

OMAN ARAB BANK SAOC

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL
III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

OMAN ARAB BANK SAOC

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2016

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A. SCOPE OF APPLICATION

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

The Bank's objectives of capital management are:

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

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

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

B. CAPITAL STRUCTURE

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

	RO '000
Paid up share capital	127,000
Legal reserve	35,821
General reserve	25,560
Special reserve	2,400
Subordinated Debt reserve	54,000
Other disclosed reserves	(72)
Other intangibles	(164)
Retained earnings of previous years	8,390
Perpetual Bonds	30,000
Goodwill	-
Tier 1 Capital	282,935
Collective impairment provisions for loan losses on portfolio basis	22,687
Subordinated term debt	16,000
Tier 2 Capital	38,687
Total Capital	321,622

Tier 1 Capital

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

B. CAPITAL STRUCTURE (continued)

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

Additional Tier 1 Capital

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

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

Tier 2 Capital

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

In April 2012 the Bank issued non-convertible unsecured subordinated bonds ("the bonds") of RO 50 Million (50,000,000 units of RO 1 each) for a tenor of five years and one month in April 2012 through private placement in order to enhance the capital adequacy and to meet the funding requirements, The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate payable semi-annually with the principal payable on maturity.

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

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

C. CAPITAL ADEQUACY

Qualitative disclosures

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

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

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

The Bank's Board of Directors reviews the capital requirements based on the strategic plan of the Bank. This is reviewed periodically based on the current market and economic conditions. While formulating the Bank's strategic plans, the Bank's management takes into account forward-looking factors such as changes in the economic conditions, market and liquidity conditions. The Bank's current and future capital requirements are

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calculated in relation to its strategic business objectives. The strategic plan delineates the Bank's short-term and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels, and capital sources. The Bank prepares its capital planning and operational budgeting on an annual basis.

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

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

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

Quantitative disclosure

**Table 1
2016**

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

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2015

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	2,027,566	2,033,402	1,409,944
2	Off -Balance sheet Item	917,857	374,928	311,190
	Assets for Operations risk	134,625	134,625	134,625
	Assets in Trading book	3,613	3,613	3,613
3	Derivatives	6,264	6,264	3,878
4	Total	3,089,925	2,552,832	1,863,250
5	Tier 1 Capital			214,212
6	Tier 2 Capital			50,741
7	Tier 3 Capital			-
8	Total Regulatory Capital			264,953
8.1	Capital requirement for credit risk			217,783
8.2	Capital requirement for market risk			456
8.3	Capital requirement for operational risk			16,996
9	Total required capital			196,892
10	Tier 1 Ratio			11.50%
11	Total Capital Ratio			14.22%

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

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

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

Credit Risk Management and Control

The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Department while the Retail Banking Department manages the credit risk in the retail portfolio. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004 and the special dispensation

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dated 20 September 2016 for specific projects of Government owned entities. In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

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

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

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

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

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

Impairment provisioning

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

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

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

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iv. Industry or counterparty type distribution of exposures

**Table-4
2016**

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

2015

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills	Others RO'000	Total RO'000	Off- balance sheet exposure RO'000
				Purchased/ discounted RO'000			
1	Import Trade	17,970	36,648	3,844	-	58,462	50,100
2	Export Trade	262	511	125	-	898	183,361
3	Wholesale & Retail Trade	10,906	46,923	1,367	-	59,196	12,841
4	Mining & Quarrying	950	69,533	217	-	70,700	-
5	Construction	64,744	162,340	17,831	-	244,915	278,561
6	Manufacturing	11,942	96,867	2,329	-	111,138	2,958
7	Electricity ,gas & water	153	46,654	627	-	47,434	235,108
8	Transport & communication	741	127,182	140	-	128,063	20,326
9	Financial Institutions	2,168	61,014	144	-	63,326	-
10	Sevices	9,589	54,509	3,830	-	67,928	3,589
11	personal Loans	-	635,289	-	-	635,289	-
12	Agriculture & Allied Activites	1,290	5,122	655	-	7,067	-
13	Government	-	1,958	-	-	1,958	73,018
14	Non-Resident Lending	-	-	-	-	-	-
15	All Others	16,621	50,656	733	-	68,010	-
16	Total (1 to 15)	137,336	1,395,206	31,842	-	1,564,384	859,862

