 PREMISES AND EQUIPMENT

	Freehold land and buildings and leasehold improvements	Motor vehicles, furniture and equipment	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000
Reconciliation of carrying amount:				
Balance as on 1 January 2016, net of accumulated depreciation	**11,723**	**5,368**	**17,580**	**34,671**
Additions	**561**	**607**	**13,604**	**14,772**
Disposals	**(1)**	**(18)**	**(67)**	**(86)**
Transfers	**994**	**4,170**	**(5,164)**	**-**
Translation difference	**(144)**	**(4)**	**-**	**(148)**
Depreciation	**(641)**	**(2,223)**	**-**	**(2,864)**
Balance at 31 December 2016, net of accumulated depreciation	**12,492**	**7,900**	**25,953**	**46,345**
At cost	**23,108**	**34,333**	**25,953**	**83,394**
At revaluation	**4,385**	**-**	**-**	**4,385**
Accumulated depreciation	**(15,001)**	**(26,433)**	**-**	**(41,434)**
Net carrying value at 31 December 2016	**12,492**	**7,900**	**25,953**	**46,345**
Net carrying value at 31 December 2016 – USD'000	**32,447**	**20,520**	**67,410**	**120,377**
At cost 1 January 2015	21,758	29,798	17,580	69,136
At revaluation	4,385	-	-	4,385
Accumulated depreciation	(14,420)	(24,430)	-	(38,850)
Net carrying value at 31 December 2015	11,723	5,368	17,580	34,671
Net carrying value at 31 December 2015– USD'000	30,449	13,943	45,663	90,055

Freehold land and buildings and leasehold improvements includes freehold land stated at cost of RO 8.56 million – USD 22.22 million (2015 – RO 8.56 million – USD 22.22 million) which is not depreciated and not re-valued. Three buildings on freehold land were re-valued at their open market value by an independent professional valuer as of 17 December 2015, at RO 4.4 million (USD 11.43 million) from then existing value of RO 3.77 million (USD 9.79 million). Should the buildings on freehold land be carried at cost less depreciation, the net carrying amount would have been RO 0.12 million – USD 0.31 million (2015 – RO 0.27 million – USD 0.69 million).

Capital work in progress mainly relates to ongoing construction of the bank's new head office building.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

9 OTHER ASSETS

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
40,264	**47,916**	Interest receivable and others	**18,447**	15,502
21,429	**21,810**	Positive fair value of derivatives (note 34)	**8,397**	8,250
98,779	**85,917**	Customers' indebtedness for acceptances	**33,078**	38,030
1,953	**2,149**	Deferred tax (note 14)	**828**	752
162,425	**157,792**		**60,750**	62,534

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
401,395	**575,953**	Acceptances and borrowings	**221,742**	154,537
20,748	**9,073**	Other balances	**3,493**	7,988
422,143	**585,026**		**225,235**	162,525

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
2,079,808	**2,208,660**	Current accounts	**850,334**	800,726
1,556,797	**1,568,444**	Savings accounts	**603,851**	599,367
2,207,099	**2,455,003**	Term deposits	**945,176**	849,733
5,843,704	**6,232,107**		**2,399,361**	2,249,826

12 EURO MEDIUM TERM NOTES

The Bank in 2014 had issued a 5-year, RO 192.27 million (USD 500 million) Regulation S, bond under its Euro Medium Term Note (EMTN) programme of USD 600 million with regional and international investors. The bonds are listed on the Irish Stock Exchange and are governed by English law. The carrying amount of EMTN is stated after taking into account the amount of MTM value of the fair value hedge entered by the bank to manage its risk relating to interest rate (Refer note 34).

During July 2016, the bank concluded a tap issuance for RO 38.46 million (USD 100 million) under the same Euro Medium Term Note (EMTN) programme.

13 OTHER LIABILITIES

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
89,824	**102,799**	Interest payable and others	**39,578**	34,582
4,681	**4,603**	Staff entitlements	**1,772**	1,802
98,779	**85,917**	Liabilities under acceptances	**33,078**	38,030
14,384	**14,634**	Negative fair value of derivatives (note 34)	**5,634**	5,538
207,668	**207,953**		**80,062**	79,952
		Staff entitlements are as follows:		
4,062	**3,956**	End of service benefits	**1,523**	1,564
619	**647**	Other liabilities	**249**	238
4,681	**4,603**		**1,772**	1,802
		Movement in the end of service benefits liability are as follows:		
3,470	**4,062**	Liability as at 1 January	**1,564**	1,336
1,091	**919**	Expense recognised in the statement of comprehensive income	**354**	420
(499)	**(1,025)**	End of service benefits paid	**(395)**	(192)
4,062	**3,956**	**Liability as at 31 December**	**1,523**	1,564

14 TAXATION

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
		Current tax expense		
24,711	**20,205**	Current year	**7,779**	9,514
(646)	**(371)**	Deferred tax adjustment	**(143)**	(249)
24,065	**19,834**		**7,636**	9,265

The bank is liable to income tax at the following rates:

- Sultanate of Oman: 12% of consolidated taxable income in excess of RO 30,000
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income

The Bank is expecting changes in tax laws and rates including an increase in the Omani income tax rate from 12% to 15% which may affect recorded deferred tax assets and liabilities in the future. Any change in tax law is accounted for in the period of enactment. Impact of any change in tax law cannot be determined as the Royal Decree is not yet published in the official gazette.

14 TAXATION (Continued)

Set out below is reconciliation between income tax calculated on accounting profits with income tax expense for the year:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
180,185	**164,714**	**Accounting profit**	**63,415**	69,371
21,623	**19,766**	Tax at applicable rate	**7,610**	8,325
678	**(41)**	Non-deductible expenses	**(16)**	261
(1,545)	**(2,115)**	Tax exempt revenues	**(814)**	(595)
3,955	**2,595**	Others	**999**	1,523
24,711	**20,205**		**7,779**	9,514

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2011.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2014.

Tax liability

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
24,065	**20,205**	Income tax and other taxes – Current year	**7,779**	9,265
(2,242)	**(969)**	Income tax and other taxes – Prior years	**(373)**	(863)
21,823	**19,236**		**7,406**	8,402

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

1,891	**2,261**	Deductible temporary differences relating to provisions and revaluation of buildings	**871**	728
62	**(112)**	Available-for-sale investments	**(43)**	24
1,953	**2,149**		**828**	752

15 SUBORDINATED DEBT

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
165,195	**135,325**	At 1 January	**52,100**	63,600
(29,870)	**(7,793)**	Paid during the year	**(3,000)**	(11,500)
135,325	**127,532**		**49,100**	52,100

16 SHARE CAPITAL

The Authorised share capital of the bank is 2,000,000,000 shares of RO 0.100 each (2015 – 2,000,000,000 of RO 0.100 each). At 31 December 2016, 1,474,781,280 shares of RO 0.100 each (2015 – 1,340,710,250 of RO 0.100 each) have been issued and fully paid.

As of 31 December 2016, the following shareholders held 10% or more of the bank's capital:

	Number of shares '000	% Holding
2016	**RO'000**	**RO'000**
The Commercial Bank of Qatar	**514,696**	**34.90%**
Suhail Bahwan Group (Holdings) L.L.C	**217,446**	**14.74%**
Civil Service Employee Pension Fund	**167,579**	**11.36%**

The percentage shareholding is calculated based on the total shares of the bank outstanding at the reporting date.

17 SHARE PREMIUM

The share premium of RO 34.5 million (USD 89.5 million) represents the premium collected on issue of 10 million shares by the bank through a private placement for RO 4.45 (USD 11.56) per share. This was approved by the bank's shareholders at the bank's Extraordinary General Meeting held on 25 June 2005 at which time the face value of the bank's share was RO 1.

18 LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of UAE. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in UAE. At 31 December 2016, the legal reserve of Oman has reached one third of the issued capital.

19 OTHER NON-DISTRIBUTABLE RESERVES

	Available for sale reserve	Revaluation reserve	Subordinated debt reserve	Total
	RO'000	**RO'000**	**RO'000**	**RO'000**
At 1 January 2016	**2,331**	**4,385**	**33,880**	**40,596**
Net movement on available-for-sale investments	**(943)**	-	-	**(943)**
Impairment losses on available-for-sale investments	**(210)**			**(210)**
Tax effect of net losses on available-for-sale financial investments	**(67)**	-	-	**(67)**
Transfer to subordinated debt reserve	-	-	**9,820**	**9,820**
Transfer to retained earnings	-	-	**(3,000)**	**(3,000)**
At 31 December 2016	**1,111**	**4,385**	**40,700**	**46,196**
At 31 December 2016 – In USD'000	**2,886**	**11,390**	**105,714**	**119,990**

19 OTHER NON-DISTRIBUTABLE RESERVES (Continued)

(i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.

(ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 15). The reserve is available for transfer back to retained earning upon maturity of the subordinated debt.

20 TIER 1 PERPETUAL BOND

The bank in 2015 issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to RO 115 million (USD 300 million).

The Tier 1 Securities 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 Securities do not have a fixed or final maturity date. They are redeemable by the bank at its sole discretion on 18 November 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the Central Bank of Oman.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the Bank's discretion.

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

21 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.016 per share totalling RO 23.5 million (USD 0.030 per share totalling USD 61 million) and stock dividend of RO 0.005 per share totalling RO 7.4 million (USD 0.013 per share totalling USD 19.2 million) for the year ended 31 December 2016, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2017.

At the Annual General Meeting held in March 2016, a cash dividend of RO 0.011 per share totalling RO 22.8 million (USD 0.044 per share totalling USD 61.12 million) and stock dividend of RO 0.007 per share totalling RO 13.4 million (USD 0.017 per share totalling USD 34.85 million) for the year ended 31 December 2015 was approved and subsequently paid.

22 CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

22 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Contingent liabilities

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
1,188,494	1,204,062	Guarantees	463,564	457,570
260,314	208,140	Documentary letters of credit	80,134	100,221
1,448,808	1,412,202		543,698	557,791

The table below analyses the concentration of contingent liabilities by economic sector

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
658,208	713,273	Construction	274,610	253,410
146,642	184,516	Wholesale and retail trade	71,039	56,457
125,283	178,146	Manufacturing	68,586	48,234
219,634	165,379	Financial institutions	63,671	84,559
84,434	68,729	Service	26,461	32,507
147,519	61,125	Others	23,533	56,795
47,397	19,653	Transport and communication	7,566	18,248
15,408	17,242	Electricity, gas and water	6,638	5,932
2,582	2,914	Mining and quarrying	1,122	994
1,008	700	Personal	270	388
693	525	Agriculture	202	267
1,448,808	1,412,202		543,698	557,791

Guarantees include RO 0.4 million – USD 1.0 million (2015: RO 0.1 million – USD 0.3 million) relating to non-performing loans.

Commitments

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
363,613	618,262	Undrawn commitment	238,031	139,991
86,221	53,865	Capital expenditure	20,738	33,195
5,488	5,943	**Operating lease commitments**	2,288	2,113
		Future minimum lease payments:		
3,062	2,899	Not later than one year	1,116	1,179
2,426	3,044	Later than one year and not later than five years	1,172	934
5,488	5,943		2,288	2,113

22 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Branches

The bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
54,553	88,584	UAE branch	34,105	21,003
50,000	50,000	Egypt branches	19,250	19,250
104,553	138,584		53,355	40,253

Legal claims

By nature of the Banking sector, litigation whether by or against the Bank is expected. In order to properly manage such litigation, the Bank has in place effective mechanism and controls. The Bank does not have any major/material legal proceedings pending in a court of law in Oman or outside either instituted by or against the Bank, other than normal cases filed by clients in the normal course of business. However, there are certain unresolved legal claims filed against the Bank which are not expected to have any significant implication on The Bank's financial statements. Similarly, there are some ongoing cases filed by the Bank against its borrowers in the course of its normal business practice.

Fiduciary assets

The fair value of securities as of 31 December 2016 held on trust for customers amounts to RO 59.62 million –USD 154.85 million (2015 – RO 64.83 million – USD 168.40 million).

23 INTEREST INCOME

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
312,881	347,748	Interest from customers	133,883	120,459
4,361	6,686	Interest from banks	2,574	1,679
317,242	354,434		136,457	122,138

Interest bearing assets, other than investments earned interest at an overall effective annual rate of 4.90% for the year ended 31 December 2016 (31 December 2015 – 4.68%).

24 INTEREST EXPENSE

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
67,146	75,483	Interest to customers	29,061	25,851
3,345	12,174	Interest to banks	4,687	1,288
8,831	11,956	Euro medium term notes	4,603	3,400
79,322	99,613		38,351	30,539

For the year ended 31 December 2016, the average overall effective annual cost of bank's funds was 1.43% (2015 – 1.16%).

25 OTHER OPERATING INCOME

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
48,403	**41,587**	Fees and commission income	**16,011**	18,635
(44)	**(16)**	Fees and commission expense	**(6)**	(17)
48,359	**41,571**	Net fees and commissions	**16,005**	18,618
25,317	**16,288**	Service charges	**6,271**	9,747
2,623	**4,447**	Profit on sale of investments	**1,712**	1,010
12,990	**12,808**	Net gains from foreign exchange dealings	**4,931**	5,001
7,938	**9,545**	Income from bonds and others	**3,675**	3,056
4,088	**1,969**	Dividend income	**758**	1,574
5,132	**3,107**	Miscellaneous income	**1,196**	1,976
106,447	**89,735**		**34,548**	40,982

26 OTHER OPERATING EXPENSES

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
15,665	**16,088**	Establishment costs	**6,194**	6,031
37,865	**40,032**	Operating and administration costs	**15,412**	14,578
665	**810**	Directors' remuneration and sitting fees	**312**	256
54,195	**56,930**		**21,918**	20,865

27 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows:

	2016			2015		
	Principal shareholders	**Others**	**Total**	**Principal shareholders**	**Others**	**Total**
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
Loans and advances	**-**	**99,039**	**99,039**	-	43,669	43,669
Customers' deposits	**82,292**	**35,304**	**117,596**	91,345	20,869	112,214
Due from banks	**55**	**13,668**	**13,723**	235	15,015	15,250
Due to banks	**28,917**	**-**	**28,917**	38,647	-	38,647
Subordinated debt	**14,500**	**4,000**	**18,500**	14,500	4,000	18,500
Letter of credit, guarantees and acceptance	**118**	**5,348**	**5,466**	118	2,122	2,240
Standby revolving credit facility	**77,000**	**-**	**77,000**	77,000	-	77,000
Risk indemnities received	**422**	**-**	**422**	484	-	484
Investment	**1,918**	**-**	**1,918**	1,801	-	1,801

27 RELATED PARTY TRANSACTIONS (Continued)

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

	2016			2015		
	Principal shareholders	**Others**	**Total**	**Principal shareholders**	**Others**	**Total**
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
Interest income	**-**	**3,165**	**3,165**	21	1,999	2,020
Commission income	**74**	**56**	**130**	-	98	98
Interest expense	**3,357**	**387**	**3,744**	3,278	353	3,631
Other expenses	**-**	**1,051**	**1,051**	-	569	569

	2016			2015		
	Principal shareholders	**Others**	**Total**	**Principal shareholders**	**Others**	**Total**
	USD'000	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
Loans and advances	**-**	**257,244**	**257,244**	-	113,426	113,426
Customers' deposits	**213,745**	**91,699**	**305,444**	237,260	54,205	291,465
Due from banks	**143**	**35,501**	**35,644**	610	39,000	39,610
Due to banks	**75,109**	**-**	**75,109**	100,382	-	100,382
Subordinated debt	**37,662**	**10,390**	**48,052**	37,662	10,390	48,052
Letter of credit, guarantees and acceptance	**306**	**13,891**	**14,197**	306	5,512	5,818
Standby revolving credit facility	**200,000**	**-**	**200,000**	200,000	-	200,000
Risk indemnities received	**1,096**	**-**	**1,096**	1,257	-	1,257
Investment	**4,982**	**-**	**4,982**	4,678	-	4,678

The statement of comprehensive income includes following amounts as relation to the transaction with related parties.

	2016			2015		
	Principal shareholders	**Others**	**Total**	**Principal shareholders**	**Others**	**Total**
	USD'000	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
Interest income	**-**	**8,221**	**8,221**	55	5,192	5,247
Commission income	**192**	**145**	**337**	-	255	255
Interest expense	**8,719**	**1,005**	**9,724**	8,514	917	9,431
Other expenses	-	**2,730**	**2,730**	-	1,478	1,478

Details regarding senior management compensation are set out below:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
		Salaries and other short term benefits		
6,644	**8,143**	- Fixed	**3,135**	2,558
5,000	**3,766**	- Discretionary	**1,450**	1,925
11,644	**11,909**		**4,585**	4,483

28 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2016	2015
	RO'000	RO'000
Profit after tax (RO'000s)	**55,779**	60,106
Less: Tier 1 perpetual bond issuance cost	**-**	(1,151)
Less: Interest on tier 1 perpetual bond	**(8,010)**	(1,086)
Profit attributable to shareholders	**47,769**	57,869
Weighted average number of shares outstanding during the year (in '000s)	**1,474,781**	1,474,781
Earnings per share (RO)	**RO 0.032**	RO 0.039
Profit after tax (USD'000s)	**144,880**	156,120
Less: Tier 1 perpetual bond issuance cost	**-**	(2,990)
Less: Interest on tier 1 perpetual bond	**(20,805)**	(2,821)
Profit attributable to shareholders	**124,075**	150,308
Weighted average number of shares outstanding during the year (in '000s)	**1,474,781**	1,474,781
Earnings per share (USD)	**USD 0.08**	USD 0.10

During the year 2016, the bank issued stock dividend amounting to RO 13.4 million at RO 0.010 per share (USD 34.8 million total stock dividend at USD 0.026 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.

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.

29 CAPITAL ADEQUACY

The bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the bank.

During the past year, the bank had complied in full with all its externally imposed capital requirements.

Capital management

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

The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. The Capital Management Policy was revised during the year to incorporate the regulatory changes.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

29 CAPITAL ADEQUACY (Continued)

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
		Capital base		
958,174	**1,021,070**	Common equity Tier 1 - shareholders' funds	**393,112**	368,897
300,000	**300,000**	Additional Tier 1 - capital	**115,500**	115,500
144,847	**122,888**	Tier 2 - subordinated debt and collective impairment provisions	**47,312**	55,766
1,403,021	**1,443,958**	**Total capital base**	**555,924**	540,163
		Risk weighted assets		
7,050,119	**7,500,257**	Credit risk	**2,887,599**	2,714,296
574,465	**626,722**	Operational risk	**241,288**	221,169
106,855	**155,584**	Market risk	**59,900**	41,139
7,731,439	**8,282,563**	**Total risk weighted assets**	**3,188,787**	2,976,604
12.4%	**12.3%**	**CET 1 Ratio**	**12.3%**	12.4%
16.3%	**16.0%**	**Tier 1 Ratio**	**16.0%**	16.3%
18.2%	**17.4%**	**Risk asset ratio (Basel II norms)**	**17.4%**	18.2%

30 RISK MANAGEMENT

Effective risk management is of primary importance for the bank. The bank's risk management process evaluates, monitors and manages the risks associated with the businesses the bank conducts in line with the defined risk appetite. The bank's key risks are credit risk, market risk, operational risk and strategic risk. The bank operates on the guiding principles of three lines of defense i.e. Business, Independent control functions and internal audit. The risk management function is headed by the CRO with a team of risk professionals to manage specific risk functions.

30.1 CREDIT RISK

Credit risk is the risk of potential loss in the event that the Bank's customers, clients or counterparties fail to honour their financial and contractual obligations to the bank. Credit risk is one of the most significant risks for the Bank. The bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; the risk framework is provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on the delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments. The bank is contemplating an early warning trigger system based on predefined credit parameters and account behaviour. The Bank also undertakes stress testing of its portfolio and potential credit costs in the event of a downgrade or default by its customers.

30.1 CREDIT RISK (Continued)

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking, Financial Institutions as well as Small and Medium enterprise exposures. The credit risk associated with any corporate financing is assessed based on an analysis of the customer and the industry it operates in. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit assessments. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The bank follows a risk adjusted return of capital model for benchmarking risk pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The bank has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. The bank maintains an accurate and consistent corporate credit rating for all its customers. The bank is introducing facility risk rating apart from customer credit rating so as to measure the appropriate loss given default associated with each credit.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers, public companies and large exposures. Further, the bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:-

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

Retail credit

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and, if required revised, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and recommended to the delegated authorities.

A review of the Retail Credit Portfolio is conducted on a quarterly basis and provided to the Management Risk Committee, and a quarterly report is presented to the Board Risk Committee. Monthly management reports are also prepared and submitted to the CRO and to the Business Heads. Salient areas covered in the review include:

- Portfolio review
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)

30.1 CREDIT RISK (Continued)

- Projects undertaken / fulfilled during the month
- Recoveries

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency as well as the recovery methodologies of the retail portfolio. The Bank has reworked its lending strategy through the adoption of pre-defined lending criteria and continuous monitoring of the portfolio, and has implemented a Credit Scoring Module for its salary related loan portfolio to enhance the Retail Credit Risk framework.

Loan review mechanism

The bank has an independent Loan Review Mechanism Division (LRM) with a mandate for constantly evaluating the quality of the loan book, and the balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc. In addition to the above the LRM team reviews the Bank's effectiveness of approved internal controls and procedures to ensure robust and sound practices are being followed by all stake holders. LRM also performs independent ad hoc reviews, investigations and assessments as directed by management on areas of concern relating to the credit approval process and/or the analysis processes within the Bank. Significant findings are reported to the CRO, the MRC and potentially to the BRC where warranted.

Risk mitigation policies

The bank manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and 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 and Board Risk Committee.

Maximum exposure to credit risk

Gross maximum exposure	**Gross maximum exposure**		**Gross maximum exposure**	Gross maximum exposure
2015	**2016**		**2016**	2015
USD'000	**USD'000**		**RO'000**	RO'000
674,831	**1,207,811**	Balances with Central Banks	**465,007**	259,810
444,117	**299,558**	Due from banks and other money market placements(net)	**115,330**	170,985
6,582,075	**6,935,795**	Loans, advances and financing activities for customers (net)	**2,670,281**	2,534,099
406,904	**333,462**	Financial investments	**128,383**	156,658
139,043	**133,833**	Other assets	**51,525**	53,532
21,429	**21,810**	Derivatives	**8,397**	8,250
8,268,399	**8,932,267**	**Total on balance sheet exposure**	**3,438,923**	3,183,334
1,188,494	**1,204,062**	Guarantees	**463,564**	457,570
260,314	**208,140**	Documentary letters of credit	**80,134**	100,221
363,613	**618,262**	Undrawn commitment	**238,031**	139,991
1,812,421	**2,030,464**	**Total off balance sheet exposure**	**781,729**	697,782

30.1 CREDIT RISK (Continued)

The above table represents the maximum credit risk exposure to the bank at 31 December 2016 and 2015 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.

An analysis of the credit quality of the bank's loan and advances is set out below:

	Performing loans (neither past due nor impaired	Loans past due and not impaired	Non performing loans	Gross loans
	RO'000	RO'000	RO'000	RO'000
Balance as at 1 January 2016	**2,474,361**	**86,383**	**61,561**	**2,622,305**
Additions during the year	**789,533**	**122,973**	**38,705**	**951,211**
Attrition during the year	**(789,533)**	**(18,513)**	**(15,385)**	**(794,202)**
Written-off during the year	-	-	**(11,018)**	**(11,018)**
Balance as at 31 December 2016	**2,503,590**	**190,843**	**73,863**	**2,768,296**
Balance as at 31 December 2016 – USD'000s	**6,502,831**	**495,696**	**191,852**	**7,190,379**
Balance as at 31 December 2015	2,474,361	86,383	61,561	2,622,305
Balance as at 31 December 2015 – USD'000s	6,426,911	224,371	159,899	6,811,181

An ageing analysis of the bank's loans which are past due but not impaired is set out below:

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers (net) at				
31 December 2016	**42,539**	**53,307**	**94,997**	**190,843**
31 December 2016 – USD'000s	**110,491**	**138,460**	**246,745**	**495,696**
31 December 2015	56,288	19,822	10,273	86,383
31 December 2015 – USD'000s	146,203	51,486	26,683	224,372

Collateral and other credit enhancements

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 the 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

The housing loans are secured by mortgage over the residential property.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

30.1 CREDIT RISK (Continued)

The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	Performing loans (neither past due nor impaired)	Loans past due and not impaired	Non performing loans	Total
	RO'000	RO'000	RO'000	RO'000
Collateral available	**1,619,390**	**101,665**	**73,486**	**1,794,541**
Guarantees available	**2,190**	-	-	**2,190**
Government soft loans*	**4,025**	-	**1,253**	**5,278**
Balance as at 31 December 2016	**1,625,605**	**101,665**	**74,739**	**1,802,009**
Balance as at 31 December 2016 – USD'000s	**4,222,351**	**264,065**	**194,127**	**4,680,543**
Balance as at 31 December 2015	1,586,018	93,583	89,262	1,768,863
Balance as at 31 December 2015 – USD'000s	4,119,527	243,073	231,849	4,594,449

* Government Soft Loans are guaranteed by the Government to the extent of the outstanding principal.

