OMAN ARAB BANK SAOC

FINANCIAL STATEMENTS

31 DECEMBER 2015

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III FOR THE YEAR ENDED 31 DECEMBER 2015

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 PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2015

CONTENTS

A. SCOPE OF APPLICATION

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

The Bank's objectives of capital management are:

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

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

Basel II (the New 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	116,000
Legal reserves	33,368
General reserves	26,560
Subordinated Debt reserve	40,000
Other disclosed reserves	(3,260)
Retained earnings/(losses) of previous years	1,751
Goodwill	(207)
Tier 1 Capital	**214,212**
Collective impairment provisions for loan losses on portfolio basis	20,741
Subordinated term debt	30,000
Tier 2 Capital	**50,741**
Total Capital	**264,953**

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.

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.

B. CAPITAL STRUCTURE (continued)

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 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.

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DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2015(continued)

Quantitative disclosure

Table 1

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**			**235,235**
10	**Tier 1 Ratio**			**11.50%**
11	**Total Capital Ratio**			**14.22%**

2014

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	1,852,888	1,835,410	1,159,160
2	Off -Balance sheet Item	914,762	364,860	267,512
	Assets for Operations risk	122,800	122,800	122,800
	Assets in Trading book	5,975	5,975	5,975
3	Derivatives	4,792	4,792	4,094
4	**Total**	**2,901,217**	**2,333,837**	**1,559,541**
5	Tier 1 Capital			198,880
6	Tier 2 Capital			37,264
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**236,144**
8.1	Capital requirement for credit risk			180,634
8.2	Capital requirement for market risk			754.34
8.3	Capital requirement for operational risk			15,504
9	**Total required capital**			**196,892**
10	**Tier 1 Ratio**			**12.75%**
11	**Total Capital Ratio**			**15.14%**

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. In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification. The Bank's clients are segmented into the following five rating classes:

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.

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Credit Risk Management and Control (continued)

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.

Quantitative disclosure

ii. Gross credit risk exposures

Table-2
2015

Sl.No	**Type of credit exposure**	**Average Gross Exposure**		**Total Gross Exposure as at**	
		2015	**2014**	**31-Dec-15**	**31-Dec-14**
		RO'000	**RO'000**	**RO'000**	**RO'000**
1	Overdrafts	140,649	130,066	137,336	141,439
2	Personal Loans	582,547	466,913	635,288	528,667
3	Loans against Trust Receipts	57,825	37,276	71,024	44,446
4	Other Loans	646,662	493,565	688,894	559,481
5	Bills Purchased Discounted	27,170	109,179	31,842	22,793
	Total	**1,454,853**	**1,236,999**	**1,564,384**	**1,296,826**

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FOR THE YEAR ENDED 31 DECEMBER 2015(continued)

iii. Geographic distribution of exposures

Table-3

2015

Sl.No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	137,336	-	-	-	-	-	137,336
2	Personal Loans	635,288	-	-	-	-	-	635,288
3	Loans against Trust Receipts	71,024	-	-	-	-	-	71,024
4	Other Loans	688,894	-	-	-	-	-	688,894
5	Bills Purchased/Discounted	31,842	-	-	-	-	-	31,842
	Total	**1,564,384**	-	-	-	-	-	**1,564,384**

2014

Sl.No	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	141,439	-	-	-	-	-	141,439
2	Personal Loans	528,667	-	-	-	-	-	528,667
3	Loans against Trust Receipts	44,446	-	-	-	-	-	44,446
4	Other Loans	559,481	-	-	-	-	-	559,481
5	Bills Purchased/Discounted	22,793	-	-	-	-	-	22,793
	Total	**1,296,826**	-	-	-	-	-	**1,296,826**