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v. Residual contractual maturity of credit exposure

Table-5

2016

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

2015

Sl. No	Time Band	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Up to 1 month	6,867	113,404	11,326	-	131,597	150,309
2	1-3 months	6,867	141,713	15,539	-	164,119	301,256
3	3-6 months	6,867	44,271	4,935	-	56,073	71,477
4	6-9 months	6,867	28,937	7	-	35,811	152,605
5	9-12 months	6,867	85,894	31	-	92,792	55,160
6	1-3 years	34,334	211,197	4	-	245,535	125,484
7	3-5 years	34,334	122,528	-	-	156,862	3,571
8	Over 5 years	34,333	647,262	-	-	681,595	-
9	Total	137,336	1,395,206	31,842	-	1,564,384	859,862

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vi. Loans and provisions by major industry or counterparty type

**Table-6
2016**

SI. NO	Economic Sector	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year * RO'000	Advances written off during the year RO'000
1	Import Trade	54,744	2,638	521	732	709	527	2,151
2	Export Trade	663	137	5	23	20	16	-
3	Wholesale & Retail Trade	46,089	1,942	441	774	170	13	24
4	Mining & Quarrying	110,621	15	1,106	322	16	346	-
5	Construction	299,485	10,617	2,889	6,213	1,521	3,872	298
6	Manufacturing	112,047	13,670	984	3,004	1,989	228	331
7	Electricity ,gas & water	49,112	-	491	-	-	-	-
8	Transport & communication	52,528	424	521	116	29	34	-
9	Financial Institutions	35,173	514	347	498	62	329	-
10	Services	77,860	1,317	765	852	93	505	316
11	Personal Loans	725,363	13,084	14,246	4,207	796	5,741	1,720
12	Agriculture & Allied Activities	4,998	793	42	181	97	141	-
13	Government	-	-	-	-	-	-	-
14	Non-Resident Lending	-	-	-	-	-	-	-
15	All Others	76,179	2,787	607	3,901	773	718	532
16	Total	1,644,862	47,938	22,965	20,823	6,275	12,470	5,372

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

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2015

SI. NO	Economic Sector	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year * RO'000	Advances written off during the year RO'000
1	Import Trade	58,462	3,955	545	1,002	2,002	4	-
2	Export Trade	898	65	8	17	17	-	-
3	Wholesale & Retail Trade	59,196	1,913	573	1,245	178	945	-
4	Mining & Quarrying	70,700	-	707	-	-	14	-
5	Construction	244,915	5,206	2,397	2,397	785	796	-
6	Manufacturing	111,138	13,166	980	3,112	1,985	313	-
7	Electricity ,gas & water	47,434	-	474	-	-	-	-
8	Transport & communication	128,063	285	1,278	98	42	80	-
9	Financial Institutions	63,326	486	628	188	8	228	-
10	Sevices	67,928	4,527	634	474	463	470	52
11	personal Loans	635,289	12,580	12,454	6,155	1,680	5,008	23
12	Agriculture & Allied Activites	7,067	142	69	41	65	3	-
13	Government	1,958	-	20	-	-	-	-
14	Non-Resident Lending	-	-	-	-	-	-	-
15	All Others	68,010	2,517	284	1,652	156	1,834	27
16	Total	1,564,384	44,842	21,051	16,381	7,381	9,695	102

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

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vii. Geographic distribution of impaired loans

Table-7

2016

SI. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment RO'000	Specific Provision Held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year RO'000	Advances written off during the year RO'000
1	Oman	1,644,862	47,938	22,965	20,823	6,275	12,470	5,372
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	Total	1,644,862	47,938	22,965	20,823	6,275	12,470	5,372

2015

SI. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment RO'000	Specific Provision Held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year RO'000	Advances written off during the year RO'000
1	Oman	1,564,384	44,842	21,051	16,381	7,381	9,695	102
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	Total	1,564,384	44,842	21,051	16,381	7,381	9,695	102