The amount of total secured loans and advances is less than the total value of collateral as stated above.

Impairment and provisioning policy

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised in the statement of comprehensive income. In addition the bank creates collective provision.

A further analysis of the bank's non-performing loans in accordance with the classification requirements of Central Bank of Oman is as follows:

	Substandard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000
Balance as at 1 January 2016	**9,810**	**10,024**	**41,727**	**61,561**
Additions during the year	**3,571**	**17,598**	**17,536**	**38,705**
Attrition during the year	**(4,502)**	**(6,106)**	**(4,777)**	**(15,385)**
Written-off during the year	-	-	**(11,018)**	**(11,018)**
Balance as at 31 December 2016	**8,879**	**21,516**	**43,468**	**73,863**
Balance as at 31 December 2016 – USD'000s	**23,062**	**55,886**	**112,904**	**191,852**
Balance as at 31 December 2015	9,810	10,024	41,727	61,561
Balance as at 31 December 2015 – USD'000s	25,481	26,036	108,382	159,899

30.1 CREDIT RISK (Continued)

Movement of rescheduled loans:

	2016	2015
	RO'000	RO'000
Balance as at 1 January	**60,682**	36,528
Additions during the year	**30,883**	32,045
Attrition during the year	**(20,889)**	(7,891)
Balance as at 31December	**70,676**	60,682
Balance as at 31December – USD'000s	**183,574**	157,616

30.2 LIQUIDITY RISK

Liquidity risk is the risk that the bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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 the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly through analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the bank also periodically conducts stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

30.2 LIQUIDITY RISK (Continued)

The residual maturity profile of the assets, liabilities and equity at **31 December 2016** is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	411,741	41,628	453,369	31,522	26,703	58,225	511,594
Due from banks and other money market placements (net)	89,149	16,556	105,705	-	9,625	9,625	115,330
Loans, advances and financing activities for customers (net)	440,592	250,106	690,698	595,852	1,383,731	1,979,583	2,670,281
Financial investments	94,543	13,905	108,448	19,935	-	19,935	128,383
Premises and equipment	-	-	-	-	46,345	46,345	46,345
Other assets	56,309	3,870	60,179	571	-	571	60,750
Total assets	**1,092,334**	**326,065**	**1,418,399**	**647,880**	**1,466,404**	**2,114,284**	**3,532,683**
Due to banks and other money market deposits	114,075	107,281	221,356	3,879	-	3,879	225,235
Customers' deposits and unrestricted investment accounts	606,580	757,964	1,364,544	571,298	463,519	1,034,817	2,399,361
Euro medium term notes	-	-	-	233,105	-	233,105	233,105
Other liabilities	76,279	2,587	78,866	1,196	-	1,196	80,062
Taxation	7,406	-	7,406	-	-	-	7,406
Subordinated debt	-	24,100	24,100	25,000	-	25,000	49,100
Shareholders' equity	-	-	-	-	422,914	422,914	422,914
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	**804,340**	**891,932**	**1,696,272**	**834,478**	**1,001,933**	**1,836,411**	**3,532,683**

30.2 LIQUIDITY RISK (Continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	1,069,458	108,125	1,177,583	81,875	69,358	151,233	1,328,816
Due from banks and other money market placements (net)	231,555	43,003	274,558	-	25,000	25,000	299,558
Loans, advances and financing activities for customers (net)	1,144,395	649,626	1,794,021	1,547,668	3,594,106	5,141,774	6,935,795
Financial investments	245,566	36,117	281,683	51,779	-	51,779	333,462
Premises and equipment	-	-	-	-	120,377	120,377	120,377
Other assets	146,257	10,052	156,309	1,483	-	1,483	157,792
Total assets	**2,837,231**	**846,923**	**3,684,154**	**1,682,805**	**3,808,841**	**5,491,646**	**9,175,800**
Due to banks and other money market deposits	296,299	278,652	574,951	10,075	-	10,075	585,026
Customers' deposits and unrestricted investment accounts	1,575,532	1,968,738	3,544,270	1,483,891	1,203,946	2,687,837	6,232,107
Euro medium term notes	-	-	-	605,468	-	605,468	605,468
Other liabilities	198,128	6,719	204,847	3,106	-	3,106	207,953
Taxation	19,236	-	19,236	-	-	-	19,236
Subordinated debt	-	62,597	62,597	64,935	-	64,935	127,532
Shareholders' equity	-	-	-	-	1,098,478	1,098,478	1,098,478
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	**2,089,195**	**2,316,706**	**4,405,901**	**2,167,475**	**2,602,424**	**4,769,899**	**9,175,800**

30.2 LIQUIDITY RISK (Continued)

The maturity profile of the assets, liabilities and equity at 31 December 2015 is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	213,177	37,691	250,868	28,599	25,021	53,620	304,488
Due from banks and other money market placements (net)	143,168	12,802	155,970	5,390	9,625	15,015	170,985
Loans, advances and financing activities for customers (net)	468,294	200,898	669,192	564,581	1,300,326	1,864,907	2,534,099
Financial investments	99,437	32,687	132,12	24,534	-	24,534	156,658
Premises and equipment	-	-	-	-	34,671	34,671	34,671
Other assets	59,468	2,546	62,014	520	-	520	62,534
Total assets	983,544	286,624	1,270,168	623,624	1,369,643	1,993,267	3,263,435
Due to banks and other money market deposits	105,273	18,752	124,025	38,500	-	38,500	162,525
Customers' deposits and unrestricted investment accounts	649,832	637,842	1,287,674	523,522	438,630	962,152	2,249,826
Euro medium term notes	-	-	-	195,973	-	195,973	195,973
Other liabilities	69,701	8,427	78,128	1,824	-	1,824	79,952
Taxation	8,402	-	8,402	-	-	-	8,402
Subordinated debt	27,100	-	27,100	25,000	-	25,000	52,100
Shareholders' equity	-	-	-	-	399,157	399,157	399,157
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	860,308	665,021	1,525,329	784,819	953,287	1,738,106	3,263,435

30.2 LIQUIDITY RISK (Continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	553,706	97,899	651,605	74,283	64,990	139,273	790,878
Due from banks and other money market placement (net)	371,865	33,252	405,117	14,000	25,000	39,000	444,117
Loans, advances and financing activities for customers (net)	1,216,348	521,813	1,738,161	1,466,444	3,377,470	4,843,914	6,582,075
Financial investments	258,278	84,901	343,179	63,725	-	63,725	406,904
Premises and equipment	-	-	-	-	90,055	90,055	90,055
Other assets	154,461	6,613	161,074	1,351	-	1,351	162,425
Total assets	2,554,658	744,478	3,299,136	1,619,803	3,557,515	5,177,318	8,476,454
Due to banks and other money market deposits	273,437	48,706	322,143	100,000	-	100,000	422,143
Customers' deposits and unrestricted investment accounts	1,687,876	1,656,732	3,344,608	1,359,797	1,139,299	2,499,096	5,843,704
Euro medium term notes	-	-	-	509,021	-	509,021	509,021
Other liabilities	181,042	21,888	202,930	4,738	-	4,738	207,668
Taxation	21,823	-	21,823	-	-	-	21,823
Subordinated debt	70,390	-	70,390	64,935	-	64,935	135,325
Shareholders' equity	-	-	-	-	1,036,770	1,036,770	1,036,770
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	2,234,568	1,727,326	3,961,894	2,038,491	2,476,069	4,514,560	8,476,454

30.2 LIQUIDITY RISK (Continued)

Liquidity coverage ratio

Total Weighted Value (average)	Total Unweighted Value (average)		Total Unweighted Value (average	Total Weighted Value (average)
USD'000	USD'000		RO'000	RO'000
		HIGH QUALITY LIQUID ASSETS		
1,247,030	-	Total High Quality Liquid Assets (HQLA)	-	480,107
		Cash outflows		
110,669	1,904,501	Retail deposits and deposits from small business customers of which:	733,233	42,604
79,790	1,595,795	Stable deposits	614,381	30,719
30,870	308,706	Less stable deposits	118,852	11,885
916,182	2,457,026	Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative banks	945,955	352,730
15,244	152,452	Additional requirements, of which Credit and liquidity facilities	58,694	5,869
78,496	1,458,639	Other contingent funding obligations	561,576	30,221
1,120,584	-	**TOTAL CASH OUTFLOWS**	-	431,425
		Cash Inflows		
725,244	1,098,673	Inflows from fully performing exposures	422,989	279,219
51,561	51,561	Other cash inflows	19,851	19,851
776,805	1,150,234	TOTAL CASH INFLOWS	442,840	299,070
1,247,031	-	**TOTAL HIGH QUALITY LIQUID ASSETS**	-	480,107
343,779	-	**TOTAL NET CASH OUTFLOWS**	-	132,355
362.7	-	**LIQUIDITY COVERAGE RATIO (%)**	-	362.7

30.3 MARKET RISK

The bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the bank will fluctuate because of changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests incorporating adverse movements in equity value, foreign exchange, etc. are also periodically conducted and reviewed by the Management and Board Risk Committee.

The bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The bank has adopted risk weightings in line with best practices being followed by other banks to capture the credit risk related to these off-balance sheet exposures.

30.3 MARKET RISK (Continued)

Equity risk

The proprietary equity positions are held in the 'Available-for-Sale' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and required actions, if any, are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

Interest rate risk

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

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

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2016	200 bps increase	200 bps decrease
Earnings impact - RO'000s	9,086	(9,086)
Earnings impact - USD'000s	23,600	(23,600)

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

There have not been any significant changes in Interest Rate Risk management process in the bank during the year.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2016** is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	N/A	253	-	-	-	511,341	511,594
Due from banks and other money market placements (net)	1.29%	55,047	26,181	-	-	34,102	115,330
Loans, advances and financing activities for customers (net)	5.17%	914,600	571,226	647,679	536,776	-	2,670,281
Financial investments	2.28%	8,766	24,633	57,930	5,200	31,854	128,383
Premises and equipment	N/A	-	-	-	-	46,345	46,345
Other assets	N/A	-	-	-	-	60,750	60,750
Total assets		**978,666**	**622,040**	**705,609**	**541,976**	**684,392**	**3,532,683**
Due to banks and other money market deposits	2.46%	110,582	107,281	3,879	-	3,493	225,235
Customers' deposits and unrestricted investment accounts	1.18%	229,266	1,096,042	298,292	-	775,761	2,399,361
Euro medium term notes	2.20%	-	-	233,105	-	-	233,105
Other liabilities	N/A	-	-	-	-	80,062	80,062
Taxation	N/A	-	-	-	-	7,406	7,406
Tier 1 Perpetual Bonds	7.88%	-	-	115,500	-	-	115,500
Subordinated debt	5.17%	-	24,100	25,000	-	-	49,100
Shareholders' equity	N/A	-	-	-	-	422,914	422,914
Total liabilities and shareholders' equity		**339,848**	**1,227,423**	**675,776**	**-**	**1,289,636**	**3,532,683**
Total interest rate sensitivity gap		**638,818**	**(605,383)**	**29,833**	**541,976**	**(605,244)**	**-**
Cumulative interest rate sensitivity gap		**638,818**	**33,435**	**63,268**	**605,244**	**-**	

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2016** is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	N/A	657	-	-	-	1,328,159	1,328,816
Due from banks and other money market placements (net)	1.29%	142,978	68,003	-	-	88,577	299,558
Loans, advances and financing activities for customers (net)	5.17%	2,375,585	1,483,704	1,682,283	1,394,223	-	6,935,795
Financial investments	2.28%	22,768	63,982	150,468	13,506	82,738	333,462
Premises and equipment	N/A	-	-	-	-	120,377	120,377
Other assets	N/A	-	-	-	-	157,792	157,792
Total assets		**2,541,988**	**1,615,689**	**1,832,751**	**1,407,729**	**1,777,643**	**9,175,800**
Due to banks and other money market deposits	2.46%	287,226	278,652	10,075	-	9,073	585,026
Customers' deposits and unrestricted investment accounts	1.18%	595,497	2,846,862	774,784	-	2,014,964	6,232,107
Euro medium term notes	2.20%	-	-	605,468	-	-	605,468
Other liabilities	N/A	-	-	-	-	207,953	207,953
Taxation	N/A	-	-	-	-	19,236	19,236
Tier 1 Perpetual Bonds	7.88%	-	-	300,000	-	-	300,000
Subordinated debt	5.17%	-	62,597	64,935	-	-	127,532
Shareholders' equity	N/A	-	-	-	-	1,098,478	1,098,478
Total liabilities and shareholders' equity		**882,723**	**3,188,111**	**1,755,262**	**-**	**3,349,704**	**9,175,800**
Total interest rate sensitivity gap		**1,659,265**	**(1,572,422)**	**77,489**	**1,407,729**	**(1,572,061)**	**-**
Cumulative interest rate sensitivity gap		**1,659,265**	**86,843**	**164,332**	**1,572,061**	**-**	

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2015 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	0.11%	8,146	-	-	-	296,342	304,488
Due from banks and other money market placements (net)	1.02%	154,237	16,748	-	-	-	170,985
Loans, advances and financing activities for customers (net)	5.06%	1,021,900	507,178	762,602	242,419	-	2,534,099
Financial investments	2.29%	12,119	1,985	102,500	3,206	36,848	156,658
Premises and equipment	N/A	-	-	-	-	34,671	34,671
Other assets	N/A	-	-	-	-	62,534	62,534
Total assets		1,196,402	525,911	865,102	245,625	430,395	3,263,435
Due to banks and other money market deposits	1.55%	105,273	5,719	51,533	-	-	162,525
Customers' deposits and unrestricted investment accounts	0.97%	290,697	1,037,409	249,735	-	671,985	2,249,826
Euro medium term notes	1.76%	-	-	195,973	-	-	195,973
Other liabilities	N/A	-	-	-	-	79,952	79,952
Taxation	N/A	-	-	-	-	8,402	8,402
Subordinated debt	5.73%	3,000	-	49,100	-	-	52,100
Shareholders' equity	N/A	-	-	-	-	399,157	399,157
Tier 1 Perpetual Bonds	7.88%	-	-	115,500	-	-	115,500
Total liabilities and shareholders' equity		398,970	1,043,128	661,841	-	1,159,496	3,263,435
Total interest rate sensitivity gap		797,432	(517,217)	203,261	245,625	(729,101)	-
Cumulative interest rate sensitivity gap		797,432	280,215	483,476	729,101	-	

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2015 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	0.11%	21,158	-	-	-	769,720	790,878
Due from banks and other money market placements (net)	1.02%	400,616	43,501	-	-	-	444,117
Loans, advances and financing activities for customers (net)	5.06%	2,654,286	1,317,345	1,980,784	629,660	-	6,582,075
Financial investments	2.29%	31,478	5,156	266,234	8,327	95,709	406,904
Premises and equipment	N/A	-	-	-	-	90,055	90,055
Other assets	N/A	-	-	-	-	162,425	162,425
Total assets		3,107,538		2,247,018	637,987	1,117,909	8,476,454
Due to banks and other money market deposits	1.55%	273,436	14,855	133,852	-		422,143
Customers' deposits and unrestricted investment accounts	0.97%	755,057	2,694,569	648,662	-	1,745,416	5,843,704
Euro medium term notes	1.76%	-	-	509,021	-		509,021
Other liabilities	N/A	-	-	-	-	207,668	207,668
Taxation	N/A	-	-	-	-	21,823	21,823
Subordinated debt	5.73%	7,793	-	127,532	-	-	135,325
Shareholders' equity	N/A	-	-	-	-	1,036,770	1,036,770
Tier 1 Perpetual Bonds	7.88%	-	-	300,000	-	-	300,000
Total liabilities and shareholders' equity		1,036,286	2,709,424	1,719,067	-	3,011,677	8,476,454
Total interest rate sensitivity gap		2,071,252	(1,343,422)	527,951	637,987	(1,893,768)	-
Cumulative interest rate sensitivity gap		2,071,252	727,830	1,255,781	1,893,768	-	

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the bank are generally small residual positions resulting from market coverings for customer transactions.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

30.3 MARKET RISK (Continued)

The bank had the following significant net exposures denominated in foreign currencies:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
175,291	**238,221**	US Dollar	**91,715**	67,487
54,265	**61,031**	UAE Dirham	**23,497**	20,892
9,099	**3,229**	**Others**	**1,243**	3,503

30.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank now has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus soft wares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

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.

Fraud Risk

NBO has adopted a 'zero tolerance' policy towards fraud and corruption and as such will seek to take disciplinary and/or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management (FRM) unit manages the fraud risk for the Bank at an enterprise level. The unit monitors transactions originating from Cards, POS and other Digital channels. Besides, the unit conducts Fraud Risk Assessments to assess fraud risks on a pro-active basis, verifies the existing controls and proposes new controls, if required.

The unit is also responsible for managing Incidents across the bank and maintenance of Operational Loss Database.

30.5 STRATEGIC RISKS

The bank monitors strategic risks through regular quarterly assessment and reporting at the Board Risk Committee level. This includes reviews of human resource, economic (both at the macro and micro levels), regulatory/compliance, information technology and information security, legal and reputational related risks and the monitoring of strategic project risk arising from initiatives undertaken by the bank. Furthermore, the bank is currently augmenting its Internal Capital Adequacy Assessment Process (ICAAP) to align the business strategy and the capital management processes.. In the course of 2016 the bank had engaged an internationally renowned consultant to review the current ICAAP process and to recommend enhancements that will, once implemented, escalate the ICAAP process and documentation to international best practices. This initiative was proposed and sponsored at the highest level by the Board Risk Committee. The benefits of this reprocessing project will be reaped in 2017.

31 CONCENTRATIONS

The bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The distribution of assets, liabilities and contingent items by geographical regions as of **31 December 2016** is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	483,349	25,716	2,529	-	511,594
Due from banks and other money market placements (net)	15,400	10,816	116	88,998	115,330
Loans, advances and financing activities for customers (net)	2,433,983	203,248	3	33,047	2,670,281
Financial investments	114,508	11,100	-	2,775	128,383
Premises and equipment	45,720	486	139	-	46,345
Other assets	48,987	11,323	440	-	60,750
Total assets	**3,141,947**	**262,689**	**3,227**	**124,820**	**3,532,683**
Due to banks and other money market deposits	756	36,583	2,695	185,201	225,235
Customers' deposits and unrestricted investment accounts	2,303,115	95,080	1,166	-	2,399,361
Euro medium term notes	233,105	-	-	-	233,105
Other liabilities	68,358	11,413	291	-	80,062
Taxation	7,113	189	104	-	7,406
Subordinated funds	49,100	-	-	-	49,100
Shareholders' equity	415,113	6,033	1,768	-	422,914
Tier 1 perpetual bond	115,500	-	-	-	115,500
Liabilities and shareholders' equity	**3,192,160**	**149,298**	**6,024**	**185,201**	**3,532,683**
Contingent liabilities	**446,421**	**35,208**	**2,890**	**59,179**	**543,698**

31 CONCENTRATIONS (Continued)

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	1,255,452	66,795	6,569	-	1,328,816
Due from banks and other money market placements (net)	40,000	28,094	301	231,163	299,558
Loans, advances and financing activities for customers (net)	6,322,034	527,917	8	85,836	6,935,795
Financial investments	297,423	28,831	-	7,208	333,462
Premises and equipment	118,754	1,262	361	-	120,377
Other assets	127,239	29,410	1,143	-	157,792
Total assets	**8,160,902**	**682,309**	**8,382**	**324,207**	**9,175,800**
Due to banks and other money market deposits	1,964	95,021	7,000	481,041	585,026
Customers' deposits and unrestricted investment accounts	5,982,117	246,961	3,029	-	6,232,107
Euro medium term notes	605,468	-	-	-	605,468
Other liabilities	177,553	29,644	756	-	207,953
Taxation	18,475	491	270	-	19,236
Subordinated funds	127,532	-	-	-	127,532
Shareholders' equity	1,078,216	15,670	4,592	-	1,098,478
Tier 1 perpetual bond	300,000	-	-	-	300,000
Liabilities and shareholders' equity	**8,291,325**	**387,787**	**15,647**	**481,041**	**9,175,800**
Contingent liabilities	**1,159,536**	**91,449**	**7,506**	**153,712**	**1,412,203**

31 CONCENTRATIONS (Continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2015 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	283,064	19,591	1,833	-	304,488
Due from banks and other money market placements (net)	52,575	2,486	1,983	113,941	170,985
Loans, advances and financing activities for customers (net)	2,283,660	219,988	3	30,448	2,534,099
Financial investments	143,085	10,953	-	2,620	156,658
Premises and equipment	34,072	312	287	-	34,671
Other assets	43,649	17,918	967	-	62,534
Total assets	2,840,105	271,248	5,073	147,009	3,263,435
Due to banks and other money market deposits	1,117	32,878	14,630	113,900	162,525
Customers' deposits and unrestricted investment accounts	2,118,009	129,723	2,094	-	2,249,826
Euro medium term notes	195,973	-	-	-	195,973
Other liabilities	60,584	18,659	709	-	79,952
Taxation	7,334	737	331	-	8,402
Subordinated debt	52,100	-	-	-	52,100
Tier 1 perpetual bond	115,500	-	-		115,500
Shareholders' equity	388,270	9,075	1,812	-	399,157
Liabilities and shareholders' equity	2,938,887	191,072	19,576	113,900	3,263,435
Contingent Liability	434,370	55,567	17	67,837	557,791

31 CONCENTRATIONS (Continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2015 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	735,231	50,886	4,761	-	790,878
Due from banks and other money market placements (net)	136,558	6,457	5,151	295,951	444,117
Loans, advances and financing activities forcustomers (net)	5,931,584	571,397	8	79,086	6,582,075
Financial investments	371,650	28,449	-	6,805	406,904
Premises and equipment	88,500	810	745	-	90,055
Other assets	113,373	46,540	2,512	-	162,425
Total assets	7,376,896	704,539	13,177	381,842	8,476,454
Due to banks and other money market deposits	2,901	85,397	38,000	295,845	422,143
Customers' deposits and unrestricted investment accounts	5,501,322	336,943	5,439	-	5,843,704
Euro medium term notes	509,021	-	-	-	509,021
Other liabilities	157,361	48,465	1,842	-	207,668
Taxation	19,049	1,914	860	-	21,823
Subordinated debt	135,325	-	-	-	135,325
Tier 1 perpetual bond	300,000	-	-		300,000
Shareholders' equity	1,008,493	23,571	4,706	-	1,036,770
Liabilities and shareholders' equity	7,633,472	496,290	50,847	295,845	8,476,454
Contingent Liability	1,128,234	144,330	44	176,200	1,448,808

32 SEGMENTAL INFORMATION

For management purposes, the bank is organized into four operating segments based on business units and are as follows:

- Retail banking offers various products and facilities to individual retail and high networth customers to meet everyday banking needs. This includes asset products like Personal Loans, Housing Loan, Credit Cards and Term Loans and liability products like Savings account, Current account & Term Deposits.
- Wholesale banking delivers a variety of products and services to Corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes Investment banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- Commercial banking covers the mid-tier corporate and SME customers offering the entire spectrum of products to suit their business needs. It also includes international operations of UAE and Egypt and Islamic banking offers products as per Sharia principles.
- Funding center - The Funding center is responsible for balancing and managing the liquidity of funds within the bank. It acts as repository of funds by allocating funds transfer pricing to various business units for the performance management purposes. The department also handles the bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

32 SEGMENTAL INFORMATION (Continued)

Segment information by business line is as follows:

Year ended 31 December 2016	Retail banking	Wholesale banking	Commercial banking	Funding Center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net income	40,814	28,188	18,098	14,465	101,565
Other income	13,405	14,516	4,575	2,052	34,548
Operating profit	17,809	30,898	8,503	16,240	73,449
Impairment provisions (net) and taxation	(3,038)	3,443	(10,816)	(7,259)	(17,670)
Net Profit	**14,771**	**34,341**	**(2,313)**	**8,980**	**55,779**
Total assets	**1,236,289**	**1,093,872**	**558,233**	**644,288**	**3,532,683**
Total liabilities and equity	**817,441**	**1,275,681**	**527,563**	**911,998**	**3,532,683**

Year ended 31 December 2016	Retail banking	Wholesale banking	Commercial banking	Funding Center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Net income	106,010	73,216	47,008	37,571	263,805
Other income	34,818	37,704	11,883	5,330	89,735
Operating profit	46,257	80,253	22,085	42,181	190,776
Impairment provisions (net) and taxation	(7,891)	8,944	(28,093)	(18,856)	(45,896)
Net Profit	**38,366**	**89,197**	**(6,008)**	**23,325**	**144,880**
Total assets	**3,211,142**	**2,841,226**	**1,449,956**	**1,673,476**	**9,175,800**
Total liabilities and equity	**2,123,223**	**3,313,457**	**1,370,294**	**2,368,826**	**9,175,800**

For management purposes the bank also reports the segment information of its operations by the following geographical locations:

i) Oman

ii) United Arab Emirates (UAE)

iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis.