iv. Industry or counterparty type distribution of exposures

Table-4

2015

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

2014

Sl.No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import Trade	17,509	17,909	1,820	-	37,238	64,982
2	Export Trade	381	464	147	-	992	331,549
3	Wholesale & Retail Trade	8,612	33,175	1,780	-	43,567	5,173
4	Mining & Quarrying	784	18,490	210	-	19,484	-
5	Construction	59,166	64,239	12,730	-	136,135	270,152
6	Manufacturing	10,970	93,126	1,423	-	105,519	5,419
7	Electricity ,gas & water	9,262	56,387	247	-	65,896	131,834
8	Transport & communication	794	132,211	270	-	133,275	20,660
9	Financial Institutions	1,459	29,755	32	-	31,246	-
10	Sevices	9,328	34,255	2,366	-	45,949	10,745
11	personal Loans	-	528,667	-	-	528,667	-
12	Agriculture & Allied Activites	624	5,278	481	-	6,383	-
13	Government	-	3,383	-	-	3,383	74,500
14	Non-Resident Lending	-	-	-	-	-	-
15	All Others	22,550	115,255	1,287	-	139,092	-
16	**Total (1 to 15)**	**141,439**	**1,132,594**	**22,793**	**-**	**1,296,826**	**915,014**

v. Residual contractual maturity of credit exposure

Table-5

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	-	131,566	150,309
2	1-3 months	6,867	141,713	15,539	-	164,088	301,256
3	3-6 months	6,867	44,271	4,935	-	56,042	71,477
4	6-9 months	6,867	28,937	7	-	35,780	152,605
5	9-12 months	6,867	85,894	31	-	93,134	55,160
6	1-3 years	34,334	211,197	4	-	245,378	125,484
7	3-5 years	34,334	122,528	-	-	156,705	3,571
8	Over 5 years	34,333	647,262	-	-	681,062	-
9	**Total**	**137,336**	**1,395,206**	**31,842**	**-**	**1,564,384**	**859,862**

2014

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	7,072	77,078	8,020	-	92,170	170,689
2	1-3 months	7,072	141,145	13,324	-	161,541	399,000
3	3-6 months	7,072	72,528	1,144	-	80,744	77,856
4	6-9 months	7,072	27,254	185	-	34,511	20,362
5	9-12 months	7,072	30,884	30	-	37,986	63,108
6	1-3 years	35,359	134,182	88	-	169,629	168,537
7	3-5 years	35,360	113,892	2	-	149,254	14,225
8	Over 5 years	35,360	535,631	-	-	570,991	1,237
9	**Total**	**141,439**	**1,132,594**	**22,793**	**-**	**1,296,826**	**915,014**

DISCLOSURES UNDER PILLAR III OF BASEL II
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vi. Loans and provisions by major industry or counterparty type

Table-6

2015

SI.No	Economic Sector	Gross Loans	Of which NPLs	Collective impairment provision held	Specific provision held	Unrecognized contractual interest	Provisions made during the year	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	58,462	3,955	545	1,002	2,002	56	-
2	Export Trade	898	65	8	17	17	-	-
3	Wholesale & Retail Trade	59,196	1,913	573	1,245	178	62	11
4	Mining & Quarrying	70,700	-	707	-	-	-	-
5	Construction	244,915	5,206	2,397	2,397	785	233	55
6	Manufacturing	111,138	13,166	980	3,112	1,985	1,650	11
7	Electricity ,gas & water	47,434	-	474	-	-	-	-
8	Transport & communication	128,063	285	1,278	98	42	106	-
9	Financial Institutions	63,326	486	628	188	8	2	-
10	Services	67,928	4,527	634	474	463	473	-
11	Personal Loans	635,289	12,580	12,454	6,155	1,680	1,411	20
12	Agriculture & Allied Activities	7,067	142	69	41	65	-	-
13	Government	1,958	-	20	-	-	-	-
14	Non-Resident Lending	-	-	-	-	-	-	-
15	All Others	68,010	2,517	284	1,652	156	51	466
16	**Total**	**1,564,384**	**44,842**	**21,051**	**15,885**	**7,381**	**4,044**	**563**