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viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year - 2016

Sl.No	Details	Performing Loans			Non- Performing Loans		Total
		Standard	Specially Mentioned	Sub-Standard	Doubtful	Loss	
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Opening Balance	1,395,530	124,012	3,658	9,077	32,107	1,564,384
2	Migration /changes(+/-)	16,450	(10,632)	(7,227)	(9,009)	10,418	-
3	New Loans	1,263,823	100,461	6,744	8,206	4,659	1,383,893
4	Recovery of Loans	(1,290,750)	(1,950)	(265)	(1,545)	(3,505)	(1,298,015)
5	Loans written off	20	-	-	2	5,378	5,400
6	Closing Balance	1,385,033	211,891	2,910	6,727	38,301	1,644,862
7	Provisions held	20,843	2,404	1,132	3,023	16,386	43,788
8	Reserve Interest	-	-	54	259	5,962	6,275

Movement of Gross Loans during the year - 2015

Sl.No	Details	Performing Loans			Non- Performing Loans		Total
		Standard	Specially Mentioned	Sub-Standard	Doubtful	Loss	
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Opening Balance	1,169,285	89,356	4,603	6,679	26,903	1,296,826
2	Migration /changes(+/-)	(13,967)	16,643	(7,691)	36	4,979	-
3	New Loans	1,503,204	18,091	7,002	3,002	3,867	1,535,166
4	Recovery of Loans	1,262,988	78	256	639	2,772	1,266,733
5	Loans written off	4	-	-	1	870	875
6	Closing Balance	1,395,530	124,012	3,658	9,077	32,107	1,564,384
7	Provisions held	21,397	151	1,025	2,606	12,253	37,432
8	Reserve Interest	-	-	80	215	7,086	7,381

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FOR THE YEAR ENDED 31 DECEMBER 2016**

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

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

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

Quantitative Disclosure

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

Table-9

2016

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

2015

Sl. No	Risk bucket	0%	20%	35%	50%	100%	Total
		RO '000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
1	Sovereigns(Rated)	294,834	-	-	-	-	294,834
2	Banks(Rated)	-	105,444	-	195,735	108,066	409,245
3	Corporate (Unrated)	-	49,108	-	-	780,864	829,972
4	Retail	-	-	-	-	439,495	439,495
5	Claims secured by residential property	-	-	131,051	-	55,317	186,368
6	Claims secured by commercial property	-	-	-	-	43,325	43,325
7	Past due loans	-	-	-	-	21,080	21,080
8	Other assets	38,220	-	-	-	89,582	127,802
9	Un-drawn exposure	-	-	-	-	62,472	62,472
	Total	333,054	154,552	131,051	195,735	1,600,201	2,414,593

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

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

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

Quantitative disclosure

	2016	2015
	RO '000	RO '000
Total exposure covered by eligible financial collateral	34,032	53,682
Value of the eligible collateral	31,325	51,041

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2016**G. MARKET RISK IN TRADING BOOK***Qualitative disclosures*

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

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

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

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

Quantitative disclosure

The impact of 10% change in the market price of the quoted equities which are part of the investments held for trading at 31 December 2016 is $\pm 0.09\%$ of the total income (2015 – $\pm 0.13\%$).

H. INTEREST RATE RISK IN BANKING BOOK*Qualitative disclosures*

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

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

Quantitative disclosure

The EaR at 31 December 2016 is 0.83% (2015 – 0.60%).

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**
H. INTEREST RATE RISK IN BANKING BOOK (continued)