32 SEGMENTAL INFORMATION (Continued)

Segment information by geography is as follows:

For the year ended 31 December 2016	Oman	UAE	Egypt	Total
	RO'000	RO'000	RO'000	RO'000
Interest income and income from Islamic financing and investment activities	130,683	10,400	369	141,452
Other operating income	31,827	2,731	(10)	34,548
Total income	**162,510**	**13,131**	**359**	**176,000**
Interest costs and Unrestricted investment account holders' share of profit	37,246	2,576	65	39,887
Other operating expenses	55,495	3,946	359	59,800
Depreciation	2,748	116	-	2,864
Credit loss expense - customer loan	9,594	10,051	1	19,646
Recoveries	(9,035)	(685)	(40)	(9,760)
Impairment losses on available-for-sale investments	210	-	-	210
Credit loss write back – bank loans	(62)	-	-	(62)
Taxation	7,431	187	18	7,636
Total	**103,627**	**16,191**	**403**	**120,221**
Segment profit for the year	**58,883**	**(3,060)**	**(44)**	**55,779**
Other information				
Segment assets	**3,250,952**	**261,964**	**19,767**	**3,532,683**
Segment capital expenses	**14,469**	**303**	**-**	**14,772**

32 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2016	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Interest income and Income from Islamic financing and Investment activities	339,436	27,013	95	367,408
Other operating income	82,668	7,094	(26)	89,735
Total Income	**422,104**	**34,107**	**932**	**457,143**
Interest costs and Unrestricted investment account holders' share of profit	96,743	6,691	169	103,603
Other operating expenses	144,143	10,250	932	155,325
Depreciation	7,138	301	-	7,439
Credit loss expense - customer loan	24,919	26,106	4	51,029
Recoveries	(23,468)	(1,779)	(104)	(25,351)
Impairment losses on available for sale investments	545	-	-	545
Credit loss write back – bank loans	(161)	-	-	(161)
Taxation	19,301	486	47	19,834
Total	**269,160**	**42,055**	**1,048**	**312,263**
Segment profit for the year	**152,944**	**(7,948)**	**(116)**	**144,880**
Other information				
Segment assets	**8,444,031**	**680,426**	**51,343**	**9,175,800**
Segment capital expenses	**37,582**	**787**	**-**	**38,369**

Segment information by business line is as follows:

Year ended 31 December 2015	Retail banking	Wholesale banking	Commercial banking	Funding Center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net income	34,419	32,824	14,548	12,945	94,736
Other income	16,431	17,672	4,436	2,443	40,982
Operating profit	16,777	38,606	4,944	15,382	75,710
Impairment provisions (net) and taxation	(712)	(3,688)	(2,992)	(8,212)	(15,604)
Net Profit	16,065	34,919	1,952	7,171	60,106
Total assets	1,093,580	1,118,308	534,343	517,203	3,263,435
Total liabilities and equity	774,220	1,170,971	504,532	813,712	3,263,435

32 SEGMENTAL INFORMATION (Continued)

Year ended 31 December 2015	Retail banking	Wholesale banking	Commercial banking	Funding Center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Net income	89,400	85,257	37,787	33,624	246,068
Other income	42,678	45,902	11,523	6,344	106,447
Operating profit	43,578	100,275	12,842	39,954	196,649
Impairment provisions (net) and taxation	(1,851)	(9,578)	(7,772)	(21,328)	(40,529)
Net Profit	41,727	90,697	5,070	18,626	156,120
Total assets	2,840,468	2,904,697	1,387,905	1,343,384	8,476,454
Total liabilities and equity	2,010,961	3,041,483	1,310,474	2,113,536	8,476,454

Segment information by geography is as follows:

For the year ended 31 December 2015	Oman	UAE	Egypt	Total
	RO'000	RO'000	RO'000	RO'000
Interest income and Income from Islamic financing and Investment activities	118,160	7,505	201	125,866
Other operating income	37,984	2,529	469	40,982
Total Income	156,144	10,034	670	166,848
Interest costs and Unrestricted investment account holders' share of profit	29,291	1,770	69	31,130
Other operating expenses	53,081	3,456	457	56,994
Depreciation	2,927	87	-	3,014
Credit loss expense - customer loan	13,789	1,682	1	15,472
Recoveries	(8,940)	(643)	(1,072)	(10,655)
Impairment losses on available for sale investments	1,515	-	-	1,515
Credit loss expense – bank loans	7	-	-	7
Taxation	8,454	735	76	9,265
Total	100,124	7,087	(469)	106,742
Segment profit for the year	56,020	2,947	1,139	60,106
Other information				
Segment assets	2,966,017	276,081	21,337	3,263,435
Segment capital expenses	15,222	47	-	15,269

32 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2015	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Interest income and Income from Islamic financing and Investment activities	306,909	19,494	522	326,925
Other operating income	98,660	6,569	1,218	106,447
Total Income	405,569	26,063	1,740	433,372
Interest costs and Unrestricted investment account holders' share of profit	76,081	4,597	179	80,857
Other operating expenses	137,873	8,976	1,187	148,036
Depreciation	7,603	226	-	7,829
Credit loss expense - customer loan	35,815	4,369	3	40,187
Recoveries	(23,221)	(1,670)	(2,784)	(27,675)
Impairment losses on available for sale investments	3,935	-	-	3,935
Credit loss expense – bank loans	18	-	-	18
Taxation	21,958	1,910	197	24,065
Total	260,062	18,408	(1,218)	277,252
Segment profit for the year	145,507	7,655	2,958	156,120
Other information				
Segment assets	7,703,939	717,094	55,421	8,476,454
Segment capital expenses	39,538	122	-	39,660

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2016 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

Current account balances due to and due 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.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments other than derivatives instruments recorded at fair value by level of the fair value hierarchy:

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	USD'000	USD'000	31 December 2016	RO'000	RO'000	RO'000
			Investments – held for trading:			
160,364	-	160,364	Government development bonds	61,740	-	61,740
7,792	-	7,792	Government Sukuk	3,000	-	3,000
2,358	-	2,358	Quoted equities	908	-	908
170,514	-	170,514	Total	65,648	-	65,648
			Investments - available for sale:			
48,719	-	48,719	Quoted equities	18,757	-	18,757
31,660	31,660	-	Other unquoted equities	-	12,189	12,189
80,379	31,660	48,719	Total	18,757	12,189	30,946
250,893	31,660	219,233	Total financial assets	84,405	12,189	96,594

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	USD'000	USD'000	31 December 2015	RO'000	RO'000	RO'000
			Investments – held for trading:			
170,048	-	170,048	Government development bonds	65,468	-	65,468
170,048	-	170,048	Total	65,468	-	65,468
			Investments - available for sale:			
112,379	-	112,379	Government development bonds	43,266	-	43,266
74,158	-	74,158	Quoted equities	28,551	-	28,551
31,478	31,478	-	Other unquoted equities	-	12,119	12,119
218,015	31,478	186,537	Total	71,817	12,119	83,936
388,063	31,478	356,585	Total financial assets	137,285	12,119	149,404

The bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 34).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

34 DERIVATIVES

In the ordinary course of business the bank enters into various types of transactions with customers and for own account for hedging purpose that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The bank uses the following derivative financial instruments:

Derivative product types

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

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure.

The Bank has entered into an interest rate swap, which is designated as a fair value hedge, for hedging the interest rate risk on Euro medium term notes. The cumulative change in the fair value of the Euro medium term notes (hedged item) attributable to the risk hedged is recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position.

The table below shows the positive and negative fair values of derivative financial instruments entered with and on behalf of customers, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

34 DERIVATIVES (Continued)

31 December 2016	Positive fair value (note 9)	Negative fair value (note 13)	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	1 - 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Fair value hedge	2,105	-	192,500	-	-	192,500
Interest rate swaps	2,981	(2,981)	112,152	2,660	14,484	95,008
Forward purchase contracts	821	(2)	187,531	173,133	14,398	-
Forward sales contracts	2,432	(2,593)	187,531	174,155	13,376	-
Currency options	58	(58)	2,835	2,159	676	-
Total	**8,397**	**(5,634)**	**682,549**	**352,107**	**42,934**	**287,508**
Total – USD'000	**21,810**	**(14,634)**	**1,772,855**	**914,564**	**111,517**	**746,774**

31 December 2015	Positive fair value (note 9)	Negative fair value (note 13)	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	1 - 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Fair value hedge	3,473	-	192,500	-	-	192,500
Interest rate swaps	4,373	(4,373)	117,067	2,125	11,691	103,251
Forward purchase contracts	265	(324)	135,681	105,634	30,047	-
Forward sales contracts	138	(840)	135,681	105,807	29,874	-
Currency options	1	(1)	765	294	-	471
Total	8,250	(5,538)	581,694	213,860	71,612	296,222
Total – USD'000	21,429	(14,384)	1,510,894	555,481	186,005	769,408

35 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2015 have been reclassified in order to conform with the presentation for the current year. Such reclassifications were made within the same notes to the financial statements and do not affect previously reported profit or equity.

These reclassifications have been done as a result of adoption of new standards and interpretations and to improve the quality of information presented. The reclassifications do not affect the reported profit for the year 2015.

Ernst & Young LLC
P.O. Box 1750, Ruwi 112
5th Floor, Landmark Building
Opposite Al Ameen Mosque
Bowsher, Muscat
Sultanate of Oman

Tel: +968 22 504 559
Fax: +968 22 060 810
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of National Bank of Oman SAOG (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.

Emphasis of matter

We draw attention to note 22.1 of the financial statements which describes the status of the guarantees amounting to RO 14.3 million invoked by a beneficiary and legal action initiated by the bank to recover the related amount from its customer.

Our opinion is not modified in respect of this matter.

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.

1. Impairment of loans, advances and financing activities for customers

Key audit matters	*How our audit addressed the key audit matters*
Impairment of loans, advances and financing activities 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 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 industry and 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 3.19 to the financial statements. Attention is also drawn to the critical accounting estimates and judgements, disclosures of loans and receivables and the credit risk management set out in notes 2.4.2, 6 and 30.1, respectively 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.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (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:

- Chairman'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.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (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's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Sanjay Kawatra
Muscat
10 March 2018

ارنست ويونغ ش م م
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

2016 USD'000	2017 USD'000		Notes	2017 RO'000	2016 RO'000
		Assets			
1,328,816	995,094	Cash and balances with Central Banks	4	383,111	511,594
299,558	360,182	Due from banks and other money market placements (net)	5	138,670	115,330
6,935,795	6,893,171	Loans, advances and financing activities for customers (net)	6	2,653,871	2,670,281
333,462	475,636	Financial investments	7	183,120	128,383
120,377	170,896	Premises and equipment	8	65,795	46,345
157,792	118,922	Other assets	9	45,785	60,750
9,175,800	9,013,901	TOTAL ASSETS		3,470,352	3,532,683
		LIABILITIES AND EQUITY			
		LIABILITIES			
585,026	326,642	Due to banks and other money market deposits	10	125,757	225,235
6,232,107	6,392,901	Customers' deposits and unrestricted investment accounts	11	2,461,267	2,399,361
605,468	599,756	Euro medium term notes	12	230,906	233,105
207,953	190,512	Other liabilities	13	73,347	80,062
19,236	20,301	Taxation	14	7,816	7,406
127,532	64,935	Subordinated debt	15	25,000	49,100
7,777,322	7,595,047	TOTAL LIABILITIES		2,924,093	2,994,269
		EQUITY			
383,060	402,213	Share capital	16	154,852	147,478
89,519	89,519	Share premium	17	34,465	34,465
127,686	134,070	Legal reserve	18	51,617	49,159
119,990	61,010	Other non-distributable reserves	19	23,489	46,196
60,982	60,332	Proposed cash dividend	21	23,228	23,478
19,153	20,112	Proposed stock dividend	21	7,743	7,374
298,088	351,598	Retained earnings		135,365	114,764
1,098,478	1,118,854	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK		430,759	422,914
300,000	300,000	Tier 1 Perpetual Bond	20	115,500	115,500
1,398,478	1,418,854	TOTAL EQUITY		546,259	538,414
9,175,800	9,013,901	TOTAL LIABILITIES AND EQUITY		3,470,352	3,532,683

The financial statements were authorised for issue on 28 January 2018 in accordance with a resolution of the Board of Directors.

Chairperson

Chief Executive Officer

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

2016 USD'000	2017 USD'000		Notes	2017 RO'000	2016 RO'000
354,434	376,068	Interest income	23	144,786	136,457
(99,613)	(141,288)	Interest expense	24	(54,396)	(38,351)
254,821	234,780	Net interest income		90,390	98,106
12,974	14,548	Income from Islamic financing and investment activities		5,601	4,995
(3,990)	(7,951)	Unrestricted investment account holders' share of profit		(3,061)	(1,536)
8,984	6,597	Net Income from Islamic financing and investment activities		2,540	3,459
263,805	241,377	Net interest income and net income from Islamic financing and Investment activities		92,930	101,565
89,735	101,816	Other operating income	25	39,199	34,548
353,540	343,193	Operating income		132,129	136,113
(98,395)	(98,125)	Staff costs		(37,778)	(37,882)
(56,930)	(58,514)	Other operating expenses	26	(22,528)	(21,918)
(7,439)	(10,940)	Depreciation	8	(4,212)	(2,864)
(162,764)	(167,579)	Total operating expenses		(64,518)	(62,664)
190,776	175,614	PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		67,611	73,449
(51,029)	(65,229)	Credit loss expense – customers' loan	6	(25,113)	(19,646)
6,673	7,810	Recoveries and releases from provision for credit losses	6	3,007	2,569
18,678	16,805	Recoveries from loans and advances written off		6,470	7,191
(545)	(1,787)	Impairment losses on available-for-sale investments	7	(688)	(210)
161	(68)	Credit loss (expense) / write back - bank loans		(26)	62
(26,062)	(42,469)	TOTAL IMPAIRMENT LOSSES (NET)		(16,350)	(10,034)
164,714	133,145	PROFIT BEFORE TAX		51,261	63,415
(19,834)	(18,792)	Taxation	14	(7,235)	(7,636)
144,880	114,353	PROFIT FOR THE YEAR		44,026	55,779
		OTHER COMPREHENSIVE EXPENSE			
		Items that are or may be reclassified subsequently to profit or loss			
(3,540)	(11,473)	Net movement on available-for-sale investments		(4,417)	(1,363)
545	1,787	Impairment losses on available-for-sale investments already recognised in comprehensive income	7	688	210
(174)	317	Tax effect of net movement on available-for-sale investments		122	(67)
(3,169)	(9,369)	OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		(3,607)	(1,220)
141,711	104,984	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		40,419	54,559
0.08	0.06	Earnings per share: (USD) – Basic and diluted – (RO)	28	0.023	0.031

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of Bank									
	Share capital	Share premium	Legal reserve	Other non-distributable reserves (note 19)	Proposed cash dividend (note 21)	Proposed stock dividend (note 21)	Retained earnings	Total	Tier 1 perpetual bond	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2017	**147,478**	**34,465**	**49,159**	**46,196**	**23,478**	**7,374**	**114,764**	**422,914**	**115,500**	**538,414**
Total comprehensive income for the year	**-**	**-**	**-**	**(3,607)**	**-**	**-**	**44,026**	**40,419**	**-**	**40,419**
Issue of bonus shares (note 21)	**7,374**	**-**	**-**	**-**	**-**	**(7,374)**	**-**	**-**	**-**	**-**
Dividend paid (note 21)	**-**	**-**	**-**	**-**	**(23,478)**	**-**	**-**	**(23,478)**	**-**	**(23,478)**
Interest on tier 1 perpetual bond	**-**	**-**	**-**	**-**	**-**	**-**	**(9,096)**	**(9,096)**	**-**	**(9,096)**
Transfer to retained earnings	**-**	**-**	**-**	**(24,100)**	**-**	**-**	**24,100**	**-**	**-**	**-**
Transfer to subordinated debts reserve (note 15)	**-**	**-**	**-**	**5,000**	**-**	**-**	**(5,000)**	**-**	**-**	**-**
Transfer to legal reserve (note 18)	**-**	**-**	**2,458**	**-**	**-**	**-**	**(2,458)**	**-**	**-**	**-**
Proposed dividend	**-**	**-**	**-**	**-**	**23,228**	**7,743**	**(30,971)**	**-**	**-**	**-**
Balance at 31 December 2017	**154,852**	**34,465**	**51,617**	**23,489**	**23,228**	**7,743**	**135,365**	**430,759**	**115,500**	**546,259**
Balance at 31 December 2017 – In USD'000	**402,213**	**89,519**	**134,070**	**61,010**	**60,332**	**20,112**	**351,597**	**1,118,854**	**300,000**	**1,418,854**
Balance at 1 January 2016	134,071	34,465	47,737	40,596	22,792	13,407	106,089	399,157	115,500	514,657
Total comprehensive income for the year	-	-	-	(1,220)	-	-	55,779	54,559	-	54,559
Dividend paid (note 21)	-	-	-	-	(22,792)	-	-	(22,792)	-	(22,792)
Issue of bonus shares (note 21)	13,407	-	-	-	-	(13,407)	-	-	-	-
Interest on tier 1 perpetual bond	-	-	-	-	-	-	(8,010)	(8,010)	-	(8,010)
Proposed dividend	-	-	-	-	23,478	7,374	(30,852)	-	-	-
Transfer to retained earnings	-	-	-	(3,000)	-	-	3,000	-	-	-
Transfer to subordinated debt reserve (note 15)	-	-	-	9,820	-	-	(9,820)	-	-	-
Transfer to legal reserve (note 18)	-	-	1,422	-	-	-	(1,422)	-	-	-
Balance at 31 December 2016	147,478	34,465	49,159	46,196	23,478	7,374	114,764	422,914	115,500	538,414
Balance at 31 December 2016 – In USD'000	383,060	89,519	127,686	119,990	60,982	19,153	298,088	1,098,478	300,000	1,398,478

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CASH FLOW

For the year ended 31 December 2017

2016 USD'000	**2017 USD'000**		Notes	**2017 RO'000**	2016 RO'000
		OPERATING ACTIVITIES			
164,714	**133,145**	Profit before taxation		**51,261**	63,415
		Adjustments for:			
7,439	**10,940**	Depreciation	8	**4,212**	2,864
51,029	**65,229**	Provision for credit losses – customers' loans		**25,113**	19,646
(161)	**68**	Provision for credit losses/write back - due from banks		**26**	(62)
545	**1,787**	Impairment losses on available for sale investments	7	**688**	210
(31)	**(3)**	Profit on sale of equipment (net)		**(1)**	(12)
(4,447)	**(4,829)**	Profit on sale of investments	25	**(1,859)**	(1,712)
(11,514)	**(17,298)**	Investment income		**(6,660)**	(4,433)
207,574	**189,039**	Operating profit before changes in operating assets and Liabilities		**72,780**	79,916
(38,062)	**29,104**	Due from banks and other money market placements		**11,205**	(14,654)
225,062	**(263,694)**	Due to banks and other money market deposits		**(101,522)**	86,649
(404,748)	**(22,605)**	Loans, advances and financing activities for customers (net)		**(8,703)**	(155,828)
5,153	**40,766**	Other assets		**15,695**	1,984
388,403	**160,795**	Customers' deposits		**61,906**	149,535
100,000	**-**	Euro medium term notes		**-**	38,500
(3,268)	**(23,156)**	Other liabilities		**(8,915)**	(1,258)
480,114	**110,249**	**Cash from operations**		**42,446**	184,844
(22,358)	**(19,319)**	Taxes paid		**(7,438)**	(8,608)
457,756	**90,930**	**Net cash from operating activities**		**35,008**	176,236
		INVESTING ACTIVITIES			
(37,691)	**(246,810)**	Purchase of available-for-sale investments		**(95,022)**	(14,511)
34,527	**40,940**	Proceeds from sale of available-for-sale investments		**15,762**	13,293
77,922	**57,143**	Proceeds from maturity of government development bonds		**22,000**	30,000
(38,369)	**(61,506)**	Purchase of premises and equipment	8	**(23,680)**	(14,772)
255	**55**	Disposal of premises and equipment		**21**	98
9,545	**13,810**	Income from bond and other investments	25	**5,317**	3,675
1,969	**3,488**	Dividend income	25	**1,343**	758
(945)	**(13)**	Translation differences on premises and equipment and tax		**(5)**	(363)
47,213	**(192,893)**	**Net cash (used in)/from investing activities**		**(74,264)**	18,178

STATEMENT OF CASH FLOW

For the year ended 31 December 2017

2016 USD'000	2017 USD'000		Notes	2017 RO'000	2016 RO'000
		FINANCING ACTIVITIES			
(59,200)	(60,982)	Payment of dividend		(23,478)	(22,792)
(7,791)	(62,597)	Net movement in subordinated debt	15	(24,100)	(3,000)
-	-	Proceeds from Tier 1 perpetual bond		-	-
(20,805)	(23,626)	Interest on Tier 1 perpetual bond		(9,096)	(8,010)
(87,796)	(147,205)	Net cash used in financing activities		(56,674)	(33,802)
417,173	(249,168)	(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(95,930)	160,612
888,004	1,305,177	Cash and cash equivalents at the beginning of the year		502,493	341,881
1,305,177	1,056,009	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		406,563	502,493
		REPRESENTING:			
1,327,517	993,795	Cash and balances with Central Banks	4	382,611	511,094
188,920	278,782	Due from banks maturing within three months		107,331	72,734
(211,260)	(216,568)	Due to banks maturing within three months		(83,379)	(81,335)
1,305,177	1,056,009			406,563	502,493

The attached notes 1 to 35 form part of these financial statements.

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale, investment and Islamic banking services within the Sultanate of Oman and overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a commercial bank licences given by the respective Central Banks. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on the Muscat Stock Exchange.

The bank employed 1,501 employees as of 31 December 2017 (31 December 2016 – 1,544 employees).

2. BASIS OF PREPARATION

2.1 Basis of measurement

The financial statements are prepared under the historical cost convention as modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivatives, investments classified as available-for-sale and investments carried at fair value through profit and loss.

2.2 Functional and presentation currency

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.3 Statement of compliance

The financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS), applicable regulations of the Central Bank of Oman and applicable requirements of the Commercial Companies Law of Oman, as amended and the Capital Market Authority of the Sultanate of Oman.

The bank also 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 IBWs financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

The bank presents its statement of financial position broadly in order of liquidity.

2.4 Significant accounting judgments and estimates

In the process of applying the bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

2.4.1 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 a going concern basis.

2. BASIS OF PREPARATION (Continued)

2.4.2 Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks.

2.4.3 Impairment of equity investments

The bank treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

2.4.4 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

2.4.5 Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.4.6 Investment Funds

The bank acts as fund manager and investment advisor to investment funds. For all funds managed by the bank, the investors (whose number ranges from 30 to 100) are able to vote by simple majority to remove the bank as fund manager without cause, and the bank's aggregate economic interest is in each case less than 5%. As a result, the bank has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

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

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 these standards and interpretations has not resulted in any significant changes to the bank's accounting policies and has not affected the amounts reported for the current and prior years.

Notes to the Financial Statements
For the year ended 31 December 2017

2. BASIS OF PREPARATION (Continued)

2.6 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the bank

IFRS 9 will have a significant impact on the bank's financial statements and details are set out below:

IFRS 9 Financial Instruments

The bank will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information in accordance with relevant requirements of IFRS 9. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new 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 has assessed the estimated impact that the initial application of IFRS 9 will have on its financial statements as below:

The bank's initial estimate of IFRS 9 is expected to impact equity attributable to the equity holders of the bank by 4 - 5% as of 1 January 2018. This is preliminary, because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change accordingly.

(i) 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.

At 31 December 2017, the Bank had equity investments classified as available-for-sale with a fair value of RO 35.6 million that are held for long-term strategic purposes. Under IFRS 9, the Bank has designated these investments as measured at FVOCI. Due to this reclassification, an increase of RO 2.89 million is estimated in the retained earnings along with a corresponding increase in negative fair value reserve due to reclassification of impairment on equity investments measured at fair value through other comprehensive income to the reserves.

(ii) 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.

2. BASIS OF PREPARATION (Continued)

IFRS 9 Financial Instruments (Continued)

(iii) 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.

(iv) 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.

(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.

Other relevant standards which are expected to have implications on the bank's are IFRS 15 and IFRS 16 and details are set out below:

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.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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 where transaction costs is recorded as an expense.

3.3 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- 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; or
- 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; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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 'other operating income'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

3.5 Held-to-maturity

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income.

If the bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

3.6 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 those which are intended to be held for an indefinite period of time and which 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, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the statement of profit or loss for the year. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of 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 for the year in 'Impairment losses on available-for-sale financial investments' and removed from the 'Available-for-sale reserve'.

3.7 Derivative financial instruments and hedging activities

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:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Derivative financial instruments and hedging activities (Continued)

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. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of comprehensive income within 'Other operating income'.