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

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

2014

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	37,238	3,552	337	906	1,716	402	3
2	Export Trade	992	58	9	15	13	5	-
3	Wholesale & Retail Trade	43,567	855	427	507	85	97	191
4	Mining & Quarrying	19,484	-	195	-	-	37	-
5	Construction	136,135	4,229	1,319	1,637	601	1,035	172
6	Manufacturing	105,519	13,001	925	4,475	1,609	746	607
7	Electricity ,gas & water	65,896	-	659	-	-	126	-
8	Transport & communication	133,275	150	1,331	43	28	295	-
9	Financial Institutions	31,246	-	312	-	-	65	27
10	Sevices	45,949	4,349	416	776	909	734	124
11	personal Loans	528,667	11,033	10,106	4,476	1,259	4,517	616
12	Agriculture & Allied Activites	6,383	313	61	57	55	23	-
13	Government	3,383	-	34	-	-	7	-
14	Non-Resident Lending	-	-	-	-	-	-	-
15	All Others	139,092	645	1,288	340	64	796	9
16	**Total**	**1,296,826**	**38,185**	**17,419**	**13,232**	**6,339**	**8,885**	**1,749**

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

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2015

vii. Geographic distribution of impaired loans

Table-7

2015

SI.No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific Provision Held RO'000	Reserve 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	21,422	15,884	7,381	13,327	93
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**1,564,384**	**44,842**	**21,422**	**15,884**	**7,381**	**13,327**	**93**

2014

SI.No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific Provision Held RO'000	Reserve interest RO'000	Provisions made during the year RO'000	Advances written off during the year RO'000
1	Oman	1,296,826	35,617	17,419	13,145	6,339	8,798	855
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**1,296,826**	**35,617**	**17,419**	**13,145**	**6,339**	**8,798**	**855**

* - includes the specific provisions and general provisions net of recoveries

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2014

viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year - 2015

Sl.No	Details	Performing Loans		Non- Performing Loans			
		Standard RO'000	Specially Mentioned RO'000	Sub-Standard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
1	Opening Balance	1,169,285	89,356	4,603	6,679	26,903	**1,296,826**
2	Migration /changes(+/-)	(20,683)	23,359	(7,689)	35	4,978	**-**
3	New Loans	1,503,204	18,091	9,569	3,002	3,867	**1,537,733**
4	Recovery of Loans	1,261,461	78	256	639	2,772	**1,265,206**
5	Loans written off	4	-	-	1	870	**875**
6	Closing Balance	1,390,341	130,728	6,227	9,076	32,106	**1,568,478**
7	Provisions held	21,547	-	1,025	2,607	12,253	**37,432**
8	Reserve Interest	-	-	80	215	7,086	**7,381**

Movement of Gross Loans during the year – 2014

Sl.No	Details	Performing Loans		Non- Performing Loans			
		Standard RO'000	Specially Mentioned RO'000	Sub-Standard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
1	Opening Balance	1,066,635	7,358	6,266	3,017	27,330	1,110,606
2	Migration /changes(+/-)	(2,333)	(1,509)	(6,462)	3,948	6,356	-
3	New Loans	1,304,575	85,518	5,550	3,844	1,308	1,400,795
4	Recovery of Loans	(1,199,592)	(2,011)	(749)	(4,129)	(6,305)	(1,212,786)
5	Loans written off	-	-	(2)	(1)	(1,786)	(1,789)
6	Closing Balance	1,169,285	89,356	4,603	6,679	26,903	1,296,826
7	Provisions held	17,403	-	544	1,521	11,183	30,651
8	Reserve Interest	-	-	42	137	6,160	6,339

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

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

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

DISCLOSURES UNDER PILLAR III OF BASEL II
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Quantitative Disclosure
The net exposure after risk mitigation subject to Standardized Approach is as follows:

Table-9

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)	294,779	-	-	0	-	294,779
2	Banks(Rated)	-	105,444	-	195,735	167,974	469,153
3	Corporate (Unrated)	-	49,108	-	0	700,986	750,094
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	-	-	-	-	21,577	21,577
8	Other assets	38,220	0	-	-	89,582	127,802
9	Un-drawn exposure	-	0	-	-	59,939	59,939
	Total	**332,999**	**154,552**	**131,051**	**195,735**	**1,578,195**	**2,392,532**