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

2016	Average effective interest rate %	Within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non- interest bearing RO'000	Total RO'000
	Assets						
Cash and balances with the Central Bank of Oman	1.00	-	-	-	500	252,606	- 253,106
Due from banks	0.36	16,659	-	-	-	13,421	30,080
Loans and advances	4.80	339,702	358,478	854,122	42,497	-	1,594,799
Investment securities at fair value		-	-	-	-	18,012	18,012
Investment-held to maturity	1.67	40,290	20,135	30,210	5,288	-	95,923
Other assets		6,155	-	-	-	39,246	45,401
Property and equipment		-	-	-	-	28,651	28,651
Total assets		402,806	378,613	884,332	48,285	351,936	2,065,972
Liabilities							
Due to banks		-	-	-	-	12,056	12,056
Deposits from customers	1.23	377,570	401,887	159,109	-	698,586	1,637,152
Other liabilities		5,247	-	-	-	54,256	59,503
Perpetual Tier 1 Capital Bonds		-	-	-	30,000	-	30,000
Subordinated Debt	5.50	-	50,000	20,000	-	-	70,000
Taxation		-	-	-	-	4,162	4,162
Total liabilities		382,817	451,887	179,109	30,000	769,060	1,812,873
Total interest sensitivity gap		19,989	(73,274)	705,223	18,285	(417,124)	253,099

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

2015	Average	Within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non- interest bearing RO'000	Total RO'000
	effective interest rate %						
Assets							
Cash and balances with the Central Bank of Oman	1.00	-	-	-	500	191,624	192,124
Due from banks	0.31	24,400	-	-	-	58,826	83,226
Loans and advances	4.63	331,619	220,211	914,566	44,360	8,815	1,519,571
Investment securities at fair value		-	-	-	-	21,502	21,502
Investment-held to maturity	1.31	36,000	8,510	29,545	22,800	-	96,855
Other assets		5,072	-	-	-	35,784	40,856
Property and equipment		-	-	-	-	28,565	28,565
Total assets		397,091	228,721	944,111	67,660	345,116	1,982,699
Liabilities							
Due to banks	-	-	-	-	-	9,404	9,404
Deposits from customers	0.79	393,298	278,597	210,657	12,425	706,181	1,601,158
Other liabilities		9,567	-	-	-	62,188	71,755
Subordinated Debt	5.50	-	-	50,000	20,000	-	70,000
Taxation		-	-	-	-	4,363	4,363
Total liabilities		402,865	278,597	260,657	32,425	782,136	1,756,680
Total interest sensitivity gap		(5,774)	(49,876)	683,454	35,235	(437,020)	226,019

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

I. LIQUIDITY RISK

Qualitative Disclosures

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

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

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

2016	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets					
Cash and balances with the					
Central Bank of Oman	214,279	17,564	11,585	9,678	253,106
Due from banks	30,080	-			30,080
Loans and advances	234,796	129,967	421,011	809,025	1,594,799
Investment securities	57,797	20,641	30,210	5,287	113,935
Other assets	36,750	8,361	265	25	45,401
Property and equipment	-	-	-	28,651	28,651
Total assets	573,702	176,533	463,071	852,666	2,065,972
Liabilities					
Due to banks	12,056	-	-	-	12,056
Deposits from customers	414,278	561,178	365,541	296,155	1,637,152
Other liabilities	42,675	9,958	5,476	1,394	59,503
Perpetual Tier 1 Capital Bonds	-	-	-	30,000	30,000
Subordinated bond	-	50,000	20,000	-	70,000
Taxation	4,140	22	-	-	4,162
Total liabilities	473,149	621,158	391,017	327,549	1,812,873
Net assets	100,553	(444,625)	72,054	525,117	253,099
Forward exchange contracts at notional amounts					
Purchase contracts	7,193	6,006			13,199
Sale contracts	(7,176)	(6,000)			(13,176)
	17	6	-	-	23

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

2015	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Assets					
Cash and balances with the					
Central Bank of Oman	136,991	22,916	17,058	15,159	192,124
Due from banks	83,226	-			83,226
Loans and advances	295,654	179,139	402,082	642,695	1,519,571
Investment securities	56,997	8,510	30,049	22,800	118,357
Other assets	32,671	7,784	379	21	40,856
Property and equipment	-	-	-	28,565	28,565
Total assets	605,539	218,349	449,570	709,240	1,982,699
Liabilities					
Due to banks	9,404	-	-	-	9,404
Deposits from customers	449,078	483,106	359,919	309,055	1,601,158
Other liabilities	56,177	9,620	5,738	219	71,755
Subordinated bond	-	-	50,000	20,000	70,000
Taxation	4,085	278	-	-	4,363
Total liabilities	518,744	493,004	415,658	329,274	1,756,680
Net assets	86,795	(274,655)	33,912	379,966	226,019
Forward exchange contracts at notional amounts					
Purchase contracts	8,326	4,052			12,378
Sale contracts	(8,321)	(4,049)			(12,370)
	5	3	-	-	8