At inception of the hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective

basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the profit or loss in 'Other operating income'. For situations where the hedged item is a forecast transaction, the bank also assesses whether the transaction is highly probable and an exposure to variations in cash flows that could ultimately affect the statement of comprehensive income.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss in other operating income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the profit or loss in other operating income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3.8 Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the profit or loss for the year. The losses arising from impairment are recognised in the profit or loss for the year in 'Credit loss expense'.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Determination of fair values

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. Details are set out in note 33.

3.9 Determination of fair values (Continued)

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 each 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.

3.10 Premises and equipment

Premises and equipment are initially recorded at cost or deemed cost. Revaluations of buildings are carried out every five years on an open market value for existing use basis by an independent valuer. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings.

Land and capital work in progress are stated at cost and tested for impairment, if any. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Premises and equipment (Continued)

The rates of depreciation are based upon the following estimated useful lives:

Buildings on freehold land	25 to 40 years
Leasehold improvements	Over the lease terms 3 to 10 years
Motor vehicles	4 years
Furniture	3 to 10 years
Equipment	5 to 20 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

3.11 Derecognition of financial assets and financial liabilities

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

- 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 (a) the bank has transferred substantially all the risks and rewards of the asset, or (b) 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 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.

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 for the year.

3.12 Collateral pending sale

The bank occasionally 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 profit or loss for the year.

3.13 Deposits

All money market and customer deposits are carried at amortised cost using EIR.

3.14 Other borrowed funds

Other borrowings including subordinate private placements are recognised initially at their issue proceeds. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the period of the borrowings using EIR.

3.15 Taxation – current and deferred

Taxation is provided for based on the relevant tax laws of the respective countries, in which the bank operates.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss for the year except to the extent that it relates to items recognised directly to other comprehensive income, in which case it is recognised in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Impairment of financial assets (Continued)

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.16 Fiduciary assets

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

3.17 Financial guarantees

In the ordinary course of business, the bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "other liabilities". Subsequent to initial recognition, the bank measures such guarantees at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fee in the profit or loss for the year in "Net fees and commission income" over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the profit or loss for the year. Any financial guarantee liability remaining is recognised in the statement of comprehensive income when the guarantee is discharged, cancelled or expires.

3.18 Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

3.19 Impairment of financial assets

The bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognised in the profit or loss for the year.

Due from banks and loans and advances to customers
For amounts due from banks and loans and advances to customers carried at amortised cost, the bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, 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 has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 profit or loss for the year. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off

Notes to the Financial Statements
For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Impairment of financial assets (Continued)

when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Recoveries from loans and advances written off'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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.

Held-to-maturity financial investments
For held-to-maturity investments the bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss for the year.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

Available-for-sale financial investments
For available-for-sale financial investments, the bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. For this purpose significant means 35% below cost, and prolonged mean quoted prices remaining or below cost for a period of 12 continuous months. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss for the year. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Perpetual Bond

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.

3.21 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.22 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense
For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'.

Fee and commission income
The bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, sale of insurance products are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised when the bank's right to receive the payment is established.

3.23 Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

Notes to the Financial Statements
For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Leases

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

3.25 Staff terminal benefits

The terminal benefits for employees in Oman are provided in accordance with the Sultanate of Oman's labour law. The end of service benefits for employees in UAE are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE labour laws. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law.

3.26 Segment reporting

The bank's segmental reporting is based on the following operating segments: retail banking, wholesale banking, commercial banking, head office and islamic. Segment results are reported to the Chief Executive Officer of the bank, (being the chief operating decision maker) and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.27 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

3.28 Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3.29 Impairment of non-financial assets

The carrying amount of the bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication whether there is any indication of impairment. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

3.30 Earnings per share

The bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

3.31 Foreign currency translation

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

3.32 Acceptances

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

4. CASH AND BALANCES WITH CENTRAL BANKS

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
121,005	**133,449**	Cash	**51,378**	46,587
657	**621**	Treasury bills with Central Banks	**239**	253
-	**20,418**	Certificate of Deposit with Central Banks	**7,861**	-
1,205,855	**839,307**	Other balances with Central Banks	**323,133**	464,254
1,327,517	**993,795**	**Cash and cash equivalents**	**382,611**	511,094
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
1,328,816	**995,094**	**Cash and balances with Central Banks**	**383,111**	511,594

(i) At 31 December 2017, cash and balances with Central Bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2016: RO 500,000) as capital deposit. This cannot be withdrawn without the Central Bank of Oman approval.

(ii) Minimum cash reserve to be maintained with Central Bank of Oman as of 31 December 2017 amounted to RO 76 million (2016: RO 72 million).

5. DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
65,501	**49,000**	Loans and advances to banks	**18,865**	25,218
145,657	**193,260**	Placement with banks	**74,405**	56,078
88,577	**118,166**	Demand balances	**45,494**	34,102
299,735	**360,426**	**Due from banks and other money market placement**	**138,764**	115,398
(177)	**(244)**	Less: allowance for credit losses	**(94)**	(68)
299,558	**360,182**	**Net due from banks and other money market placement**	**138,670**	115,330

6. LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET)

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
227,062	**259,714**	Overdrafts	**99,990**	87,419
3,478,474	**3,533,208**	Personal loans	**1,360,285**	1,339,213
2,983,466	**3,144,868**	Other loans	**1,210,774**	1,148,634
313,782	**152,805**	Loans against trust receipts	**58,830**	120,806
187,595	**105,254**	Bills discounted	**40,523**	72,224
7,190,379	**7,195,849**	**Gross loans and advances**	**2,770,402**	2,768,296
(221,745)	**(261,776)**	Allowance for credit losses	**(100,784)**	(85,372)
(32,839)	**(40,902)**	Reserved interest	**(15,747)**	(12,643)
6,935,795	**6,893,171**	**Net loans and advances**	**2,653,871**	2,670,281

6. LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET) (Continued)

The movement in the allowance for credit losses and reserved interest accounts is set out below:

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Allowance for credit losses		
199,332	221,745	Balance at beginning of the year	85,372	76,743
51,029	65,229	Provided during the year	25,113	19,646
(5,268)	(2,426)	Released/recovered during the year	(934)	(2,028)
(22,945)	(22,777)	Written off during the year	(8,769)	(8,834)
(403)	5	Translation difference	2	(155)
221,745	261,776	**Balance at end of the year**	100,784	85,372
		Reserved interest		
29,774	32,839	Balance at beginning of the year	12,643	11,463
10,143	14,992	**Reserved during the year**	5,772	3,905
(1,405)	(5,384)	Released/recovered during the year	(2,073)	(541)
(5,545)	(1,545)	Written off during the year	(595)	(2,135)
(128)	-	Translation difference	-	(49)
32,839	40,902	Balance at end of the year	15,747	12,643

A further analysis of allowances for credit losses is set out below:

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
122,151	166,083	Specific impairment	63,942	47,028
99,594	95,693	Collective impairment	36,842	38,344
221,745	261,776		100,784	85,372

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. At 31 December 2017, impaired loans on which interest is not being accrued or where interest has been reserved amounted to RO 113 million – USD 294 million (2016 – RO 74 million – USD 192 million).

During the year, the bank has written-off fully provided loans and advances amounting to RO 9 million – USD 24.3 million (2016: RO 11 million – USD 28.5 million) against impairment provisions where the bank believes the possibility of a recovery is low. The bank will continue to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the profit or loss for the year.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location.

6. LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET) (Continued)

The table below analyses the concentration of gross loans and advances by various sectors.

Total 2016 USD'000	Total 2017 USD'000		Total 2017 RO'000	Total 2016 RO'000
3,478,474	3,533,207	Personal	1,360,285	1,339,213
751,488	690,314	Service	265,771	289,323
631,647	502,174	Construction	193,337	243,184
583,831	496,579	Manufacturing	191,183	224,775
405,852	490,504	Financial institutions	188,844	156,253
108,156	431,816	Electricity, gas and water	166,249	41,640
396,821	379,699	Wholesale and retail trade	146,184	152,776
326,936	275,624	Others	106,115	125,870
147,797	199,455	Mining and quarrying	76,790	56,902
217,501	148,865	Import trade	57,313	83,738
120,642	30,166	Transport and communication	11,614	46,447
18,564	14,901	Agriculture	5,737	7,147
2,670	2,545	Government	980	1,028
7,190,379	7,195,849	**Total Gross Loans**	2,770,402	2,768,296

The geographic distribution of loans and advances to customers, based on the location of the borrower is as follows:

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
6,524,971	6,802,374	Sultanate of Oman	2,618,914	2,512,114
579,169	369,969	United Arab Emirates	142,438	222,980
403	392	Egypt	151	155
85,836	23,114	Others	8,899	33,047
7,190,379	7,195,849	**Total**	2,770,402	2,768,296

7. FINANCIAL INVESTMENTS

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		A. Held for trading		
		Quoted investments- Oman		
168,156	**143,431**	Government Development Bonds	**55,221**	64,740
-	**1,429**	Banking and investment sector	**550**	-
776	-	Equities	-	299
168,932	**144,860**		**55,771**	65,039
		Quoted investments- Foreign		
1,582	-	Equities	-	609
170,514	**144,860**	Total held for trading	**55,771**	65,648
		B. Available-for-sale		
		Quoted investments- Oman		
2,260	-	Banking and investment sector	-	870
366	**5,904**	Manufacturing sector	**2,273**	141
35,875	**54,704**	Service sector	**21,061**	13,812
-	**10,117**	Government Development Bonds	**3,895**	-
38,501	**70,725**		**27,229**	14,823
		Quoted investments- Foreign		
862	**6,602**	Banking and investment sector	**2,542**	332
9,356	-	Service sector	-	3,602
10,218	**6,602**		**2,542**	3,934
		Unquoted investments		
21,701	**19,345**	Banking and investment sector	**7,448**	8,355
9,047	-	Manufacturing sector	-	3,483
912	**886**	Service sector	**341**	351
31,660	**20,231**		**7,789**	12,189
80,379	**97,558**	**Total available-for-sale**	**37,560**	30,946
		C. Held-to-maturity		
		Quoted investments- Oman		
49,023	**199,963**	Government Development Bonds	**76,986**	18,874
15,000	**15,000**	Manufacturing sector	**5,775**	5,775
64,023	**214,963**		**82,761**	24,649
		Quoted investments- Overseas		
5,130	**5,112**	Banking and investment sector	**1,968**	1,975
13,416	**13,143**	Government Development Bond	**5,060**	5,165
18,546	**18,255**		**7,028**	7,140
82,569	**233,218**	**Total held-to-maturity**	**89,789**	31,789
333,462	**475,636**	**TOTAL FINANCIAL INVESTMENTS**	**183,120**	128,383

Notes to the Financial Statements
For the year ended 31 December 2017

7. FINANCIAL INVESTMENTS (Continued)

Included under unquoted available-for-sale investments are investments with a value of RO 0.46 million – USD 1.2 million (2016 – RO 3.92 million – USD 10.18 million), which are carried at cost, less any impairment losses, due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. All other available-for-sale investments are carried at fair value.

Details of impairment movement

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
5,166	**5,711**	Balance at beginning of the year	**2,199**	1,989
545	**1,787**	Provided during the year	**688**	210
5,711	**7,498**	Balance at end of the year	**2,887**	2,199

During the year, the bank has recorded RO 0.69 million – USD 1.79 million (2016 RO 0.21 million – USD 0.52 million) as impairment losses against its available-for-sale investments. The impairment loss on available-for-sale investments is recognised in view of either a significant or prolonged decline in the fair value of the investment below cost. A decline in value of security below its cost over thirty five percent is considered significant. Further, a decline in value of security below its cost for a continuous period of twelve months is considered prolonged.

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment portfolio are as follows:

Bank's portfolio %	Carrying value USD'000	2017	Bank's portfolio %	Carrying value RO'000
74.3%	353,511	**Government Development Bonds-Oman**	%74.3	136,102
		2016		
65.1%	**217,179**	Government Development Bonds-Oman	65.1%	**83,614**

8. PREMISES AND EQUIPMENT

	Freehold land and buildings and leasehold improvements	Motor vehicles, furniture and equipment	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000
Reconciliation of carrying amount:				
Balance as at 1 January 2017, net of accumulated				
depreciation	12,492	7,900	25,953	46,345
Additions	3,325	705	19,650	23,680
Disposals	-	(11)	(10)	(21)
Transfers	36,514	7,019	(43,533)	-
Translation difference	3	-	-	3
Depreciation	(1,085)	3,127	-	(4,212)
Balance at 31 December 2017, net of	**51,249**	**12,486**	**2,060**	**65,795**
accumulated depreciation				
At cost	62,353	41,420	2,060	105,833
At revaluation	4,385	-	-	4,385
Accumulated depreciation	(15,489)	(28,934)	-	(44,423)
Net carrying value at 31 December 2017	**51,249**	**12,486**	**2,060**	**65,795**
Net carrying value at 31 December 2017 – USD'000	**133,114**	**32.431**	**5,351**	**170,896**
At cost 31 December 2016	23,108	34,333	25,953	83,394
At revaluation	4,385	-	-	4,385
Accumulated depreciation	(15,001)	(26,433)	-	(41,434)
Net carrying value at 31 December 2016	12,492	7,900	25,953	46,345
Net carrying value at 31 December 2016– USD'000	32,447	20,520	67,410	120,377

During the year, the bank has capitalised its new head office building. Land and buildings above have a net carrying value of RO 49.77 million-USD 129.27million, (2016 – RO 10.74 million- USD 27.89 million) out of which freehold land at a cost of RO 8.56 million – USD 22.22 million (2016 – RO 8.56 million – USD 22.22 million) is not depreciated and not re-valued.

The bank has a policy to revalue its buildings at the end of every five years. In accordance with Bank's policy, three buildings on freehold land were re-valued at their open market value by an independent professional valuer during 2015. Should the buildings on freehold land be carried at cost less depreciation, the net carrying amount would have been RO 39.32 million – USD 102.13 million (2016 –RO 0.12 million – USD 0.31 million).

Notes to the Financial Statements
For the year ended 31 December 2017

9. OTHER ASSETS

2016	2017		2017	2016
USD'000	USD'000		RO'000	RO'000
47,916	**42,475**	Interest receivable and others	**16,353**	18,447
21,810	**7,016**	Positive fair value of derivatives (note 34)	**2,701**	8,397
85,917	**65,384**	Customers' indebtedness for acceptances	**25,173**	33,078
2,149	**4,047**	Deferred tax (note 14)	**1,558**	828
157,792	**118,922**		**45,785**	60,750

10. DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2016	2017		2017	2016
USD'000	USD'000		RO'000	RO'000
575,953	**317,073**	Borrowings	**122,073**	221,742
9,073	**9,569**	Other balances	**3,684**	3,493
585,026	**326,642**		**125,757**	225,235

11. CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2016	2017		2017	2016
USD'000	USD'000		RO'000	RO'000
2,208,660	**2,281,309**	Current accounts	**878,304**	850,334
1,568,444	**1,513,041**	Savings accounts	**582,521**	603,851
2,455,003	**2,598,551**	Term deposits	**1,000,442**	945,176
6,232,107	**6,392,901**		**2,461,267**	2,399,361

12. EURO MEDIUM TERM NOTES

The bank issued a 5-year, USD 600 million Regulation S, bond under its Euro Medium Term Note (EMTN) programme with regional and international investors. The bonds are listed on the Irish Stock Exchange and are governed by English law. The carrying amount of EMTN is stated after taking into account the amount of MTM value of the fair value hedge (Refer note 34).

Notes to the Financial Statements
For the year ended 31 December 2017

13. OTHER LIABILITIES

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
102,799	**112,647**	Interest payable and others	**43,369**	39,578
4,603	**4,756**	Staff entitlements	**1,831**	1,772
85,917	**65,384**	Liabilities under acceptances	**25,173**	33,078
14,634	**7,725**	Negative fair value of derivatives (note 34)	**2,974**	5,634
207,953	**190,512**		**73,347**	80,062
		Staff entitlements are as follows:		
3,956	**4,073**	End of service benefits	**1,568**	1,523
647	**683**	Other liabilities	**263**	249
4,603	**4,756**		**1,831**	1,772
		Movement in the end of service benefits liability are as follows:		
4,062	**3,956**	Liability as at 1 January	**1,523**	1,564
919	**1,353**	Expense recognised in the statement of comprehensive income	**521**	354
(1,025)	**(1,236)**	End of service benefits paid	**(476)**	(395)
3,956	**4,073**	Liability as at 31 December	**1,568**	1,523

14. TAXATION

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Current tax expense		
20,205	**20,371**	Current year	**7,843**	7,779
(371)	**(1,579)**	Deferred tax adjustment	**(608)**	(143)
19,834	**18,792**		**7,235**	7,636

The bank is liable to income tax at the following rates:

- Sultanate of Oman: 15% of consolidated taxable income (2016: 12% on taxable profits above RO 30,000)
- United Arab Emirates: 20% of taxable income
- Egypt: 22.50% of taxable income

14. TAXATION (Continued)

Set out below is reconciliation between income tax calculated on accounting profits with income tax expense for the year:

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
164,714	**133,146**	Accounting profit	**51,261**	63,415
19,766	**19,972**	Tax at applicable rate	**7,689**	7,610
(41)	**1,962**	Non-deductible expenses	**755**	(16)
(2,115)	**(4,025)**	Tax exempt revenues	**(1,549)**	(814)
2,595	**2,462**	Others	**948**	999
20,205	**20,371**		**7,843**	7,779

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2011.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2016.

Tax liability

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
20,205	**20,371**	Income tax and other taxes – Current year	**7,843**	7,779
(969)	**(70)**	Income tax and other taxes – Prior years	**(27)**	(373)
19,236	**20,291**		**7,816**	7,406

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

2,261	**3,843**	Deductible temporary differences relating to provisions and revaluation of buildings	**1,480**	871
(112)	**204**	Available-for-sale investments	**78**	(43)
2,149	**4,047**		**1,558**	828

Movement of deferred tax asset/(liability)

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
1,953	**2,151**	Balance at the beginning of the year	**828**	752
371	**1,579**	Created during the year	**608**	143
(174)	**317**	Tax effect of movement in available-for-sale investments during the year	**122**	(67)
2,150	**4,047**		**1,558**	828

15. SUBORDINATED DEBT

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
135,325	127,532	At 1 January	49,100	52,100
(7,793)	(62,597)	Repaid during the year	(24,100)	(3,000)
127,532	64,935		25,000	49,100

16. SHARE CAPITAL

The Authorised share capital of the bank is 2,000,000,000 shares of RO 0.100 each (2016 – 2,000,000,000 of RO each). At 31 December 2017, 1,548,520,338 shares of RO 0.100 each (2016 – 1,474,781,275 shares of RO 0.100 each) have been issued and fully paid.

As of 31 December 2017, the following shareholders held 10% or more of the bank's capital:

	Number of shares '000	% Holding
The Commercial Bank of Qatar	540,431	34.90%
Suhail Bahwan Group (Holdings) L.L.C	228,318	14.74%
Civil Service Employee Pension Fund	175,098	11.31%

The percentage shareholding is calculated based on the total shares of the bank outstanding at the reporting date.

17. SHARE PREMIUM

The share premium of RO 34.5 million (USD 89.5 million) represents the premium collected on issue of 10 million shares by the bank through a private placement for RO 4.45 (USD 11.56) per share. This was approved by the bank's shareholders at the bank's Extraordinary General Meeting held in 2005 at which time the face value of the bank's share was RO 1.

18. LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of UAE. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in UAE. At 31 December 2017, the legal reserve of Oman has reached one third of the issued capital.

19. OTHER NON-DISTRIBUTABLE RESERVES

	Available-for-sale reserve RO '000	Revaluation reserve RO '000	Subordinated debt reserve RO '000	Total RO '000
At 1 January 2017	1,111	4,385	40,700	46,196
Net movement on available-for-sale investments	(4,417)	-	-	(4,417)
Tax effect of net losses on available-for-sale financial investments	122	-	-	122
Impairment losses on available-for-sale investments already recognised in comprehensive income	688	-	-	688
Transfer to retained earnings	-	-	(24,100)	(24,100)
Transfer to subordinated debt reserve	-	-	5,000	5,000
At 31 December 2017	(2,496)	4,385	21,600	23,489
At 31 December 2017 – In USD'000	(6,483)	11,390	56,103	61,010

Notes to the Financial Statements
For the year ended 31 December 2017

19. OTHER NON-DISTRIBUTABLE RESERVES (Continued)

(i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.

(ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 15). The reserve is available for transfer back to retained earning upon maturity of the subordinated debt.

20. TIER 1 PERPETUAL BOND

The bank, in 2015 issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), listed on Irish Stock Exchange, amounting to USD 300,000,000 (RO 115,500,000).

The Tier 1 Securities 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 Securities do not have a fixed or final maturity date. They are redeemable by the bank at its sole discretion on 18 November 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the Central Bank of Oman.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875% which is the aggregate of margin and 5 year mid-swap rate that was prevailing at the time of issuance. The mid-swap rate will be reset at end of every fifth year. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the bank's discretion.

These securities form part of Tier 1 Capital of the bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

21. DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.015 per share totalling RO 23.2 million (USD 0.039 per share totalling USD 60.3 million) and stock dividend of RO 0.005 per share totalling RO 7.7 million (USD 0.013 per share totalling USD 20.1 million) for the year ended 31 December 2017, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2018.

At the Annual General Meeting held in March 2017, a cash dividend of RO 0.016 per share totalling RO 23.5 million (USD 0.030 per share totalling USD 61 million) and stock dividend of RO 0.005 per share totalling RO 7.4 million (USD 0.013 per share totalling USD 19.2 million) for the year ended 31 December 2016 was approved and subsequently paid.

22. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

22.1 Contingent liabilities

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
1,204,062	947,844	Guarantees	364,920	463,564
208,140	213,473	Documentary letters of credit	82,187	80,134
1,412,202	1,161,317		447,107	543,698

22. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

The table below analyses the concentration of contingent liabilities by economic sector

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
713,273	**563,142**	Construction	**216,810**	274,610
184,516	**191,103**	Wholesale and retail trade	**73,575**	71,039
61,125	**113,205**	Others	**43,584**	23,533
178,146	**111,609**	Manufacturing	**42,970**	68,586
165,379	**91,525**	Financial institutions	**35,237**	63,671
68,729	**53,458**	Service	**20,581**	26,461
19,653	**23,422**	Transport and communication	**9,017**	7,566
2,914	**9,334**	Mining & quarrying	**3,594**	1,122
17,242	**3,271**	Electricity, gas and water	**1,259**	6,638
700	**699**	Personal	**269**	270
525	**549**	Agriculture	**211**	202
1,412,202	**1,161,317**		**447,107**	543,698

Guarantees include an amount of RO 14.3 million towards performance and advance payment guarantees which have been invoked by the beneficiary. The bank, based on an independent legal advice obtained is confident of recovering the amount payable to the beneficiary from its customer and has initiated a legal action against this customer. The bank has not created any provision for impairment loss for these disputed sums from its customer.

Guarantees include RO 0.29 million – USD 0.75 million (Dec 2016: RO 0.4 million – USD 1 million) relating to non-performing loans.

22.2 Commitments

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
618,262	**422,927**	Undrawn commitment	**162,827**	238,031
53,865	**5,062**	Capital expenditure	**1,949**	20,738
5,943	**8,894**	Operating lease commitments	**3,424**	2,288
		Future minimum lease payments:		
2,899	**3,340**	Not later than one year	**1,286**	1,116
3,044	**5,554**	Later than one year and not later than five years	**2,138**	1,172
5,943	**8,894**		**3,424**	2,288

22.3 Branches

The bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
88,584	**88,584**	UAE branch	**34,105**	34,105
50,000	**50,000**	Egypt branches	**19,250**	19,250
138,584	**138,584**		**53,355**	53,355

22. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

22.4 Legal claims

By nature of the banking sector, litigation whether by or against the bank is expected. In order to properly manage such litigation, the bank has in place effective mechanism and controls. The bank does not have any major/material legal proceedings pending in a court of law in Oman or outside either instituted by or against the bank, other than normal cases filed by clients in the normal course of business. However, there are certain unresolved legal claims filed against the bank which are not expected to have any significant implication on the bank's financial statements. Similarly, there are some ongoing cases filed by the bank against its borrowers in the course of its normal business practice.

22.5 Fiduciary assets

The fair value of securities as of 31 December 2017 held on trust for customers amounts to RO 47.8 million –USD 124.1 million (2016 – RO 59.62 million –USD 154.85 million).

23.INTEREST INCOME

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
347,748	**366,972**	Interest from customers	**141,284**	133,883
6,686	**9,096**	Interest from banks	**3,502**	2,574
354,434	**376,068**		**144,786**	136,457

Interest bearing assets, other than investments earned interest at an overall effective annual rate of 5.20 % for the year ended 31 December 2017 (31 December 2016 – 4.90%).

24.INTEREST EXPENSE

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
75,483	**107,327**	Interest to customers	**41,321**	29,061
12,174	**15,831**	Interest to banks	**6,095**	4,687
11,956	**18,130**	Euro medium term notes	**6,980**	4,603
99,613	**141,288**		**54,396**	38,351

For the year ended 31 December 2017, the average overall effective annual cost of bank's funds was 1.95 % (2016 – 1.43%).

25.OTHER OPERATING INCOME

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
41,587	**50,647**	Fees and commission income	**19,499**	16,011
(16)	**(18)**	Fees and commission expense	**(7)**	(6)
41,571	**50,629**	Net fees and commissions	**19,492**	16,005
16,288	**13,122**	Service charges	**5,052**	6,271
4,447	**4,829**	Profit on sale of investments	**1,859**	1,712
12,808	**12,774**	Net gains from foreign exchange dealings	**4,918**	4,931
9,545	**13,810**	Income from bonds and others	**5,317**	3,675
1,969	**3,488**	Dividend income	**1,343**	758
3,107	**3,164**	Miscellaneous income	**1,218**	1,196
89,735	**101,816**		**39,199**	34,548

26. OTHER OPERATING EXPENSES

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
16,088	**15,953**	Establishment costs	**6,142**	6,194
40,032	**41,691**	Operating and administration costs	**16,051**	15,412
810	**870**	Directors' remuneration and sitting fees	**335**	312
56,930	**58,514**		**22,528**	21,918

27. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows:

	2017			2016		
	Principal shareholders RO'000	**Others RO'000**	**Total RO'000**	Principal shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	-	**138,697**	**138,697**	-	99,039	99,039
Customers' deposits	**2,730**	**38,548**	**41,278**	82,292	35,304	117,596
Due from banks	**156**	**9,625**	**9,781**	55	13,668	13,723
Due to banks	**427**	-	**427**	28,917	-	28,917
Subordinated debt	**14,500**	**3,000**	**17,500**	14,500	4,000	18,500
Letter of credit, guarantees and acceptance	**3,057**	**8,765**	**11,822**	118	5,348	5,466
Standby revolving credit facility	**77,000**	-	**77,000**	77,000	-	77,000
Risk indemnities received	-	-	-	422	-	422
Investment	**1,981**	-	**1,981**	1,981	-	1,981

27. RELATED PARTY TRANSACTIONS (Continued)

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

	2017			2016		
	Principal share holders RO'000	**Others RO'000**	**Total RO'000**	**Principal share holders RO'000**	**Others RO'000**	**Total RO'000**
Interest Income	**40**	**6,275**	**6,315**	-	3,165	3,165
Commission Income	**80**	**895**	**975**	74	56	130
Interest Expense	2,947	**1,096**	**4,043**	3,357	387	3,744
Other Expense	-	**445**	**445**	-	1,051	1,051

	2017			2016		
	Principal share holders USD'000	**Others USD'000**	**Total USD'000**	**Principal share holders USD'000**	**Others USD'000**	**Total USD'000**
Loans and advances	-	**360,252**	**360,252**	-	257,244	257,244
Customers' deposits	**7,091**	**100,125**	**107,216**	213,745	91,699	305,444
Due from banks	**405**	**25,000**	**25,405**	143	35,501	35,644
Due to banks	**1,109**	-	**1,109**	75,109	-	75,109
Subordinated debt	**37,662**	**7,792**	**45,455**	37,662	10,390	48,052
Letter of credit, guarantees and acceptance	**7,940**	**22,766**	**30,706**	306	13,891	14,197
Standby revolving credit facility	**200,000**	-	**200,000**	200,000	-	200,000
Risk indemnities received	-	-	-	1,096	-	1,096
Investment	**5,145**	-	**5,145**	4,982	-	4,982

	2017			2016		
	Principal share holders USD'000	**Others USD'000**	**Total USD'000**	**Principal share holders RO'000**	**Others USD'000**	**Total USD'000**
Interest income	**104**	**16,299**	**16,403**	-	**8,221**	**8,221**
Commission income	**208**	**2,325**	**2,531**	192	145	337
Interest expense	**7,655**	**2,847**	**10,502**	8,719	1,005	9,724
Other expenses	-	**1,156**	**1,156**	-	2,730	2,730

Details regarding senior management compensation are set out below:

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Salaries and other short term benefits		
8,143	**8,309**	- Fixed	**3,199**	3,135
3,766	**3,894**	- Discretionary	**1,499**	1,450
11,909	**12,203**		**4,698**	4,585

28.BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2017 RO'000	2016 RO'000
Profit after tax	44,026	55,779
Less: Interest on tier 1 perpetual bond	(9,096)	(8,010)
Profit attributable to shareholders	34,930	47,769
Weighted average number of shares outstanding during the year (in '000s)	1,548,520	1,548,520
Earnings per share (RO)	RO 0.023	RO 0.031
	2017 USD'000	2016 USD'000
Profit after tax	114,353	144,880
Less: Interest on tier 1 perpetual bond	(23,626)	(20,805)
Profit attributable to shareholders	90,727	124,075
Weighted average number of shares outstanding during the year (in '000s)	1,548,520	1,548,520
Earnings per shawre (USD)	USD 0.06	USD 0.08

During the year 2017, the bank issued bonus shares amounting to RO 7.4 million at RO 0.005 per share (USD 0.013 per share totalling USD 19.2 million). 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.

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.

29.CAPITAL ADEQUACY

The bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the bank.

During the past year, the bank had complied in full with all its externally imposed capital requirements.

Capital management

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

The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. The Capital Management Policy was revised during the year to incorporate the regulatory changes.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

29. CAPITAL ADEQUACY (Continued)

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the bank for International Settlement is as follows:

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Capital base		
1,021, 070	1,043,086	Common equity Tier 1 - shareholders' funds	401,588	393,112
300,000	300,000	Additional Tier 1 - capital	115,500	115,500
122,888	101,896	Tier 2 - subordinated debt and collective impairment provisions	39,230	47,312
1,443,958	1,444,982	Total capital base	556,318	555,924
		Risk weighted assets		
7,500,257	7,445,255	Credit risk	2,866,423	2,887,599
626,722	655,779	Operational risk	252,475	241,288
155,584	228,543	Market risk	87,989	59,900
8,282,563	8,329,577	Total risk weighted assets	3,206,887	3,188,787
12.3%	12.5%	CET 1 Ratio	12.5%	12.3%
16.0%	16.1%	Tier 1 Ratio	16.1%	16.0%
17.4%	17.3%	Risk asset ratio (Basel II norms)	17.3%	17.4%

30.RISK MANAGEMENT

Effective risk management is of primary importance for the bank. The bank's risk management process evaluates, monitors and manages the risks associated with the businesses the bank conducts in line with the defined risk appetite. The bank's key risks are credit risk, market risk, operational risk and strategic risk. The bank operates on the guiding principles of three lines of defense i.e. Business, Independent control functions and internal audit. The risk management function is headed by the CRO with a team of risk professionals to manage specific risk functions.

30.1 Credit Risk

Credit risk is the risk of potential loss in the event that the bank's customers, clients or counterparties fail to honour their financial and contractual obligations to the bank. Credit risk is one of the most significant risks for the bank. The bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; the risk framework is provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on the delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments. The bank is contemplating an early warning trigger system based on predefined credit parameters and account behaviour. The bank also undertakes stress testing of its portfolio and potential credit costs in the event of a downgrade or default by its customers.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking, Financial Institutions as well as Small and Medium enterprise exposures. The credit risk associated with any corporate financing is assessed based on an analysis of the customer and the industry it operates in. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit assessments. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The bank follows a risk adjusted return of capital model for benchmarking risk pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The bank has implemented a customised Moody's Risk Analyst model for risk rating corporate borrowers. The bank maintains an accurate and consistent corporate credit rating for all its customers. The bank has introduced facility risk rating apart from customer credit rating so as to measure the appropriate loss given default associated with each credit.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers, public companies and large exposures. Further, the bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. The bank also undertook a weekly review across all its business segments of early warning accounts, which showed signs of stress, and remedial action prescribed as necessary. The bank undertook sector review of its exposure to Real estate, Construction, Steel, Healthcare and lending against shares.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:-

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

The bank introduced prudent control measures for its UAE operations in line with the changing operating environment detailed below

- Revised business focus on Oman-UAE business corridor with emphasis on businesses sponsored by Omani or reputed UAE nationals.
- Enhanced Due diligence and strengthened KYC processes
- Revised Standard Operating Procedures in line with changing business needs.

Retail credit

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and, if required revised, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and recommended to the delegated authorities.

A review of the Retail Credit Portfolio is conducted on a quarterly basis and provided to the Management Risk Committee, and to the Board Risk Committee. Monthly management reports are also prepared and submitted to the CRO and to the Business Heads. Salient areas covered in the review include:

- Portfolio quality
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the quarter.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

System enhancements and continuous improvements have been made on all processes that are critical to improve quality of overall retail portfolio. The bank has a lending strategy through the adoption of pre-defined lending criteria and continuous monitoring of the portfolio, and has implemented a Credit application Scoring Module for its salary related loan portfolio to enhance the Retail Credit Risk framework.

Loan review mechanism

The bank has an independent Loan Review Mechanism Division (LRM) with a mandate for constantly evaluating the quality of the loan book, and the balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc. In addition to the above the LRM team reviews the bank's effectiveness of approved internal controls and procedures to ensure robust and sound practices are being followed by all stake holders. LRM also performs independent ad hoc reviews, investigations and assessments as directed by management on areas of concern relating to the credit approval process and/or the analysis processes within the bank. Significant findings are reported to the CRO, the MRC and potentially to the BRC where warranted.

Risk mitigation policies

The bank manages, limits and controls concentrations of credit risk - in particular, with respect to individual counterparties and groups, and 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 and Board Risk Committee.

Maximum exposure to credit risk

Gross maximum exposure 2016 USD'000	**Gross maximum exposure 2017 USD'000**		**Gross maximum exposure 2017 RO '000**	Gross maximum exposure 2016 RO '000
1,207,811	**861,645**	Balances with Central Banks	**331,733**	465,007
299,558	**360,182**	Due from banks and other money market placements(net)	**138,670**	115,330
6,935,795	**6,893,171**	**Loans, advances and financing activities for customers (net)**	**2,653,871**	2,670,281
333,462	**475,636**	Financial investments	**183,120**	128,383
133,833	**111,906**	Other assets	**43,084**	51,525
21,810	**7,016**	Derivatives	**2,701**	8,397
8,932,269	**8,709,556**	Total on balance sheet exposure	**3,353,179**	3,438,923
1,204,062	**947,844**	Guarantees	**364,920**	463,564
208,140	**213,473**	Documentary letters of credit	**82,187**	80,134
618,262	**341,109**	Undrawn commitment	**131,327**	238,031
2,030,464	**1,502,426**	Total off balance sheet exposure	**578,434**	781,729

The above table represents the maximum credit risk exposure to the bank at 31 December 2017 and 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.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

An analysis of the credit quality of the bank's loan and advances is set out below:

	Performing loans (neither past due tor impaired)	Loans past due and not impaired	Non performing loans	Gross loans
	RO'000	RO'000	RO'000	RO'000
Balance as at 1 January 2017	2,503,590	190,843	73,863	2,768,296
Additions during the year	792,420	119,366	90,248	1,002,034
Attrition during the year	(771,416)	(177,329)	(41,819)	(990,564)
Written-off during the year	-	-	(9,364)	(9,364)
Balance as at 31 December 2017	2,524,594	132,880	112,928	2,770,402
Balance as at 31 December 2017 – USD'000s	6,557,388	345,143	293,319	7,195,850
Balance as at 31 December 2016	2,503,590	190,843	73,863	2,768,296
Balance as at 31 December 2016 – USD'000s	6,502,831	495,696	191,852	7,190,379

An ageing analysis of the bank's loans which are past due but not impaired is set out below:

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers at				
31 December 2017	36,853	55,612	40,415	132,880
31 December 2017 – USD'000s	95,722	144,447	104,974	345,143
31 December 2016	42,539	53,307	94,997	190,843
31 December 2016 – USD'000s	110,491	138,460	246,745	495,696

Collateral and other credit enhancements

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 the 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

The housing loans are secured by mortgage over the residential property.

The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	Performing loans (neither past due tor impaired)	Loans past due and not impaired	Non performing loans	Gross loans
	RO'000	RO'000	RO'000	RO'000
Collateral available	2,022,267	96,566	21,253	2,140,086
Guarantees available	1,390	-	-	1,390
Government soft loans*	923	-	2,579	3,502
Balance as at 31 December 2017	2,024,580	96,566	23,832	2,144,978
Balance as at 31 December 2017 – USD'000s	5,258,649	250,821	61,901	5,571,371
Balance as at 31 December 2016	1,625,605	101,665	74,739	1,802,009
Balance as at 31 December 2016 – USD'000s	4,222,351	264,065	194,127	4,680,543

* Government Soft Loans are guaranteed by the Government to the extent of the outstanding principal.

The amount of total secured loans and advances is less than the total value of collateral as stated above.

Impairment and provisioning policy

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised in the statement of comprehensive income. In addition the bank creates collective provision.

A further analysis of the bank's non-performing loans in accordance with the classification requirements of Central Bank of Oman is as follows:

	Substandard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000
Balance as at 1 January 2017	8,879	21,516	43,468	73,863
Additions during the year	9,219	50,434	33,046	92,699
Attrition during the year	(5,559)	(34,029)	(4,682)	(44,270)
Written-off during the year	-	-	(9,364)	(9,364)
Balance as at 31 December 2017	12,539	37,921	62,468	112,928
Balance as at 31 December 2017 – USD'000s	32,569	98,496	162,255	293,320
Balance as at 31 December 2016	8,879	21,516	43,468	73,863
Balance as at 31 December 2016 – USD'000s	23,062	55,886	112,904	191,852

Movement of rescheduled loans:

	2017	2016
	RO'000	RO'000
Balance as at 1 January	70,676	60,682
Additions during the year	19,308	30,883
Attrition during the year	(28,494)	(20,889)
Balance as at 31December	61,490	70,676
Balance as at 31December – USD'000s	159,714	183,574

30. RISK MANAGEMENT (Continued)

30.2 Liquidity Risk

Liquidity risk is the risk that the bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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 the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly through analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the bank also periodically conducts stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one year horizon. It is effective January 2018, with a minimum ratio of 100% as per the regulatory guidance.

The residual maturity profile of the assets, liabilities and equity at **31 December 2017** is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	323,582	25,475	349,057	17,907	16,147	34,054	383,111
Due from banks and other money market placements (net)	107,331	20,174	127,505	1,540	9,625	11,165	138,670
Loans, advances and financing activities for customers (net)	366,100	295,458	661,558	628,930	1,363,383	1,992,313	2,653,871
Financial investments	95,070	1,972	97,042	16,065	70,013	86,078	183,120
Premises and equipment	-	-	-	-	65,795	65,795	65,795
Other assets	40,372	4,554	44,926	859	-	859	45,785
Total assets	932,455	347,633	1,280,088	665,301	1,524,963	2,190,264	3,470,352
Due to banks and other money market deposits	83,379	3,878	87,257	38,500	-	38,500	125,757
Customers' deposits and unrestricted investment accounts	694,205	766,791	1,460,996	540,763	459,508	1,000,271	2,461,267
Euro medium term notes	-	-	-	230,906	-	230,906	230,906
Other liabilities	68,657	3,782	72,439	908	-	908	73,347
Taxation	7,816	-	7,816	-	-	-	7,816
Subordinated debt	-	7,000	7,000	18,000	-	18,000	25,000
Shareholders' equity	-	-	-	-	430,759	430,759	430,759
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	854,057	781,451	1,635,508	829,077	1,005,767	1,834,844	3,470,352

Notes to the Financial Statements
For the year ended 31 December 2017

30. RISK MANAGEMENT (Continued)

30.2 Liquidity Risk (Continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	840,473	66,169	906,642	46,512	41,940	88,452	995,094
Due from banks and other money market placements (net)	278,782	52,400	331,182	4,000	25,000	29,000	360,182
Loans, advances and financing activities for customers (net)	950,909	767,423	1,718,332	1,633,584	3,541,255	5,174,839	6,893,171
Financial investments	246,935	5,122	252,057	41,727	181,852	223,579	475,636
Premises and equipment	-	-	-	-	170,896	170,896	170,896
Other assets	104,862	11,829	116,691	2,231	-	2,231	118,922
Total assets	2,421,961	902,943	3,324,904	1,728,054	3,960,943	5,688,997	9,013,901
Due to banks and other money market deposits	216,569	10,073	226,642	100,000	-	100,000	326,642
Customers' deposits and unrestricted investment accounts	1,803,130	1,991,665	3,794,795	1,404,579	1,193,527	2,598,106	6,392,901
Euro medium term notes	-	-	-	599,756	-	599,756	599,756
Other liabilities	178,331	9,823	188,154	2,358	-	2,358	190,512
Taxation	20,301	-	20,301	-	-	-	20,301
Subordinated debt	-	18,182	18,182	46,753	-	46,753	64,935
Shareholders' equity	-	-	-	-	1,118,854	1,118,854	1,118,854
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	2,218,331	2,029,743	4,248,074	2,153,446	2,612,381	4,765,827	9,013,901

30. RISK MANAGEMENT (Continued)

30.2 Liquidity Risk (Continued)

The maturity profile of the assets, liabilities and equity at 31 December 2016 is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bankst	411,741	41,628	453,369	31,522	26,703	58,225	511,594
Due from banks and other money market placements (net)	89,149	16,556	105,705	-	9,625	9,625	115,330
Loans, advances and financing activities for customers (net)	440,592	250,106	690,698	595,852	1,383,731	1,979,583	2,670,281
Financial investments	94,543	13,905	108,448	19,935	-	19,935	128,383
Premises and equipment	-	-	-	-	46,345	46,345	46,345
Other assets	56,309	3,870	60,179	571	-	571	60,750
Total assets	1,092,334	326,065	1,418,399	647,880	1,466,404	2,114,284	3,532,683
Due to banks and other money market deposits	114,075	107,281	221,356	3,879	-	3.879	225,235
Customers' deposits and unrestricted investment accounts	606,580	757,964	1,364,544	571,298	463,519	1,034,817	2,399,361
Euro medium term notes	-	-	-	233,105	-	233,105	233,105
Other liabilities	76,279	2,587	78,866	1,196	-	1,196	80,062
Taxation	7,406	-	7,406	-	-	-	7,406
Subordinated debt	-	24,100	24,100	25,000	-	25,000	49,100
Shareholders' equity	-	-	-	-	422,914	422,914	422,914
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	804,340	891,932	1,696,272	834,478	1,001,933	1,836,411	3,532,683

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	1,069,458	108,125	1,177,583	81,875	69,358	151,233	1,328,816
Due from banks and other money market placements (net)	231,555	43,003	274,558	-	25,000	25,000	299,558
Loans, advances and financing activities for customers (net)	1,144,395	649,626	1,794,021	1,547,668	3,594,106	5,141,774	6,935,795
Financial investments	245,566	36,117	281,683	51,779	-	51,779	333,462
Premises and equipment	-	-	-	-	120,377	120,377	120,377
Other assets	146,257	10,052	156,309	1,483	-	1,483	157,792
Total assets	2,837,231	846,923	3,684,154	1,682,805	3,808,841	5,491,646	9,175,800
Due to banks and other money market deposits	296,299	278,652	574,951	10,075	-	10,075	585,026
Customers' deposits and unrestricted investment accounts	1,575,532	1,968,738	3,544,270	1,483,891	1,203,946	2,687,837	6,232,107
Euro medium term notes	-	-	-	605,468	-	605,468	605,468
Other liabilities	198,128	6,719	204,847	3,106	-	3,106	207,953
Taxation	19,236	-	19,236	-	-	-	19,236
Subordinated debt	-	62,597	62,597	64,935	-	64,935	127,532
Shareholders' equity	-	-	-	-	1,098,478	1,098,478	1,098,478
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	2,089,195	2,316,706	4,405,901	2,167,475	2,602,424	4,769,899	9,175,800

30. RISK MANAGEMENT (Continued)

30.2 Liquidity Risk (Continued)

Liquidity coverage ratio

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on 1 January, 2019.

Total Weighted Value (average)	Total Unweighted Value (average)		Total Unweighted Value (average)	Total Weighted Value (average)
USD'000	USD'000		RO'000	RO'000
1,275,225	-	HIGH QUALITY LIQUID ASSETS	-	490,962
1,275,225	-	Total High Quality Liquid Assets (HQLA)	-	490,962
		Cash outflows		
108,106	1,860,146	Retail deposits and deposits from small business customers of which:	716,156	41,621
77,909	1,558,173	Stable deposits	599,897	29,995
30,197	301,972	Less stable deposits	116,259	11,626
838,867	2,405,464	Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative banks	926,104	322,964
8,427	84,274	Additional requirements, of which Credit and liquidity facilities	32,445	3,245
68,116	1,276,068	Other contingent funding obligations	491,286	26,225
1,023,516	-	TOTAL CASH OUTFLOWS	-	394,054
		Cash Inflows		
539,875	752,440	Inflows from fully performing exposures	289,689	207,852
29,042	29,042	Other cash inflows	11,181	11,181
568,917	781,482	TOTAL CASH INFLOWS	300,870	219,033
1,275,225	-	TOTAL HIGH QUALITY LIQUID ASSETS	-	490,962
454,599	-	TOTAL NET CASH OUTFLOWS	-	175,021
280.52	-	LIQUIDITY COVERAGE RATIO (%)	-	280.52

30. RISK MANAGEMENT (Continued)

30.3 Market Risk

The bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the bank will fluctuate due to changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests are also conducted periodically incorporating adverse movements in equity value, foreign exchange, etc. and reviewed by the Management and Board Risk Committee.

The bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The bank has adopted risk weightings in line with best practices to capture the credit risk related to these off-balance sheet exposures.

Equity risk
The proprietary equity positions are held in the 'Available-for-Sale' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and, if any, required actions are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

Interest rate risk
The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

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

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2017	200 bps increase	200 bps decrease
Earnings impact - RO'000s	7,151	(7,151)
Earnings impact - USD'000s	18,575	(18,575)

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

30. RISK MANAGEMENT (Continued)

30.3 Market Risk (Continued)

There have not been any significant changes in Interest Rate Risk management process in the bank during the year.