The LCR framework issued by CBO as part of the implementation of Basel III guidelines is effective from 1 January 2015, which requires the Bank to maintain the minimum LCR of 60% for 2015 with an increase of 10% each year until it reaches 100% by 2019. The LCR of the Bank is 164% as at 31 December 2016

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2016**J. OPERATIONAL RISK***Qualitative Disclosures*

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

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 141.500 million at 31 December 2016 (2015: RO 134.6 million).

K. COMPOSITION OF CAPITAL DISCLOSURE

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

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

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

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

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

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

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

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

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

RECONCILIATION	Financial Position as in published financial statements	Under regulatory scope of consolidation
	As at Dec-31-2016 RO '000	As at Dec-31- 2016 RO '000
Assets		
Cash and balances with CBO	253,106	253,106
Balance with banks and money at call and short notice	30,080	30,080
Investments :	113,935	113,935
Of which :		
Held to Maturity	95,923	95,923
Available for Sale	17,384	17,384
Held for Trading	628	628
Loans and advances	1,594,799	1,594,799
Of which :		
Loans and advances to domestic banks	-	-
Loans and advances to non-resident banks	-	-
Loans and advances to domestic customers	1,578,828	1,476,942
Loans and advances to non-resident Customers for domestic operations	-	-
Loans and advances to non-resident Customers for operations abroad	-	-
Loans and advances to SMEs	-	101,886
Financing from Islamic banking window	66,034	66,034
Provision for loan impairment	(50,063)	(50,063)
Of which :		
Specific provision	(27,376)	(27,376)
General provision	(22,687)	(22,687)
Fixed assets	28,651	28,651
Other assets	45,401	45,401
Total Assets	2,065,972	2,065,972

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

RECONCILIATION	Financial Position as in published financial statements	Under regulatory scope of consolidation
Capital & Liabilities		
Paid-up Capital	127,000	127,000
Of which:		
Amount eligible for CET1	127,000	127,000
Amount eligible for AT1	30,000	30,000
Reserves & Surplus	126,099	126,099
Of which:		
Legal reserve	35,821	35,821
General reserve	25,560	25,560
Retained earnings	8,390	8,390
Proposed dividends		
Cumulative changes in fair value of investments	(72)	(72)
Of which:		
Amount eligible for Tier 2 capital	-	-
Amount ineligible due to regulatory adjustment	(72)	(72)
Subordinated debt reserve	54,000	54,000
Special Reserve	2,400	2,400
Total Capital	283,099	283,099

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

RECONCILIATION	Financial Position as in published financial statements	Under regulatory scope of consolidation
Deposits	1,637,152	1,637,152
Of which:		
Deposits from banks	-	-
Customer deposits	1,569,393	1,569,393
Deposits of Islamic Banking window	67,759	67,759
Borrowings	82,056	82,056
Of which:		
From CBO	-	-
From banks	12,056	12,056
From other institutions & agencies	-	-
Borrowings in the form of bonds, Debentures and sukuks	70,000	70,000
Of which:		
Directly issued qualifying Tier 2 instruments	70,000	16,000
Amount de-recognised from Tier 2 capital	-	54,000
Other liabilities & provisions	63,665	63,665
Total Capital, Other liabilities & provisions	2,065,972	2,065,972

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

The Bank issued unsecured subordinated bonds for OMR 50 Million through private placement on 10 April 2012. The bank obtained subordinated loans of RO 20 Million, Which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The bonds and the subordinated loans are eligible for inclusion in Tier 2 capital under the Basel III regulations. On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 Million. The full terms and conditions of the bonds and the subordinated loans are available in the bank's website. The main features of the bonds are as follows:

Main features of Subordinated Bonds

	OMAN ARAB BANK	OMAN ARAB BANK
Issuer	OMAN ARAB BANK	OMAN ARAB BANK
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	-
Governing law(s) of the instrument <i>Regulatory treatment</i>	Oman Banking law	Oman Banking law
Transitional Basel III rules	Not Eligible for inclusion in Tier -2 Capital	Eligible for inclusion in Tier -2 Capital
Post-transitional Basel III rules	Eligible for inclusion in Tier -2 Capital	Eligible for inclusion in Tier -2 Capital
Eligible at solo/group/group & solo	Solo	Solo
Instrument type (types to be specified by each jurisdiction)	Bonds	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 50 Million	OMR 20 Million
Par value of instrument	OMR 50 Million	OMR 20 Million
Accounting classification	Subordinated Debt	Subordinated Debt
Original date of issuance	4/10/2012	11/30/2015
Perpetual or dated	Dated	Dated
Original maturity date	5/10/2017	5/30/2021
Issuer call subject to prior supervisory approval	-	-
Optional call date, contingent call dates and redemption amount	-	-
Subsequent call dates, if applicable	-	-
Coupons / dividends		
Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon
Coupon rate and any related index	5.50%	5.50%
Existence of a dividend stopper	-	-
Fully discretionary, partially discretionary or mandatory	-	-
Existence of step up or other incentive to redeem	-	-
Noncumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger (s)	-	-
If convertible, fully or partially	-	-
If convertible, conversion rate	-	-
If convertible, mandatory or optional conversion	-	-
If convertible, specify instrument type convertible into	-	-
If convertible, specify issuer of instrument it converts into	-	-
Write-down feature	-	-
If write-down, write-down trigger(s)	-	-
If write-down, full or partial	-	-
If write-down, permanent or temporary	-	-
If temporary write-down, description of write-up mechanism	-	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors	Subordinate to depositors and general creditors
Non-compliant transitioned features	-	-

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

<u>BASEL-III DISCLOSURE AS AT DECEMBER 31 2016</u>		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Common Equity Tier 1 capital: instruments and reserves		RO '000
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	127,000
2	Retained earnings	8,390
3	Accumulated other comprehensive income (and other reserves)	117,781
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
	<i>Public sector capital injections grandfathered until 1 January 2018</i>	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	Common Equity Tier 1 capital before regulatory adjustments	253,171
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(72)
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(164)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage Servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-
28	Perpetual Bonds	-
29	Total regulatory adjustments to Common equity Tier 1	(236)
<hr/>		
29	Common Equity Tier 1 capital (CET1)	252,935
<hr/>		
Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	30,000
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
36	Additional Tier 1 capital before regulatory adjustments	30,000
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	30,000
45	Tier 1 capital (T1 = CET1 + AT1)	282,935
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
50	Subordinated term debt.	16,000
50	Provisions	22,687
51	Tier 2 capital before regulatory adjustments	38,687
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-

**DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES
FOR THE YEAR ENDED 31 DECEMBER 2016**

55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
	OF WHICH: Cumulative unrealised gains on available-for-sale financial instruments	-
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	38,687
59	Total capital (TC = T1 + T2)	321,622
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	1,997,021
60	Total risk weighted assets (60a+60b+60c)	1,997,021
60a	<i>Of which: Credit risk weighted assets</i>	1,852,546
60b	<i>Of which: Market risk weighted assets</i>	2,975
60c	<i>Of which: Operational risk weighted assets</i>	141,500
	Capital Ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.67%
62	Tier 1 (as a percentage of risk weighted assets)	14.17%
63	Total capital (as a percentage of risk weighted assets)	16.11%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.625%
65	<i>of which: capital conservation buffer requirement</i>	0.625%
66	<i>of which: bank specific countercyclical buffer requirement</i>	0%
67	<i>of which: D-SIB/G-SIB buffer requirement</i>	0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	2.22%
	National minima (if different from Basel III)	

DISCLOSURES UNDER BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2016

69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.625%

Amounts below the thresholds for deduction (before risk weighting)

72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-

Applicable caps on the inclusion of provisions in Tier 2

76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	22,687
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1.25%
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)

80	<i>Current cap on CET1 instruments subject to phase out arrangements</i>	-
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	-
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>	-
83	<i>Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)</i>	-
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>	-
85	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	-