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2017** is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	N/A	-	-	-	-	383,111	383,111
Due from banks and other money market placements (net)	2.37%	74,081	22,099	-	-	42,490	138,670
Loans, advances and financing activities for customers (net)	5.36%	859,385	600,778	664,225	529,483	-	2,653,871
Financial investments	3.45%	8,955	7,510	54,344	74,247	38,064	183,120
Premises and equipment	N/A	-	-	-	-	65,795	65,795
Other assets	N/A	-	-	-	-	45,785	45,785
Total assets		942,421	630,387	718,569	603,730	575,245	3,470,352
Due to banks and other money market deposits	4.65%	118,390	3,878	-	-	3,489	125,757
Customers' deposits and unrestricted investment accounts	1.64%	315,216	1,100,687	273,338	-	772,026	2,461,267
Euro medium term notes	3.02%	-	-	230,906	-	-	230,906
Other liabilities	N/A	1,782	-	-	-	71,565	73,347
Taxation	N/A	-	-	-	-	7,816	7,816
Tier 1 Perpetual Bond	7.88%	-	-	115,500	-	-	115,500
Subordinated debt	5.09%	-	7,000	18,000	-	-	25,000
Shareholders' equity	N/A	-	-	-	-	430,759	430,759
Total liabilities and shareholders' equity		435,388	1,111,565	637,744	-	1,285,655	3,470,352
Total interest rate sensitivity gap		507,033	(481,178)	80,825	603,730	(710,410)	-
Cumulative interest rate sensitivity gap		507,033	25,855	106,680	710,410	-	

Notes to the Financial Statements
For the year ended 31 December 2017

30. RISK MANAGEMENT (Continued)

30.3 Market Risk (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2017** is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	N/A	-	-	-	-	995,094	995,094
Due from banks and other money market placements (net)	2.37%	192,418	57,400	-	-	110,364	360,182
Loans, advances and financing activities for customers (net)	5.36%	2,232,168	1,560,462	1,725,260	1,375,281	-	6,893,171
Financial investments	3.45%	23,260	19,506	141,153	192,849	98,868	475,636
Premises and equipment	N/A	-	-	-	-	170,896	170,896
Other assets	N/A	-	-	-	-	118,922	118,922
Total assets		2,447,846	1,637,368	1,866,413	1,568,130	1,494,144	9,013,901
Due to banks and other money market deposits	4.65%	307,507	10,073	-	-	9,062	326,642
Customers' deposits and unrestricted investment accounts	1.64%	818,743	2,858,927	709,969	-	2,005,262	6,392,901
Euro medium term notes	3.02%	-	-	599,756	-	-	599,756
Other liabilities	N/A	4,629	-	-	-	185,883	190,512
Taxation	N/A	-	-	-	-	20,301	20,301
Tier 1 Perpetual Bond	7.88%	-	-	300,000	-	-	300,000
Subordinated debt	5.09%	-	18,182	46,753	-	-	64,935
Shareholders' equity		-	-	-	-	1,118,854	1,118,854
Total liabilities and shareholders' equity		1,130,879	2,887,182	1,656,478	-	3,339,362	9,013,901
Total interest rate sensitivity gap		1,316,967	(1,249,814)	209,935	1,568,130	(1,845,218)	-
		1,316,967	67,153	277,088	1,845,218	-	

30. RISK MANAGEMENT (Continued)

30.3 Market Risk (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2016 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	N/A	253	-	-	-	511,341	511,594
Due from banks and other money market placements (net)	1.29%	55,047	26,181	-	-	34,102	115,330
Loans, advances and financing activities for customers (net)	5.17%	914,600	571,226	647,679	536,776	-	2,670,281
Financial investments	2.28%	8,766	24,633	57,930	5,200	31,854	128,383
Premises and equipment	N/A	-	-	-	-	46,345	46,345
Other assets	N/A	-	-	-	-	60,750	60,750
Total assets		978,666	622,040	705,609	541,976	684,392	3,532,683
Due to banks and other money market deposits	2.46%	110,582	107,281	3,879	-	3,493	225,235
Customers' deposits and unrestricted investment accounts	1.18%	229,266	1,096,042	298,292	-	775,761	2,399,361
Euro medium term notes	2.20%	-	-	233,105	-	-	233,105
Other liabilities	N/A	-	-	-	-	80,062	80,062
Taxation	N/A	-	-	-	-	7,406	7,406
Tier 1 Perpetual Bond	7.88%	-	-	115,500	-	-	115,500
Subordinated debt	5.17%	-	24,100	25,000	-	-	49,100
Shareholders' equity	N/A	-	-	-	-	422,914	422,914
Total liabilities and shareholders' equity		339,848	1,227,423	675,776	-	1,289,636	3,532,683
Total interest rate sensitivity gap		638,818	(605,383)	29,833	541,976	(605,244)	-
Cumulative interest rate sensitivity gap		638,818	33,435	63,268	605,244	-	-

30. RISK MANAGEMENT (Continued)

30.3 Market Risk (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2016 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	N/A	657	-	-	-	1,328,159	1,328,816
Due from banks and other money market placements (net)	1.29%	142,978	68,003	-	-	88,577	299,558
Loans, advances and financing activities for customers (net)	5.17%	2,375,585	1,483,704	1,682,283	1,394,223	-	6,935,795
Financial investments	2.28%	22,768	63,982	150,468	13,506	82,738	333,462
Premises and equipment	N/A	-	-	-	-	120,377	120,377
Other assets	**N/A**	-	-	-	-	**157,792**	**157,792**
Total assets		**2,541,988**	**1,615,689**	**1,832,751**	**1,407,729**	**1,777,643**	**9,175,800**
Due to banks and other money market deposits	2.46%	287,226	278,652	10,075	-	9,073	585,026
Customers' deposits and unrestricted investment accounts	1.18%	595,497	2,846,862	774,784	-	2,014,964	6,232,107
Euro medium term notes	2.20%	-	-	605,468	-	-	605,468
Other liabilities	N/A	-	-	-	-	207,953	207,953
Taxation	N/A	-	-	-	-	19,236	19,236
Tier 1 Perpetual Bond	7.88%	-	-	300,000	-	-	300,000
Subordinated debt	5.17%	-	62,597	64,935	-	-	127,532
Shareholders' equity	N/A	-	-	-	-	1,098,478	1,098,478
Total liabilities and shareholders' equity		882,723	3,188,111	1,755,262	-	3,349,704	9,175,800
Total interest rate sensitivity gap		1,659,265	(1,572,422)	77,489	1,407,729	(1,572,061)	-
Cumulative interest rate sensitivity gap		1,659,265	86,843	164,332	1,572,061	-	

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the bank are generally small residual positions resulting from market coverings for customer transactions.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

The bank had the following significant net exposures denominated in foreign currencies:

2016	**2017**		**2017**	2016
USD'000	**USD'000**		**RO'000**	RO'000
238,221	**166,571**	US Dollar	**64,130**	91,715
61,031	**78,753**	UAE Dirham	**30,320**	23,497
3,229	**7,369**	Others	**2,837**	1,243

30. RISK MANAGEMENT (Continued)

30.4 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus soft wares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

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.

Fraud Risk

The bank has adopted a 'zero tolerance' policy towards fraud and corruption and as such will seek to take disciplinary and/or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management (FRM) unit manages the fraud risk for the bank at an enterprise level. The unit monitors transactions originating from Cards, POS and other Digital channels. Besides, the unit conducts Fraud Risk Assessments to assess fraud risks on a pro-active basis, verifies the existing controls and proposes new controls, if required.

The unit is also responsible for managing Incidents across the bank and maintenance of Operational Loss Database.

30.5 Strategic Risks

The bank monitors strategic risks through regular quarterly assessment and reporting at the Board Risk Committee level. This includes reviews of human resource, economic (both at the macro and micro levels), regulatory/compliance, information technology and information security, legal and reputational related risks and the monitoring of strategic project risk arising from initiatives undertaken by the bank. Furthermore, the bank is currently augmenting its Internal Capital Adequacy Assessment Process (ICAAP) to align the business strategy and the capital management processes. In the course of 2017 the bank had engaged an internationally renowned consultant to review the current ICAAP process and to recommend enhancements that will, once implemented, escalate the ICAAP process and documentation to international best practices. This initiative was proposed and sponsored at the highest level by the Board Risk Committee and it will be rolled out in 2018 and progressively completed for the next 2-3 years.

31. CONCENTRATIONS

The bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The distribution of assets, liabilities and contingent items by geographical regions as of **31 December 2017** is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	361,419	19,182	2,510	-	383,111
Due from banks and other money market placements (net)	26,357	14,255	1	98,057	138,670
Loans, advances and financing activities for customers (net)	2,537,245	107,724	3	8,899	2,653,871
Financial investments	171,711	9,252	-	2,157	183,120
Premises and equipment	65,096	556	143	-	65,795
Other assets	34,888	10,394	503	-	45,785
Total assets	3,196,716	161,363	3,160	109,113	3,470,352
Due to banks and other money market deposits	508	26,135	13	99,101	125,757
Customers' deposits and unrestricted investment accounts	2,418,602	41,488	1,177	-	2,461,267
Euro medium term notes	230,906	-	-	-	230,906
Other liabilities	67,271	5,764	312	-	73,347
Taxation	6,673	1,032	111	-	7,816
Subordinated debt	25,000	-	-	-	25,000
Shareholders' equity	429,979	(1,213)	1,993	-	430,759
Tier 1 perpetual bond	115,500	-	-	-	115,500
Liabilities and shareholders' equity	3,294,439	73,206	3,606	99,101	3,470,352
Contingent liabilities	396,486	26,304	10	24,307	447,107

31. CONCENTRATIONS (Continued)

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	938,752	49,823	6,519	-	995,094
Due from banks and other money market placements (net)	68,460	37,026	3	254,693	360,182
Loans, advances and financing activities for customers (net)	6,590,246	279,803	8	23,114	6,893,171
Financial investments	446,002	24,031	-	5,603	475,636
Premises and equipment	169,081	1,444	371	-	170,896
Other assets	90,618	26,998	1,306	-	118,922
Total assets	8,303,159	419,125	8,207	283,410	9,013,901
Due to banks and other money market deposits	1,319	67,883	34	257,406	326,642
Customers' deposits and unrestricted investment accounts	6,282,083	107,761	3,057	-	6,392,901
Euro medium term notes	599,756	-	-	-	599,756
Other liabilities	174,731	14,971	810	-	190,512
Taxation	17,332	2,681	288	-	20,301
Subordinated debt	64,935	-	-	-	64,935
Shareholders' equity	1,116,828	(3,151)	5,177	-	1,118,854
Tier 1 perpetual bond	300,000	-	-	-	300,000
Liabilities and shareholders' equity	8,556,984	190,145	9,366	257,406	9,013,901
Contingent liabilities	1,029,834	68,322	26	63,135	1,161,317

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2016 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	483,349	25,716	2,529	-	511,594
Due from banks and other money market placements (net)	15,400	10,816	116	88,998	115,330
Loans, advances and financing activities for customers (net)	2,433,983	203,248	3	33,047	2,670,281
Financial investments	114,508	11,100	-	2,775	128,383
Premises and equipment	45,720	486	139	-	46,345
Other assets	48,987	11,323	440	-	60,750
Total assets	3,141,947	262,689	3,227	124,820	3,532,683
Due to banks and other money market deposits	756	36,583	2,695	185,201	225,235
Customers' deposits and unrestricted investment accounts	2,303,115	95,080	1,166	-	2,399,361
Euro medium term notes	233,105	-	-	-	233,105
Other liabilities	68,358	11,413	291	-	80,062
Taxation	7,113	189	104	-	7,406
Subordinated debt	49,100	-	-	-	49,100
Shareholders' equity	415,113	6,033	1,768	-	422,914
Tier 1 perpetual bond	115,500	-	-	-	115,500
Liabilities and shareholders' equity	3,192,160	149,298	6,024	185,201	3,532,683
Contingent liabilities	446,421	35,208	2,890	59,179	543,698

31. CONCENTRATIONS (Continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2016 is as follows:

	Sultanate of Oman USD'000	UAE USD'000	Egypt USD'000	Others USD'000	Total USD'000
Cash and balances with Central Banks	1,255,452	66,795	6,569	-	1,328,816
Due from banks and other money market placements (net)	40,000	28,094	301	231,163	299,558
Loans, advances and financing activities for customers (net)	6,322,034	527,917	8	85,836	6,935,795
Financial investments	297,423	28,831	-	7,208	333,462
Premises and equipment	118,754	1,262	361	-	120,377
Other assets	127,239	29,410	1,143	-	157,792
Total assets	8,160,902	682,309	8,382	324,207	9,175,800
Due to banks and other money market deposits	1,964	95,021	7,000	481,041	585,026
Customers' deposits and unrestricted investment accounts	5,982,117	246,961	3,029	-	6,232,107
Euro medium term notes	605,468	-	-	-	605,468
Other liabilities	177,553	29,644	756	-	207,953
Taxation	18,475	491	270	-	19,236
Subordinated debt	127,532	-	-	-	127,532
Shareholders' equity	1,078,216	15,670	4,592	-	1,098,478
Tier 1 perpetual bond	300,000	-	-	-	300,000
Liabilities and shareholders' equity	8,291,325	387,787	15,647	481,041	9,175,800
Contingent liabilities	1,159,535	91,449	7,506	153,712	1,412,202

32.SEGMENTAL INFORMATION

For management purposes, the bank is organised into four operating segments based on business units and are as follows:

- Retail banking offers various products and facilities to individual retail and high networth customers to meet everyday banking needs. This includes asset products like personal loans, housing loan, credit cards and term loans and liability products like savings account, current account and term deposits.
- Wholesale banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes investment banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- Commercial banking covers the mid-tier corporate and SME customers offering the entire spectrum of products to suit their business needs. It also includes international operations of UAE and Egypt and Islamic banking which offers products as per Sharia principles.
- Funding Center – The Funding center is responsible for balancing and managing the liquidity of funds within the bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Segment information by business line is as follows:

Year ended 31 December 2017	Retail banking RO'000	Wholesale banking RO'000	Commercial banking RO'000	Funding center RO'000	Total RO'000
Net Interest income and Income from Islamic financing and Investment activities	42,427	27,146	15,165	8,192	92,930
Other income	13,837	18,116	4,194	3,052	39,199
Operating profit	18,098	33,392	4,897	11,224	67,611
Impairment provisions (net) and taxation	(2,542)	426	(11,819)	(9,650)	(23,585)
Profit/(loss)	15,556	33,818	(6,922)	1,574	44,026
Total assets	1,256,293	1,152,082	449,745	612,232	3,470,352
Total liabilities and equity	814,830	1,369,017	426,059	860,446	3,470,352

Year ended 31 December 2017	Retail banking USD'000	Wholesale banking USD'000	Commercial banking USD'000	Funding Center USD'000	Total USD'000
Net Interest income and Income from Islamic financing and Investment activities	110,200	70,509	39,390	21,278	241,377
Other income	35,940	47,055	10,894	7,927	101,816
Operating profit	47,008	86,732	12,721	29,153	175,614
Impairment provisions (net) and taxation	(6,603)	1,106	(30,699)	(25,065)	(61,261)
Net Profit	40,405	87,838	(17,978)	4,088	114,353
Total assets	3,263,099	2,992,420	1,168,168	1,590,214	9,013,901
Total liabilities and equity	2,116,441	3,555,889	1,106,646	2,234,925	9,013,901

32. SEGMENTAL INFORMATION (Continued)

For management purposes the bank also reports the segment information of its operations by the following geographical locations:

i. Oman

ii. United Arab Emirates (UAE)

iii. Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis.

Segment information by geography is as follows:

Year ended 31 December 2017	Oman RO'000	UAE RO'000	Egypt RO'000	Total RO'000
Interest income and Income from Islamic financing and Investment activities	141,827	8,138	422	150,387
Other operating income	37,568	1,623	8	39,199
Total income	179,395	9,761	430	189,586
Interest costs and Unrestricted investment				
account holders' share of profit	54,870	2,531	56	57,457
Other operating expenses	55,466	4,624	216	60,306
Depreciation	4,080	132	-	4,212
Credit loss expense - customer loan	11,141	13,972	-	25,113
Recoveries	(7,798)	(1,604)	(75)	(9,477)
Impairment losses on available-for-sale investments	688	-	-	688
Credit loss write back – bank loans	26	-	-	26
Taxation	9,962	(2,736)	9	7,235
Total	128,435	16,919	206	145,560
Segment profit for the year	50,960	(7,158)	224	44,026
Other information				
Segment assets	3,296,610	153,732	20,010	3,470,352
Segment capital expenses	23,479	201	-	23,680

32. SEGMENTAL INFORMATION (Continued)

Year ended 31 December 2017	Oman USD'000	UAE USD'000	Egypt USD'000	Total USD'000
Interest income and Income from Islamic financing and Investment activities	368,382	21,138	1,096	390,616
Other operating income	97,579	4,216	21	101,816
Total income	465,961	25,354	1,117	492,432
Interest costs and Unrestricted investment account holders' share of profit	142,519	6,575	145	149,239
Other operating expenses	144,068	12,010	561	156,639
Depreciation	10,597	343	-	10,940
Credit loss expense - customer loan	28,938	36,291	-	65,229
Recoveries	(20,254)	(4,166)	(195)	(24,615)
Impairment losses on available-for-sale Investments	1,787	-	-	1,787
Credit loss write back – bank loans	68	-	-	68
Taxation	25,875	(7,106)	23	18,792
Total	333,598	43,947	534	378,079
Segment profit for the year	132,363	(18,593)	583	114,353
Other information				
Segment assets	8,562,623	399,304	51,974	9,013,901
Segment capital expenses	60,984	522	-	61,506

Segment information by business line is as follows:

Year ended 31 December 2016	Retail banking RO'000	Wholesale banking RO'000	Commercial banking RO'000	Funding center RO'000	Total RO'000
Net income	40,814	28,188	18,098	14,465	101,565
Other income	13,405	14,516	4,575	2,052	34,548
Operating profit	17,809	30,898	8,503	16,240	73,449
Impairment provisions (net) and taxation	(3,038)	3,443	(10,816)	(7,259)	(17,670)
Profit/(loss)	14,771	34,341	(2,313)	8,980	55,779
Total assets	1,236,289	1,093,872	558,233	644,288	3,532,683
Total liabilities and equity	817,441	1,275,681	527,563	911,998	3,532,683

Notes to the Financial Statements
For the year ended 31 December 2017

32. SEGMENTAL INFORMATION (Continued)

Year ended 31 December 2016	Retail banking USD'000	Wholesale banking USD'000	Commercial banking USD'000	Funding center USD'000	Total USD'000
Net income	106,010	73,216	47,008	37,571	263,805
Other income	34,818	37,704	11,883	5,330	89,735
Operating profit	46,257	80,253	22,085	42,181	190,776
Impairment provisions (net) and taxation	(7,891)	8,944	(28,093)	(18,856)	(45,896)
Profit/(loss)	38,366	89,197	(6,008)	23,325	144,880
Total assets	3,211,142	2,841,226	1,449,956	1,673,476	9,175,800
Total liabilities and equity	**2,123,223**	**3,313,457**	**1,370,294**	**2,368,826**	**9,175,800**

Segment information by geography is as follows:

For the year ended 31 December 2016	Oman RO'000	UAE RO'000	Egypt RO'000	Total RO'000
Interest income and Income from Islamic financing and Investment activities	130,683	10,400	369	141,452
Other operating income	31,827	2,731	(10)	34,548
Total income	162,510	13,131	359	176,000
Interest costs and Unrestricted investment account holders' share of profit	37,246	2,576	65	39,887
Other operating expenses	55,495	3,946	359	59,800
Depreciation	2,748	116		2,864
Credit loss expense - customer loan	9,594	10,051	1	19,646
Recoveries	(9,035)	(685)	(40)	(9,760)
Impairment losses on available-for-sale investments	210	-	-	210
Credit loss expense – bank loans	(62)	-	-	(62)
Taxation	7,431	187	18	7,636
Total	**1,03,627**	**16,191**	**403**	**120,221**
Segment profit for the year	58,883	(3,060)	(44)	55,779
Other information				
Segment assets	3,250,952	2,61,964	19,767	3,532,683
Segment capital expenses	**14,469**	**303**	**-**	**14,772**

32.SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2016	Oman USD'000	UAE USD'000	Egypt USD'000	Total USD'000
Interest income and income from Islamic financing and Investment activities	339,436	27,013	958	367,408
Other operating income	82,668	7,094	(26)	89,735
Total Income	422,104	34,107	932	457,143
Interest costs and Unrestricted investment account holders' share of profit	96,743	6,691	169	103,603
Other operating expenses	144,143	10,250	932	155,325
Depreciation	7,138	301	-	7,439
Credit loss expense - customer loan	24,919	26,106	4	51,029
Recoveries	(23,468)	(1,779)	(104)	(25,351)
Impairment losses on available-for-sale Investments	545	-	-	545
Credit loss expense – bank loans	(161)	-	-	(161)
Taxation	19,301	486	47	19,834
Total	**269,160**	**42,055**	**1,048**	**312,263**
Segment profit for the year	152,944	(7,948)	(116)	144,880
Other information				
Segment assets	8,444,031	680,426	51,343	9,175,800
Segment capital expenses	**37,582**	**787**	**-**	**38,369**

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2017 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

Current account balances due to and due 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.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments other than derivatives instruments recorded at fair value by level of the fair value hierarchy:

Total USD'000	Level 2 USD'000	Level 1 USD'000	31 December 2017	Level 1 RO'000	Level 2 RO'000	Total RO'000
			Investments – held for trading :			
143,431	-	143,431	Government development bonds	55,221	-	55,221
1,429	-	1,429	Quoted bond	550	-	550
144,860	-	144,860	**Total**	55,771	-	55,771
			Investments - available-for-sale:			
10,117	-	10,117	Government development bonds	3,895	-	3,895
67,210	-	67,210	Quoted equities	25,876	-	25,876
20,231	20,231	-	Other unquoted equities	-	7,789	7,789
97,558	20,231	77,327	**Total**	29,771	7,789	37,560
242,418	20,231	222,187	**Total financial assets**	85,542	7,789	93,331

Total USD'000	Level 2 USD'000	Level 1 USD'000	31 December 2016	Level 1 RO'000	Level 2 RO'000	Total RO'000
			Investments – held for trading:			
168,156	-	168,156	Government development bonds	64,740		64,740
2,358	-	2,358	Quoted equities	908	-	908
170,514	-	170,514	**Total Investments - available-for-sale:**	65,648	-	65,648
48,719		48,719	Quoted equities	18,757	-	18,757
31,660	31,660	-	Other unquoted equities	-	12,189	12,189
80,379	31,660	48,719	Total	18,757	12,189	30,946
250,893	31,660	219,233	Total financial assets	84,405	12,189	96,594

The bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 34).

Notes to the Financial Statements
For the year ended 31 December 2017

34.DERIVATIVES

In the ordinary course of business the bank enters into various types of transactions with customers and for own account for hedging purpose that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The bank uses the following derivative financial instruments:

Derivative product types

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

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure.

The bank has entered into an interest rate swap, which is designated as a fair value hedge, for hedging the interest rate risk on Euro medium term notes. The cumulative change in the fair value of the Euro medium term notes (hedged item) attributable to the risk hedged is recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position.

The table below shows the positive and negative fair values of derivative financial instruments entered with and on behalf of customers, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

34. DERIVATIVES (Continued)

31 December 2017	Positive fair value RO'000 (9 note)	Negative fair value RO'000 (13 note)	Notional amount RO'000	Notional amounts by term to maturity Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
Fair value hedge	-	(94)	192,500	-	-	192,500
Interest rate swaps	1,842	(1,842)	95,238	6,285	13,971	74,982
Forward foreign exchange purchase contracts	508	(122)	212,849	175,508	13,879	23,462
Forward foreign exchange sales contracts	345	(910)	212,849	168,623	20,710	23,516
Currency options	6	(6)	13,193	8,579	4,614	-
Total	**2,701**	**(2,974)**	**726,629**	**358,995**	**53,174**	**314,460**
Total – USD'000	**7,016**	**(7,725)**	**1,887,348**	**932,455**	**138,114**	**816,779**

31 December 2016	Positive fair value RO'000 (note 9)	Negative fair value RO'000 (note 13)	Notional amount RO'000	Notional amounts by term to maturity Within 3 months RO'000	3 - 12 months RO'000 -	1 - 5 years RO'000
Fair value hedge	2,105	-	192,500	-	-	192,500
Interest rate swaps	2,981	(2,981)	112,152	2,660	14,484	95,008
Forward purchase contracts	821	(2)	187,531	173,133	14,398	-
Forward sales contracts	2,432	(2,593)	187,531	174,155	13,376	-
Currency options	58	(58)	2,835	2,159	676	-
Total	8,397	(5,634)	682,549	352,107	42,934	287,508
Total – USD'000	21,810	(14,634)	1,772,855	914,564	111,517	746,774

35.COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2016 have been reclassified in order to conform with the presentation for the current year. Such reclassifications are not considered material and made within the same notes to the financial statements and do not affect previously reported profit or equity.

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2018 (UNAUDITED)

PO Box 751 PC 112 Ruwi Sultanate of Oman.

EY
Building a better working world

Ernst & Young LLC
P.O. Box 1750, Ruwi 112
5th Floor, Landmark Building
Opposite Al Ameen Mosque
Bowsher, Muscat
Sultanate of Oman

Tel: +968 22 504 559
Fax: +968 22 060 810
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF OMAN SAOG

Introduction

We have reviewed the accompanying interim condensed statement of financial position of National Bank of Oman SAOG ("the Bank") as of 30 June 2018 and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with IAS 34 *Interim Financial Reporting* (IAS 34) and the requirements set out in the Rules for Disclosure and Proforma issued by the Capital Market Authority of the Sultanate of Oman. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Emphasis of matter

We draw attention to note 16.3 of the interim condensed financial statements which describes the status of the guarantees amounting to RO 14.3 million invoked by a beneficiary and legal action initiated by the Bank to recover the related amount from its customer.

Our conclusion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 and the requirements set out in the Rules for Disclosure and Proforma issued by the Capital Market Authority of the Sultanate of Oman.

Ernst & Young LLC

Muscat
5 September 2018

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 (unaudited)

	Notes	30-06-2018 RO'000	30-06-2017 RO'000	Audited 31-12-2017 RO'000
Assets				
Cash and balances with Central Banks	3	**317,975**	368,521	383,111
Due from banks and other money market placements (net)	4	**155,677**	147,666	138,670
Loans, advances and financing activities for customers (net)	5	**2,667,598**	2,782,823	2,653,871
Financial investments	6	**189,019**	176,785	183,120
Premises and equipment	7	**65,158**	57,390	65,795
Other assets	8	**53,482**	72,448	45,785
Total assets		**3,448,909**	3,605,633	3,470,352
Liabilities				
Due to banks and other money market deposits		**101,835**	114,530	125,757
Customers' deposits and unrestricted investment accounts	9	**2,487,325**	2,586,966	2,461,267
Euro medium term notes	10	**229,066**	232,673	230,906
Other liabilities	11	**81,374**	82,491	73,347
Taxation	12	**6,437**	6,411	7,816
Subordinated debt	13	**25,000**	49,100	25,000
Total liabilities		**2,931,037**	3,072,171	2,924,093
Equity				
Share capital		**162,595**	154,852	154,852
Share premium		**34,465**	34,465	34,465
Legal reserve		**51,617**	49,159	51,617
Other non-distributable reserves	14	**21,143**	43,213	23,489
Proposed cash dividend		-	-	23,228
Proposed stock dividend		-	-	7,743
Retained earnings		**132,552**	136,273	135,365
Total shareholders' equity attributable to the equity holders of the bank		**402,372**	417,962	430,759
Tier 1 perpetual bond	15	**115,500**	115,500	115,500
Total equity		**517,872**	533,462	546,259
Total liabilities and equity		**3,448,909**	3,605,633	3,470,352
Contingent liabilities and commitments	16	**645,367**	533,405	609,934

The interim condensed financial statements were authorised for issue on 29th July 2018 in accordance with a resolution of the Board of Directors.

Chairperson

National Bank of Oman (S.A.O.G.) H.O.

Chief Executive Officer

The attached notes 1 to 29 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 30 June 2018 (unaudited)

	Notes	*Six months ended 30 June* 2018 RO'000	2017 RO'000	*Three months ended 30 June* 2018 RO'000	2017 RO'000
Interest income	17	71,928	72,502	36,266	36,395
Interest expense	18	(28,642)	(27,104)	(15,298)	(14,145)
Net interest income		43,286	45,398	20,968	22,250
Income from Islamic financing and Investment activities		2,829	2,786	1,435	1,424
Unrestricted investment account holders' share of profit		(1,660)	(1,269)	(807)	(697)
Net Income from Islamic financing and Investment activities		1,169	1,517	628	727
Net interest income and net income from Islamic financing and Investment activities		44,455	46,915	21,596	22,977
Other operating income	19	19,103	18,743	9,840	8,522
OPERATING INCOME		63,558	65,658	31,436	31,499
Staff costs		(18,342)	(17,698)	(9,320)	(8,947)
Other operating expenses	20	(9,634)	(11,055)	(4,708)	(5,395)
Depreciation	7	(2,234)	(1,735)	(1,026)	(879)
OPERATING EXPENSES		(30,210)	(30,488)	(15,054)	(15,221)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		33,348	35,170	16,382	16,278
Credit loss expense – customer loans		(7,908)	(9,810)	(3,731)	(5,240)
Recoveries and releases from provision for credit losses		1,121	1,673	661	1,443
Recoveries and releases from loans and advances written off		3,211	3,162	1,670	1,714
Others		-	(18)	-	(18)
TOTAL IMPAIRMENT LOSSES (NET)		(3,576)	(4,993)	(1,400)	(2,101)
PROFIT BEFORE TAX		29,772	30,177	14,982	14,177
Taxation	12	(4,353)	(4,120)	(2,158)	(1,883)
PROFIT FOR THE PERIOD		25,419	26,057	12,824	12,294
OTHER COMPREHENSIVE EXPENSE					
Items that will not be reclassified subsequently to profit or loss					
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		(1,954)	-	(993)	-
Items that will be reclassified subsequently to profit or loss					
Debt instruments at fair value through other comprehensive income		(258)	-	(138)	-
Net movement on AFS investments		-	(3,077)	-	(2,498)
Tax effect of net results on FVOCI/AFS financial investments		(64)	94	-	50
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD		(2,276)	(2,983)	(1,131)	(2,448)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		23,143	23,074	11,693	9,846
Earnings per share:					
Basic and diluted, profit for the period attributable to equity holders	29	0.013	0.013	0.005	0.005

The attached notes 1 to 29 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the period ended 30 June 2018 (unaudited)

	Notes	*Six months ended 30 June* 2018 RO'000	2017 RO'000
Profit before taxation		29,772	30,177
Adjustments for:			
Depreciation	7	2,234	1,735
Provision for credit losses (net)		7,908	9,810
Provision for credit loss expenses bank loans (net)		-	18
Profit on sale of investments		-	(147)
Investment income		(4,350)	(3,286)
Operating profit before changes in operating assets and liabilities		35,564	38,307
Due from banks and other money market deposits		5,195	(2,260)
Due to banks and other money market placements		(42,378)	(53,415)
Loans, advances and other financing activities for customers		(44,521)	(122,352)
Other assets		(7,761)	(10,441)
Customers' deposits and unrestricted investment accounts		26,058	187,605
Other liabilities		6,187	1,997
Cash (used in)/from operations		(21,656)	39,441
Tax paid		(5,740)	(6,277)
Net cash (used in)/from operating activities		(27,396)	33,164
Investing activities			
Purchase of investments		(8,245)	(52,520)
Proceeds from sale of investments		-	1,189
Purchase of premises and equipment	7	(1,611)	(12,782)
Disposal of premises and equipment		13	2
Translation difference in premises and equipment		9	(1)
Interest on Government Development Bond and T-Bills		3,573	2,112
Dividend income	19	777	1,174
Net cash used in investing activities		(5,484)	(60,826)
Financing activities			
Payment of dividend		(23,228)	(23,478)
Interest on Tier 1 perpetual bond		(4,548)	(4,548)
Net cash used in financing activities		(27,776)	(28,026)
Decrease in cash and cash equivalents		(60,656)	(55,688)
Cash and cash equivalents at the beginning of the period		406,563	502,493
Cash and cash equivalents at the end of the period		345,907	446,805
Representing:			
Cash and balances with Central Banks	3	317,475	368,021
Due from banks (maturing within 3 months)		130,267	102,829
Due to banks (maturing within 3 months)		(101,835)	(24,045)
		345,907	446,805

*Cash and balances with Central Bank include minimum cash reserve to be maintained with Central Bank of Oman amounted to RO 77 million (30 June 2017: RO 78 million).

The attached notes 1 to 29 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2018 (unaudited)

(RO'000)	Share capital	Share premium	Legal reserve *	Other non-distributable reserves*	Proposed cash dividend	Proposed stock dividend	Retained earnings	Total	Tier 1 Perpetual bond	Total
Balance at 1 January 2018	154,852	34,465	51,617	23,489	23,228	7,743	135,365	430,759	115,500	546,259
Impact of adopting IFRS 9 (note 28)	-	-	-	(70)	-	-	(23,684)	(23,754)	-	(23,754)
Restated opening balance under IFRS 9	154,852	34,465	51,617	23,419	23,228	7,743	111,681	407,005	115,500	522,505
Total comprehensive income for the period	-	-	-	(2,276)	-	-	25,419	23,143	-	23,143
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Issue of bonus shares	7,743	-	-	-	-	(7,743)	-	-	-	-
Dividend paid	-	-	-	-	(23,228)	-	-	(23,228)	-	(23,228)
Balance at 30 June 2018	162,595	34,465	51,617	21,143	-	-	132,552	402,372	115,500	517,872
Balance at 1 January 2017	147,478	34,465	49,159	46,196	23,478	7,374	114,764	422,914	115,500	538,414
Total comprehensive income for the period	-	-	-	(2,983)	-	-	26,057	23,074	-	23,074
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Issue of bonus shares	7,374	-	-	-	-	(7,374)	-	-	-	-
Dividend paid	-	-	-	-	(23,478)	-	-	(23,478)	-	(23,478)
Balance at 30 June 2017	154,852	34,465	49,159	43,213	-	-	136,273	417,962	115,500	533,462
Balance at 1 July 2017	154,852	34,465	49,159	43,213	-	-	136,273	417,962	115,500	533,462
Total comprehensive income for the period	-	-	-	(624)	-	-	17,969	17,345	-	17,345
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Transfer to retained earnings	-	-	-	(24,100)	-	-	24,100	-	-	-
Transfer to subordinated funds reserve	-	-	-	5,000	-	-	(5,000)	-	-	-
Transfer to legal reserve	-	-	2,458	-	-	-	(2,458)	-	-	-
Proposed dividend	-	-	-	-	23,228	7,743	(30,971)	-	-	-
Balance at 31 December 2017	154,852	34,465	51,617	23,489	23,228	7,743	135,365	430,759	115,500	546,259

*Transfers to legal reserve and subordinated debt reserve are made on an annual basis.

The attached notes 1 to 29 form part of the interim condensed financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale banking, investment banking services and Islamic banking within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on the Muscat Stock Exchange.

The bank employed 1,511 employees as of 30 June 2018 (30 June 2017 – 1,539 employees / 31 December 2017 - 1,501).

2 SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017, except for the effects of adoption of IFRS 9 as described in note 28 to this interim condensed financial statement. In addition, results of the six month period ended 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of banks annual financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards.

The condensed interim financial statements are prepared in Rial Omani, rounded to the nearest thousands, except as indicated. The functional currency of the bank is Rial Omani.

The interim condensed financial statements are prepared under the historical cost convention, modified to include revaluation of freehold land and buildings, measurement of derivative financial instruments, equities and puttable investments, either through profit and loss account or through other comprehensive Income, at fair value.

3 CASH AND BALANCES WITH CENTRAL BANKS

	30/06/2018	*30/06/2017*	*31/12/2017*
	RO'000	*RO'000*	*RO'000*
Cash	55,275	55,646	51,378
Treasury bills	194	-	239
Certificate of Deposit with Central Banks	-	-	7,861
Other balances with Central Banks	262,006	312,375	323,133
Cash and cash equivalents	317,475	368,021	382,611
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	317,975	368,521	383,111

(i) At 30 June 2018, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (30 June 2017: RO 500,000) as capital deposit. This deposit cannot be withdrawn without the Central Bank of Oman approval.

(ii) Minimum cash reserve to be maintained with Central Bank of Oman as of 30 June 2018 amounted to RO 77 million (30 June 2017: RO 78 million).

4 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

	30/06/2018	*30/06/2017*	*31/12/2017*
	RO'000	*RO'000*	*RO'000*
Loans and advances to banks	20,790	17,325	18,865
Placements with banks	98,244	88,880	74,405
Demand balances	37,104	41,548	45,494
Due from banks and other money market placements	156,138	147,753	138,764
Less: allowance for the credit losses	(461)	(87)	(94)
Net due from banks and other money market placements	155,677	147,666	138,670

Movement in allowances for the credit losses is set out below:

	6 months ended 30/06/2018	*6 months ended 30/06/2017*	*12 months ended 31/12/2017*
	RO'000	*RO'000*	*RO'000*
Balance at the beginning of the period/year	94	68	68
Impact of adopting IFRS 9 (note 28)	367	NA	NA
Provided during the period	-	19	26
Balance at the end of the period / year	461	87	94

5 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET)

	30/06/2018 RO'000	*30/06/2017 RO'000*	*31/12/2017 RO'000*
Overdrafts	93,060	97,063	99,990
Personal loans	1,372,983	1,351,065	1,360,285
Other loans	1,338,970	1,438,017	1,310,127
Gross loans, advances and financing activities for customers	2,805,013	2,886,145	2,770,402
Less: allowance for credit losses	(137,415)	(103,322)	(116,531)
Net loans and advances	2,667,598	2,782,823	2,653,871

Gross loans, advances and financing activities for customers include RO 138 million due from related parties at 30 June 2018 (30 June 2017 – RO 127 million, 31 December 2017 – RO 139 million).

The movement in the provision for impairment of loans, advances and financing activities for customers is set out below:

Movement in the provision for impairment of funded loans and advances

	6 months ended 30/06/2018 RO'000	*6 months ended 30/06/2017 RO'000*	*12 months ended 31/12/2017 RO'000*
Balance at beginning of period / year	116,531	98,015	98,015
Impact of adopting IFRS 9 (note 28)	13,791	NA	NA
Restated opening balance under IFRS 9	130,322	98,015	98,015
Provided during the period / year	13,161	12,014	30,885
Recovered/ released during the period / year	(1,121)	(1,673)	(3,007)
Written off during the period / year	(4,947)	(5,034)	(9,364)
Translation difference	-	-	2
Balance at end of period / year	137,415	103,322	116,531

Provided during the period includes contractual interest reserved for RO 4,221 thousands.
Recovered/released during the period includes recovery of reserved interest for RO 540 thousands.

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the interim condensed statement of comprehensive income.

As of 30 June 2018 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 124 million (30 June 2017 – RO 89 million and 31 December 2017 – RO 113 million).

6 FINANCIAL INVESTMENTS

	Carrying value 30/06/2018 RO'000	*Carrying value 30/06/2017 RO'000*	*Carrying value 31/12/2017 RO'000*
Fair value through profit and loss			
Quoted investments- Oman			
Banking and investment sector	5,128	-	-
Service sector	252	-	-
	5,380	-	-
Quoted investments- Foreign			
Banking and investment sector	351	-	-
	351	-	-
Unquoted investments			
Banking and investment sector	2,144	-	-
	2,144	-	-
Total Fair value through profit and loss	7,875	-	-
Held for trading			
Quoted investments- Oman			
Government Sukuk	-	3,000	-
Banking and investment sector	-	550	-
Government Development Bonds	-	85,732	55,221
Equities	-	36	550
	-	89,318	55,771
Quoted investments- Foreign			
Equities		206	-
	-	206	-
Total held for trading	-	89,524	55,771
Investment measured at FVOCI			
Quoted investments- Oman			
Government Development Bonds	3,631	-	-
Banking and investment sector	390	-	-
Manufacturing sector	80	-	-
Service sector	21,587	-	-
	25,688	-	-
Quoted investments- Foreign			
Banking and investment sector	2,625	-	-
	2,625	-	-
Unquoted investments			
Banking and investment sector	295		
Service sector	46	-	-
	341	-	-
Total FVOCI	28,654	-	-

6 FINANCIAL INVESTMENTS (continued)

	Carrying value 30/06/2018 RO'000	*Carrying value 30/06/2017 RO'000*	*Carrying value 31/12/2017 RO'000*
Available for sale			
Quoted investments- Oman			
Banking and investment sector	-	860	-
Manufacturing sector	-	2,606	2,273
Service sector	-	20,499	21,061
Government Development Bonds	-	-	3,895
	-	23,965	27,229
Quoted investments- Foreign			
Banking and investment sector	-	2,622	2,542
Service sector	-	3,599	-
	-	6,221	2,542
Unquoted investments			
Banking and investment sector	-	8,154	7,448
Manufacturing sector	-	3,483	-
Service sector	-	576	341
	-	12,213	7,789
Total available for sale	-	42,399	37,560
Investment measured at amortised cost			
Quoted investments- Oman			
Government Development Bonds	132,909	-	-
Government Sukuk	3,000	-	-
Banking and investment sector	4,334	-	-
Manufacturing sector	5,775	-	-
	146,018	-	-
Quoted investments- Foreign			
Government Development Bonds	5,008	-	-
Banking Sector	1,966	-	-
	6,974	-	-
Total amortised cost	152,992	-	-
Held to maturity			
Quoted investments- Oman			
Government Development Bonds	-	31,039	76,986
Manufacturing sector	-	5,775	5,775
Government Sukuk	-	963	-
	-	37,777	82,761
Quoted investments- Overseas			
Government Development Bonds	-	5,113	5,060
Banking and investment sector	-	1,972	1,968
	-	7,085	7,028
Total Held to maturity	-	44,862	89,789
Less: impact of adopting IFRS 9 (note 28)	(502)	NA	NA
TOTAL FINANCIAL INVESTMENTS	189,019	176,785	183,120

6 FINANCIAL INVESTMENTS (continued)

Details of significant investments
Details of investments exceeding 10% of the carrying value of the bank's investment are as follows:

	Bank's portfolio %	*Carrying value* RO'000
30 June 2018		
Government Development Bonds and sukuks	76.3	144,548
30 June 2017		
Government Development Bonds and sukuks	66.1	116,771
31 December 2017		
Government Development Bonds and sukuks	74.3	136,102

7 PREMISES AND EQUIPMENT

	Freehold land, buildings and leasehold improvements RO'000	*Motor vehicles, furniture and equipment* RO'000	*Capital work in progress* RO'000	*Total* RO'000
Reconciliation of carrying amount:				
Balance at 1 January 2018, net of accumulated depreciation	51,248	12,487	2,060	65,795
Additions	28	800	783	1,611
Disposals	(3)	(10)	-	(13)
Transfers	86	400	(486)	-
Depreciation	(890)	(1,344)	-	(2,234)
Balance at 30 June 2018, net of accumulated depreciation	50,468	12,333	2,357	65,158
At cost / valuation	66,634	41,689	2,357	110,680
Accumulated depreciation	(16,166)	(29,356)	-	(45,522)
Net carrying value at 30 June 2018	50,468	12,333	2,357	65,158
Net carrying value at 30 June 2017	12,398	7,359	37,633	57,390
Net carrying value at 31 December 2017	51,249	12,486	2,060	65,795

8 OTHER ASSETS

	30/06/2018 RO'000	*30/06/2017* RO'000	*31/12/2017* RO'000
Interest receivable and others	22,399	36,229	16,353
Positive fair value of derivatives (note 26)	2,376	4,775	2,701
Customers' indebtedness for acceptances (note 11)	27,213	29,359	25,173
Deferred tax (note 12)	1,494	2,085	1,558
	53,482	72,448	45,785

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	30/06/2018 *RO'000*	*30/06/2017* *RO'000*	*31/12/2017* *RO'000*
Current accounts	931,568	924,621	878,304
Savings accounts	577,272	611,177	582,521
Term deposits	978,485	1,051,168	1,000,442
	2,487,325	2,586,966	2,461,267

10 EURO MEDIUM TERM NOTES

In 2014, the bank has established Euro Medium Term note amounting to USD 600 million. Within the program, the bank has carried out primary Regulations issuance of USD 500 million in October 2014, and tap issue of USD 100 million in July 2016. Both the issuances will mature by October 2019. The bonds are listed on the Irish Stock Exchange and are governed by English law. The carrying amount of EMTN is stated after taking into account the amount of MTM value of the fair value hedge (refer note 26).

11 OTHER LIABILITIES

	30/06/2018 *RO'000*	*30/06/2017* *RO'000*	*31/12/2017* *RO'000*
Interest payable and other accruals	42,192	49,327	45,200
Liabilities under acceptances (note 8)	27,213	29,359	25,173
Allowances for credit losses – non-funded facilities (note 5)	8,062	NA	NA
Negative fair value of derivatives (note 26)	3,907	3,805	2,974
	81,374	82,491	73,347

Movement in the allowance for credit losses - non-funded loans, advances and financing activities for customers:

	6 months Ended 30/06/2018 RO'000	*6 months ended 30/06/2017 RO'000*	*12 months ended 31/12/2017 RO'000*
Balance at beginning of period / year	-	NA	NA
Impact of adopting IFRS 9 (note 28)	9,094	NA	NA
Restated opening balance under IFRS 9	9,094	NA	NA
Provided during the period / year	14	NA	NA
Recovered/ released during the period / year	(1,046)	NA	NA
Balance at end of period / year (note 11)	8,062	NA	NA

12 TAXATION

	30/06/2018 *RO'000*	*30/06/2017* *RO'000*	*31/12/2017* *RO'000*
Statement of comprehensive income			
Current period/year	4,353	5,282	7,843
Deferred tax adjustment	-	(1,162)	(608)
	4,353	4,120	7,235

The bank is liable to income tax at the following rates:

- Sultanate of Oman: 15% of taxable income
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income

12 TAXATION (continued)

Set out below is reconciliation between incomes tax calculated on accounting profit with income tax expense for the period:

	30/06/2018 RO'000	*30/06/2017 RO'000*	*31/12/2017 RO'000*
Accounting profit	29,772	30,177	51,261
Tax at applicable rate	4,466	4,527	7,689
Non-deductible expenses	85	(16)	755
Tax exempt revenues	(908)	(814)	(1,549)
Others	710	1,585	948
	4,353	5,282	7,843

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2011.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2014.

	30/06/2018 RO'000	*30/06/2017 RO'000*	*31/12/2017 RO'000*
Tax liability			
Income tax and other taxes – Current period/year	4,353	5,282	7,843
Income tax and other taxes – Prior years	2,084	1,129	(27)
	6,437	6,411	7,816

	30/06/2018 RO'000	*30/06/2017 RO'000*	*31/12/2017 RO'000*
Recognised deferred tax assets (note 8)			
Deferred tax assets are attributable to the following:			
Provisions	1,480	2,034	1,480
FVOCI / Available for sale investments	14	51	78
	1,494	2,085	1,558

Deferred tax is calculated at 15% (2017 – 15%).

13 SUBORDINATED DEBT

	30/06/2018 RO'000	*30/06/2017 RO'000*	*31/12/2017 RO'000*
At 1 January	25,000	49,100	49,100
Redeemed during the period/year	-	-	(24,100)
	25,000	49,100	25,000

As per circular number BM 1009 issued by Central Bank of Oman, as at 31 December 2017 subordinated debts above have capital benefits of RO 3.7 million, and these will be fully amortised by the end of 2018.

14 OTHER NON-DISTRIBUTABLE RESERVES

	Fair value reserve RO '000	*Revaluation reserve RO '000*	*Subordinated debt reserve RO '000*	*Total RO '000*
At 1 January 2018	(2,496)	4,385	21,600	23,489
Investment securities (debt and puttable instruments) reclassified from available-for-sale to those measured at fair value through profit or loss (note 28.1)	(276)	-	-	(276)
Investment securities (equity) reclassified from available-for-sale to those measured at fair value through other comprehensive income (note 28.1)	346	-	-	346
Restated opening balance under IFRS 9	(2,566)	4,385	21,600	23,419
Net movement on FVOCI investments	(2,212)	-	-	(2,212)
Tax effect on FVOCI financial investments	(64)	-	-	(64)
At 30 June 2018	(4,842)	4,385	21,600	21,143
At 30 June 2017	(1,872)	4,385	40,700	43,213

(i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.

(ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 13). The reserve is available for transfer back to retained earning upon maturity of the subordinated debt.

15 TIER 1 PERPETUAL BOND

The bank, in 2015 issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000. (R.O 115,500,000)

The Tier 1 Securities 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 Securities do not have a fixed or final maturity date. They are redeemable by the bank at its sole discretion on 18 November 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the Central Bank of Oman.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875% which is the aggregate of margin and 5 year mid-swap rate that was prevailing at the time of issuance. The mid-swap rate will be reset at end of every fifth year. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the bank's discretion.

These securities form part of Tier 1 Capital of the bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

16 CONTINGENT LIABILITIES AND COMMITMENTS

	30/06/2018 *RO'000*	*30/06/2017* *RO'000*	*31/12/2017* *RO'000*
Guarantees	353,528	407,301	364,920
Documentary letters of credit	101,649	86,470	82,187
Undrawn commitment to lend	180,586	129,634	162,827
	635,763	623405	609,934

(i) The allowances for credit losses for commitments and financial guarantees amounts to RO 8,062 thousands and is included under note 11.

(ii) Contingent liabilities include RO 1.5 million (30 June 2017 – RO 0.12 million and 31 December 2017– RO 0.29 million) relating to non-performing loans.

(iii) Guarantees include an amount of RO 9.4 million (original amount of RO 14.3 million out of which RO 4.9 million was paid to the beneficiary during April 2018 and recorded as loans and advances) towards performance and advance payment guarantees which have been invoked by the beneficiary. The bank, based on an independent legal advice obtained is confident of recovering the amount paid and payable to the beneficiary from its customer and has initiated a legal action against the customer and the guarantor.

17 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 5.33% for the six month period ended 30 June 2018 (30 June 2017 – 5.18% and 31 December 2017 – 5.20%).

18 INTEREST EXPENSE

For the six month period ended 30 June 2018, the average overall cost of funds was 2.14% (30 June 2017-1.93% and 31 December 2017 – 1.95%).

19 OTHER OPERATING INCOME

	6 months ended 30/06/2018 RO'000	*6 months ended 30/06/2017 RO'000*	*3 months ended 30/06/2018 RO'000*	*3 months ended 30/06/2017 RO'000*
Net gains from foreign exchange dealings	2,413	2,362	1,271	988
Fees and commissions	9,028	10,091	4,927	4,840
Net income from sale of investments	109	147	109	141
Income from bonds	3,573	2,112	1,839	1,170
Dividend income	777	1,174	96	56
Service charges	2,618	2,197	1,287	947
Miscellaneous income	585	660	311	380
	19,103	18,743	9,840	8,522

20 OTHER OPERATING EXPENSES

	6 months ended 30/06/2018 RO'000	*6 months ended 30/06/2017 RO'000*	*3 months ended 30/06/2018 RO'000*	*3 months ended 30/06/2017 RO'000*
Establishment costs	2,596	3,072	1,414	1,506
Operating and administration expenses	7,038	7,983	3,294	3,889
	9,634	11,055	4,708	5,395

21 ASSET LIABILITY MISMATCH

The asset liability mismatch is based on CBO circular BM 955 and given as follows:

30 June 2018

Maturities	*Assets* RO'000	*Equity, subordinated funds and liabilities* RO'000	*Mismatch* RO'000
0 - 3 month	992,868	801,908	190,960
3 - 12 month	302,700	897,866	(595,166)
1 – 5 years	645,403	753,836	(108,433)
More than 5 years	1,507,938	995,299	512,639
Total	3,448,909	3,448,909	-

30 June 2017

Maturities	*Assets* RO'000	*Equity, subordinated funds and liabilities* RO'000	*Mismatch* RO'000
0 - 3 month	1,103,288	772,590	330,698
3 - 12 month	280,372	933,758	(653,386)
1 – 5 years	714,750	873,615	(158,865)
More than 5 years	1,507,223	1,025,670	481,553
Total	3,605,633	3,605,633	-

31 December 2017

Maturities	*Assets* RO'000	*Equity, subordinated funds and liabilities* RO'000	*Mismatch* RO'000
0 - 3 month	932,455	854,058	78,397
3 - 12 month	347,633	782,991	(435,358)
1 – 5 years	665,301	827,536	(162,235)
More than 5 years	1,524,963	1,005,767	519,196
Total	3,470,352	3,470,352	-

22 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the bank conducts transactions with certain of its Directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows

	30/06/2018			31/12/2017		
	Principal shareholder RO'000	*Others RO'000*	*Total RO'000*	*Principal shareholder RO'000*	*Others RO'000*	*Total RO'000*
Loans and advances	-	138,744	138,744	-	138,697	138,697
Customers' deposits	32,312	38,557	70,869	2,730	38,548	41,278
Due from banks	121	9,625	9,746	156	9,625	9,781
Due to banks	411	-	411	427	-	427
Subordinated debt	14,500	3,000	17,500	14,500	3,000	17,500
Letters of credit, guarantees and acceptances	2,553	8,809	11,362	3,057	8,765	11,822
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	-	-	-	-	-	-
Investments	1,981	-	1,981	1,981	-	1,981

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

	30/06/2018			30/06/2017		
	Principal shareholder RO'000	*Others RO'000*	*Total RO'000*	*Principal shareholder RO'000*	*Others RO'000*	*Total RO'000*
Interest income	16	4,149	4,165	25	2,828	2,853
Commission income	73	69	142	73	28	101
Interest expense	876	498	1,374	1,477	525	2,002
Other expenses	-	227	227	-	231	231

Senior management compensation:	*6 months ended 30/06/2018 RO'000*	*6 months ended 30/06/2017 RO'000*
Salaries and other short term benefits		
- Fixed	1,509	1,632
- Discretionary	1,342	1,333
	2,851	2,965

23 SHAREHOLDERS

As of 30 June 2018, the shareholders of the bank who own 10% or more of the bank's shares:

	Number of shares '000	*% Holding*
The Commercial Bank of Qatar	567,453	34.90%
Suhail Bahwan Group (Holdings) LLC	239,734	14.74%
Civil Service Employees Pension Fund	183,594	11.29%

The percentage shareholding is calculated based on the total shares of the bank outstanding at the reporting date.

24 SEGMENT REPORTING

For management purposes, the bank is organised into four operating segments based on business units and are as follows:

- Retail banking offers various products and facilities to individual retail and high net worth customers to meet everyday banking needs. This includes asset products like Personal Loans, Housing Loan, Credit Cards and Term Loans and liability products like Savings account, Current account and Term Deposits.

- Wholesale banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes Investment banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.

- Commercial banking covers the mid-tier corporate and SME customers offering the entire spectrum of products to suit their business needs. It also includes international operations of UAE, Egypt and Islamic banking which offers products as per Sharia principles.

- Funding center is responsible for balancing and managing the liquidity of funds within the bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Segment information by business line is as follows:

	Retail banking RO'000	*Wholesale banking RO'000*	*Commercial banking RO'000*	*Funding center RO'000*	*Total RO'000*
30-June-2018					
Operating income	26,972	22,883	8,117	5,586	63,558
Net profit/(loss)	10,629	21,713	(8,265)	1,341	25,419
Total assets	1,281,654	1,167,712	408,050	591,493	3,448,909

24 SEGMENT REPORTING (Continued)

	Retail banking RO'000	*Wholesale banking RO'000*	*Commercial banking RO'000*	*Funding center RO'000*	*Total RO'000*
30-June-2017					
Operating income	27,530	21,713	10,945	5,469	65,658
Net profit/(loss)	8,959	17,492	(2,101)	1,707	26,057
Total assets	1,245,761	1,235,853	520,553	603,466	3,605,633

For management purposes the bank also reports the segment information of its operations by the following geographical locations:

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis. Segment information by geography is as follows:

For the period ended 30 June 2018	*Oman RO'000*	*UAE RO'000*	*Egypt RO'000*	*Total RO'000*
Net interest income and net income from				
Islamic financing and investment activities	42,818	1,412	225	44,455
Other operating income	18,569	533	1	19,103
Operating income	61,387	1,945	226	63,558
Operating expenses	(28,172)	(1,919)	(119)	(30,210)
	33,215	26	107	33,348
Impairment losses (net) and taxation	(968)	(6,957)	(4)	(7,929)
Segment profit/(loss) for the period	32,247	(6,931)	103	25,419
Other information				
Segment assets	3,321,993	106,856	20,060	3,448,909
Segment capital expenses	1,516	93	2	1,611

24 SEGMENT REPORTING (Continued)

For the period ended 30 June 2017	*Oman* *RO'000*	*UAE* *RO'000*	*Egypt* *RO'000*	*Total* *RO'000*
Net interest income and net income from				
Islamic financing and Investment activities	43,107	3,631	177	46,915
Other operating income	17,766	966	11	18,743
Operating income	60,873	4,597	188	65,658
Operating expenses	(28,194)	(2,184)	(110)	(30,488)
	32,679	2,413	78	35,170
Impairment losses (net) and taxation	(4,721)	(4,463)	71	(9,113)
Segment profit/(loss) for the period	27,958	(2,050)	149	26,057
Other information				
Segment assets	3,380,342	205,466	19,825	3,605,633
Segment capital expenses	12,618	164	-	12,782

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

Based on the valuation methodology outlined below, the fair values of all financial instruments at 30 June 2018 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

Current account balances due to and due 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.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments other than derivatives instruments recorded at fair value by level of the fair value hierarchy:

30 June 2018	*Level 1*	*Level 2*	*Total*
	RO'000	*RO'000*	*RO'000*
Investment measured at FVTPL			
Quoted equities	5,731	-	5,731
Unquoted equities	-	2,144	2,144
Total	5,731	2,144	7,875
Investment measured at FVOCI			
Quoted equities	28,313	-	28,313
Unquoted equities	-	341	341
Total	28,313	341	28,654
TOTAL	34,044	2,485	36,529

Financial instruments at level 2 are valued based on counter party valuation, quoted forward rates and yield curves. Details regarding derivative financial instruments are set out in note 26.

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

30 June 2017	*Level 1 RO'000*	*Level 2 RO'000*	*Total RO'000*
Investments – held for trading:			
Government development bonds	85,732	-	85,732
Government Sukuk	3,000	-	3,000
Banking and investment sector	550	-	550
Quoted equities	242	-	242
Total	89,524	-	89,524
Investments - available for sale:			
Government development bonds	-	-	-
Quoted equities	30,186	-	30,186
Other unquoted equities	-	12,213	12,213
Total	30,186	12,213	42,399
Total financial assets	119,710	12,213	131,923

31 December 2017	*Level 1 RO'000*	*Level 2 RO'000*	*Total RO'000*
Investments – held for trading:			
Government development bonds	55,221	-	55,221
Quoted equities	550	-	550
Total	55,771	-	55,771
Investments - available for sale:			
Government development bonds	3,895	-	3,895
Quoted equities	25,876	-	25,876
Other unquoted equities	-	7,789	7,789
Total	29,771	7,789	37,560
Total financial assets	85,542	7,789	93,331

26 DERIVATIVES

	Positive fair value (Note 8)	Negative fair value (Note 11)	Notional amount total	Notional amounts by term to maturity Within 3 months	3 – 12 months	Above 1 Year
30 June 2018	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Derivatives						
Fair value hedge	-	(1,934)	192,500	-	-	192,500
Interest rate swaps	946	(946)	99,196	10,668	19,590	68,938
Forward foreign exchange purchase contracts	86	(917)	173,513	133,087	16,595	23,831
Forward foreign exchange sales contracts	1,312	(78)	173,513	133,094	16,121	24,298
Currency options	32	(32)	5,755	3,995	1,760	-
Total	2,376	(3,907)	644,477	280,844	54,066	309,567
30 June 2017						
Derivatives						
Fair value hedge	1,673	-	192,500	-	-	192,500
Interest rate swaps	2,673	(2,673)	105,737	2,926	13,437	89,374
Forward foreign exchange purchase contracts	13	(464)	181,969	153,793	27,872	304
Forward foreign exchange sales contracts	405	(657)	181,969	153,615	28,310	44
Currency Options	11	(11)	7,463	3,474	3,989	-
Total	4,775	(3,805)	669,638	313,808	73,608	282,222
31 December 2017						
Derivatives						
Fair value hedge	-	(94)	192,500	-	-	192,500
Interest rate swaps	1,842	(1,842)	95,238	6,285	13,971	74,982
Forward foreign exchange purchase contracts	508	(122)	212,849	175,508	13,879	23,462
Forward foreign exchange sales contracts	345	(910)	212,849	168,623	20,710	23,516
Currency options	6	(6)	13,193	8,579	4,614	-
Total	2,701	(2,974)	726,629	358,995	53,174	314,460

27 LIQUIDITY COVERAGE RATIO

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on 1 January, 2019.

	June 2018		June 2017	
	Total unweighted value (average) *RO'000*	Total weighted value (average) *RO'000*	Total unweighted value (average) *RO'000*	Total weighted value (average) *RO'000*
High quality liquid assets				
Total High Quality Liquid Assets (HQLA)	-	448,494	-	510,755
Cash outflows				
Stable deposits	590,993	29,550	621,092	31,055
Less stable deposits	121,444	12,144	117,561	11,756
Retail deposits and deposits from small business customers	712,437	41,694	738,653	42,811
Unsecured wholesale funding, of which:				
Operational deposits (all counterparties) and deposits in networks of cooperative banks	934,998	356,929	1,007,579	383,196
Additional requirements, of which				
Credit and liquidity facilities	28,639	2,864	33,785	3,379
Other contingent funding obligations	515,427	39,495	465,146	25,359
Total cash outflows		440,982		454,745
Cash inflows				
Inflows from fully performing exposures	370,705	247,145	378,047	259,360
Other cash inflows	12,288	12,288	24,034	24,034
Total cash inflows	382,993	259,433	402,081	283,394
Total high quality liquid assets		448,494		510,755
Total net cash outflows		181,549		171,350
Liquidity coverage ratio (%)		247.04		298.08

28 IFRS 9 DISCLOSURES

28.1 Impact of adopting IFRS 9

Set out below is the impact of initial application of IFRS 9 on the Bank's financial statements:

	Retained earnings RO'000	*Fair value reserve RO'000*
Closing balance under IAS 39 (31 December 2017)	135,365	(2,496)
Impact on reclassification and remeasurements :		
Investment securities (debt and puttable instruments) from available-for-sale to those measured at fair value through profit or loss	(276)	276
Investment securities (equity) from available-for-sale to those measured at fair value through other comprehensive income	346	(346)
Impact on recognition of Expected Credit Losses		
Due from banks	(367)	-
Expected credit losses under IFRS 9 for loan and advances at amortised cost including loan commitments and financial guarantees	(22,885)	-
Expected credit losses under IFRS 9 for debt securities at fair value through other comprehensive income and amortised cost	(502)	-
Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018	111,681	(2,566)

Expected credit loss / Impairment allowances

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018:

	31 December 2017 RO'000	*Re-measurement RO'000*	*1 January 2018 RO'000*
Loans and advances to customers	116,531	13,791	130,322
Due from banks	-	367	367
Available-for-sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	-	502	502
Loan Commitments and Financial Guarantees	-	9,094	9,094
	116,531	23,754	140,285

28 IFRS 9 DISCLOSURES (continued)

28.1 Classification and Measurement of Financial Instruments

The Bank performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 31 December 2017.

Amounts in RO'000

					Impact of IFRS 9	
	Original classification under IAS 39	*New classification under IFRS 9*	*Original carrying amount*	*Re-measure-ment*	*Re-classifica-tion*	*New carrying amount*
			RO'000	*RO'000*	*RO'000*	*RO'000*
Financial assets						
Cash and balances with central banks	Loans and receivables	Amortised cost	383,111	-	-	383,111
Due from banks	Loans and receivables	Amortised cost	138,670	(367)	-	138,303
Loans and advances and financing activities for customers	Loans and receivables	Amortised cost	2,653,871	(13,791)	-	2,640,080
Investment securities – debt	Available-for-sale	FVOCI	3,895	-	-	3,895
Investment securities – debt	Available-for-sale	FVTPL	7,767	-	-	7,767
Investment securities – debt	Held-for-trading	Amortised cost	55,771	(98)	-	55,673
Investment securities – debt	Held-to-maturity	Amortised cost	89,789	(404)	-	89,385
Investment securities – equity	Available-for-sale	FVOCI	25,898	-	-	-

Opening ECL allowance determined in accordance with IFRS 9 for the loan commitments and financial guarantees is amounted to RO 9,094 thousands.

Financial Liabilities

There were no changes to the classification and measurement of financial liabilities.

28 IFRS 9 DISCLOSURES (continued)

28.2 Movement in ECL

Amounts in RO'000

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO' 000	*RO'000*	*RO'000*	*RO'000*
Exposure subject to ECL				
- Loans and advances and financing activities for customers	1,988,059	693,267	123,687	2,805,013
- Investment securities (debt)	156,622	-	-	156,622
- Loan commitments and financial guarantees	663,077	-	-	663,077
- Due from banks, central banks and other financial assets	418,644	-	-	418,644
	3,226,402	693,267	123,687	4,043,356
Opening Balance - as at 1 January 2018				
- Loans and advances and financing activities for customers	12,474	44,394	73,454	130,322
- Investment securities (debt)	502	-	-	502
- Loan commitments and financial guarantees	1,423	7,671	-	9,094
- Due from banks, central banks and other financial assets	367	-	-	367
	14,766	52,065	73,454	140,285
Net transfer between stages				
- Loans and advances and financing activities for customers	3,185	(3,739)	554	-
- Investment securities (debt)	-	-	-	-
- Loan commitments and financial guarantees	(114)	114	-	-
- Due from banks, central banks and other financial assets	-	-	-	-
	3,071	(3,625)	554	-
Charge for the Period (net)				
- Loans and advances and financing activities for customers	(3,728)	(2,323)	13,143	7,092
- Investment securities (debt)	-	-	-	-
- Loan commitments and financial guarantees	14	(1,046)	-	(1,032)
- Due from banks, central banks and other financial assets	-	-	-	-
	(3,714)	(3,369)	13,143	6,060
Closing Balance - as at 30 June 2018				
- Loans and advances and financing activities for customers	11,932	38,331	87,152	137,415
- Investment securities (debt)	502	-	-	502
- Loan commitments and financial guarantees	1,323	6,739	-	8,062
- Due from banks, central banks and other financial assets	367	-	-	367
	14,124	45,070	87,152	146,346

28 IFRS 9 DISCLOSURES (continued)

28.3 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2018:

1. Impairment charge and provision held as of 30 June 2018

Amounts in RO'000

	As per CBO Norms	As per IFRS 9	Difference
Impairment Loss charged to profit and loss	3,576	3,576	-
Provisions required as per CBO norms/ held as per IFRS 9	112,901	127,264	14,363
Gross non-performing loan ratio (percentage)	2.94	2.94	-
Net non-performing loan ratio (percentage)	0.90	1.06	0.16

2. Mapping of IFRS 9 and CBO norms

Amounts in RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(5)	(8)	(9)
Standard	Stage 1	2,125,684	31,498	11,932	19,566	2,113,752	-	
	Stage 2	382,542	4,255	17,175	(12,920)	365,367	-	
	Stage 3	-	-	-	-	-	-	
Subtotal		2,508,226	35,753	29,107	6,646	2,479,119	-	-
Special Mention	Stage 1	-	-	-	-	-	-	
	Stage 2	173,101	3,815	21,157	(17,342)	151,944	-	
	Stage 3	-	-	-	-	-	-	
Subtotal		173,101	3,815	21,157	(17,342)	151,944	-	-
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	9,602	2,452	3,262	-	7,150	-	192
Subtotal		9,602	2,452	3,262	-	7,150	-	192
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	17,667	7,971	10,472	(2,501)	7,195	-	615
Subtotal		17,667	7,971	10,472	(2,501)	7,195	-	615
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	96,418	62,911	54,242	7,859	41,366	-	18,369
Subtotal		96,418	62,911	54,242	7,859	41,366	-	18,369
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	635,824	-	2,285	(2,285)	633,539	-	-
	Stage 2	137,624	-	6,740	(6,740)	130,884	-	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		773,449	-	9,025	(9,025)	764,423	-	-
Total	Stage 1	2,761,508	31,498	14,217	17,281	2,747,291	-	-
	Stage 2	693,267	8,069	45,071	(37,002)	648,196	-	-
	Stage 3	123,687	73,333	67,976	5,358	55,711	-	19,176
	Total	3,578,463	112,901	127,264	(14,363)	3,451,198	-	19,176

28 IFRS 9 DISCLOSURES (continued)

28.3 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2018:

3. Restructured loans

Amounts in RO'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(5)	(8)	(9)
Classified as performing	Stage 1	14,882	269	70	199	14,812	-	-
	Stage 2	51,474	2,349	5,104	(2,755)	46,370	-	-
	Stage 3				-	-		
Subtotal		66,356	2,618	5,174	(2,556)	61,182	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	18,876	14,196	14,196	-	3,377	-	1,303
Sub total		18,876	14,196	14,196	-	3,377	-	1,303
Total	Stage 1	14,882	269	70	199	14,812	-	-
	Stage 2	51,474	2,349	5,104	(2,755)	46,370	-	-
	Stage 3	18,876	14,196	14,196	-	3,377	-	1,303
	Total	85,232	16,814	19,370	(2,556)	64,559	-	1,303

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies

A. IFRS 9 Financial Instruments

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt IFRS 9 in any previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have been applied only to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

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

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

§ the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
§ the remaining amount of change in the fair value is presented in profit or loss.

There were no changes to the classification and measurement of financial liabilities.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Hedge accounting

IFRS 9 introduced a new hedge accounting model to simplify hedge accounting outcomes and provide a better linkage between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Some of the key improvements in the standard impacting the Bank include:

1. Hedge effectiveness – IFRS 9 standard requires that the hedge effectiveness assessment be forward-looking and does not prescribe defined effectiveness parameters. Under IAS 39, an entity had to test effectiveness both retrospectively and prospectively subject to 80 to 125 percent effectiveness requirement.
2. Hedge discontinuation. IFRS 9 standard provides that discontinuation of hedge accounting will only happen under specified circumstances. Under IAS 39, the Bank may revoke the hedging relationship if it seems fit.

These changes have not had a material impact on the Interim condensed statement of comprehensive income of the Bank. In addition, some of the basics of hedge accounting applicable to the Bank under IAS 39 do not change as a result of IFRS 9 adoption.

Transition

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

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

§ The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets as measured at FVTPL
- For hedging relationships under IAS 39, determination of whether these qualify for hedge accounting in accordance with the criteria of IFRS 9, after taking into account any rebalancing of the hedging relationship on transition, shall be regarded as continuing hedging relationships.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

B. Financial assets and liabilities

Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

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

Classification

Policies applicable from 1 January 2018
From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

§ Fair value through profit or loss (FVTPL);
§ Fair value through other comprehensive income (FVOCI); or
§ Amortised cost.
§

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

§ the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
§ how the performance of the portfolio is evaluated and reported to the Bank's management;
§ the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
§ how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
§ the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest ('SPPI')

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

§ contingent events that would change the amount and timing of cash flows;
§ leverage features;
§ prepayment and extension terms;
§ terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
§ features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

(a) Loans and advances and financing activities for customers
'Loans and advances and financing activities for customers' captions in the statement of financial position include:

§ loans and advances and financing activities for customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
§ loans and advances and financing activities for customers mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

§ interest revenue using the effective interest method;
§ ECL and reversals; and
§ foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

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

Financial liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The amount presented separately in OCI related to changes in own credit risk of a designated financial liability at FVTPL are not recycled to profit or loss, even when the liability is derecognised and the amounts are paid. Instead, own credit gains and losses should be reclassified to retained earnings within equity upon derecognition of the relevant liability.

Derecognition

Policy applicable from 1 January 2018
From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

De-recognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchased or originated credit impaired (“POCI”).

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

De-recognition other than for substantial modification

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 financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:
- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if 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.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which 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.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

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 the Bank could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Modifications of financial assets and financial liabilities

Policies applicable from 1 January 2018
If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Impairment

Policies applicable from 01 January 2018
The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

§ financial assets that are debt instruments;
§ financial guarantee contracts issued; and
§ loan commitments issued.

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition which they are measured as 12 month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Overview of the ECL principles

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).

The 12 month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

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

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

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

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

Stage 3
Financing exposure considered credit-impaired. The bank records an allowance for the LTECLs.

At initial recognition of a financial asset, the Bank recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

Stage 1
Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses

Stage 2
Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset

Stage 3
There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective interest rate (EIR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs
The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:
• PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

• EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
.
• LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

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

- § If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- § If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- § significant financial difficulty of the borrower or issuer;
- § a breach of contract such as a default or past due event;
- § the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- § it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- § the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- § The market's assessment of creditworthiness as reflected in the bond yields.
- § The rating agencies' assessments of creditworthiness.
- § The country's ability to access the capital markets for new debt issuance.
- § The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- § The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

§ *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
§ *loan commitments and financial guarantee contracts:* generally, as a provision;
§ *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
§ *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Derivative financial instruments and hedging activities

Policies applicable from 1 January 2018

(a) Hedge documentation, effectiveness assessment, and discontinuation

At the inception of the hedge, the Bank formally designates and documents the hedging relationship to which the Bank wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio). Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

Derivative financial instruments and hedging activities

Policies applicable from 01 January 2018

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

When the hedging instrument or instruments have been sold or terminated, or when a hedging relationship no longer meets the risk management objective or the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

The Bank performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation any subsequent changes in fair value of the hedging instrument are recognised in profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

Embedded derivatives

Policies applicable from 1 January 2018
Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

§ the host contract is not an asset in the scope of IFRS 9;
§ the host contract is not itself carried at FVTPL;
§ the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
§ the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

28 IFRS 9 DISCLOSURES (continued)

28.4 IFRS 9 accounting policies (continued)

Use of estimates and judgements

The preparation of the Interim Condensed Financial Information in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgements, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In preparing this Interim Condensed Financial Information, the significant judgments made by management in applying the Group's accounting policies were the same as those applied to the Financial Statements as at and for the year ended 31 December 2017, except for the following:

(i) Critical accounting judgements in applying the Group's accounting policies

(A) Financial asset and liability classification

Policy applicable from 1 January 2018

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

(B) Impairment of investments in equity and debt securities

Policy applicable from 1 January 2018

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

29 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	Six months ended 30 June		*Three months ended 30 June*	
	2018	*2017*	*2018*	*2017*
	RO 000	*RO 000*	*RO 000*	*RO 000*
Profit after tax (RO'000s)	25,419	26,057	12,824	12,294
Less: Interest on tier 1 perpetual bond	(4,548)	(4,548)	(4,548)	(4,548)
Profit attributable to shareholders	20,871	21,509	8,276	7,746
Weighted average number of shares outstanding during the year (in '000s)	1,625,950	1,625,950	1,625,950	1,625,950
Earnings per share (RO)	0.013	0.013	0.005	0.005

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.

Basic earnings per share is stated after adjustment of interest paid to Tier 1 perpetual bond holders. As per the issue terms and conditions, Tier 1 perpetual bond interest is paid at six monthly intervals in May and November. This has a negative impact over basic earnings per share calculation for the three month period ended 30 June as compared to the six month period ended 30 June.

ISSUER

Head office

National Bank of Oman SAOG
Bank Al Markazi Street
Ruwi
Muscat
Sultanate of Oman

Dubai branch

National Bank of Oman
Um Al Sheif
P.O. Box: 66106
Dubai
United Arab Emirates

ARRANGERS AND DEALERS

Arab Banking Corporation (B.S.C.)
Bank ABC Tower
PO Box 5698
Manama, Bahrain

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Crédit Agricole Corporate and Investment Bank
Broadwalk House
5 Appold Street
London EC2A 2DA
England

Emirates NBD Bank PJSC
Level 12, West Wing
The Gate Building
DIFC
Dubai
P.O. Box: 506710
United Arab Emirates

First Abu Dhabi Bank PJSC
One NBAD Tower
Sheikh Khalifa Street
P.O. Box 4
Abu Dhabi
United Arab Emirates

National Bank of Oman SAOG
Bank Al Markazi Street
Ruwi
Muscat
Sultanate of Oman

Standard Chartered Bank
P.O. Box 999
Dubai
United Arab Emirates

FISCAL AGENT

Citibank N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

REGISTRAR

Citigroup Global Markets Europe AG
Reuterweg 16
60323 Frankfurt
Germany

TRANSFER AGENT

Citibank Europe PLC
1 North Wall Quay
Dublin 1
Ireland

LEGAL ADVISERS
to the National Bank of Oman SAOG

as to English law
Dentons UK and Middle East LLP
One Fleet Place
London EC4M 7WS
England

as to Omani law
Dentons & Co Oman Branch
P.O. Box 3552
Ruwi PC 112
Sultanate of Oman

LEGAL ADVISERS
to the Arrangers and the Dealers

as to English law
Clifford Chance LLP
Level 15, Burj Daman
Dubai International Financial Centre
P.O. Box 9380, Dubai

as to Omani law
Al Busaidy, Mansoor Jamal & Co.
P.O. Box 686, Ruwi
Postal Code 112
Sultanate of Oman

United Arab Emirates

AUDITORS TO THE ISSUER

since 1 January 2016

Ernst & Young LLC
3rd & 4th Floor
Ernst & Young Building
Al Qurum, P.O. Box 1750, Ruwi 112
Sultanate of Oman