2014

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)	326,126	-	-	0	-	326,126
2	Banks(Rated)	-	216,157	-	162,701	156,201	535,059
3	Corporate (Unrated)	-	48,662	-	0	600,023	648,685
4	Retail	-	-	-	-	402,544	402,544
5	Claims secured by residential property	-	-	68,876	-	45,191	114,067
6	Claims secured by commercial property	-	-	-	-	34,922	34,922
7	Past due loans	-	-	-	-	18,615	18,615
8	Other assets	25,572	0	-	-	93,931	119,503
9	Un-drawn exposure	-	4030	-	-	1,512	5,542
	Total	**351,698**	**268,849**	**68,876**	**162,701**	**1,352,939**	**2,205,063**

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	2015	**2014**
	RO '000	**RO '000**
Total exposure covered by eligible financial collateral	**53,682**	**51,702**
Value of the eligible collateral	**51,041**	**49,586**

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 2015 is ±0.15% of the total income (2014 – ± 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 2015 is 0.60% (2014 – 2.26%).

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.

2015	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	-		-	500	191,624	- 192,124
Due from banks	0	24,400		-	-	58,826	83,226
Loans and advances	5	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	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	1	393,298	278,597	210,657	12,425	706,181	1,601,158
Other liabilities		9,567		-	-	62,188	71,755
Subordinated Debt	6	-		50,000	20,000		70,000
Taxation		-		-	-	4,363	4,363
Total liabilities		**402,865**	**278,597**	**260,657**	**32,425**	**782136**	**1,756,680**
Total interest sensitivity gap		**(5,774)**	**(49,876)**	**683,454**	**35,235**	**-437020**	**226,019**
Cumulative interest sensitivity gap		**(5,774)**	**(55,650)**	**627,804**	**663,039**	**226019**	

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2015

2014	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	2	-	-	-	-	114,397	114,397
Certificates of deposit	0	200,000	-	-	-	-	200,000
Due from banks	0	68,979	-	-	-	26,779	95,758
Loans and advances	5	266,558	246,317	707,169	32,670	7,122	1,259,836
Investment securities at fair value		-	-	-	-	24,489	24,489
Investment–held to maturity	3	-	-	28,402	22,000	-	50,402
Other assets (as restated)		3,999	-	-	-	37,888	41,887
Property and equipment		-	-	-	-	29,322	29,322
Total assets (as restated)		**539,536**	**246,317**	**735,571**	**54,670**	**239,997**	**1,816,091**
Liabilities							
Due to banks	-	-	-	-	-	5,891	5,891
Deposits from customers	1	386,338	262,889	204,257	-	614,829	1,468,313
Other liabilities (as restated)		6,896	-	-	-	67,896	74,792
Subordinated bonds	6	-	-	50,000	-	-	50,000
Taxation		-	-	-	-	4,236	4,236
Total liabilities (as restated)		**393,234**	**262,889**	**254,257**	**-**	**692852**	**1,603,232**
Total interest sensitivity gap		**146,302**	**(16,572)**	**481,314**	**54,670**	**-452855**	**212,859**
Cumulative interest sensitivity gap		**146,302**	**129,730**	**611,044**	**665,714**	**212,859**	

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2015

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.

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	17058	15,159	192,124
Certificates of deposit	-				-
Due from banks	83,226	-			83,226
Loans and advances	295,654	179,139	402083	642,695	1,519,571
Investment securities	56,997	8,510	30050	22,800	118,357
Other assets	32,671	7,784	380	21	40,856
Property and equipment	-	-	0	28,565	28,565
Total assets	**605,539**	**218,349**	**449,571**	**709,240**	**1,982,699**
Liabilities					
Due to banks	9,404	-	0	-	9,404
Deposits from customers	449,078	483,106	359919	309,055	1,601,158
Other liabilities	56,177	9,620	5739	219	71,755
Subordinated bond	-	-	50000	20,000	70,000
Taxation	4,085	278	0	-	4,363
Total liabilities	**518,744**	**493,004**	**415,658**	**329,274**	**1,756,680**
Net assets	**86,795**	**(274,655)**	**33,913**	**379,966**	**226,019**
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	8,326	4,052			12,378
Sale contracts	(8,321)	(4,049)			(12,370)
	5	**3**	**-**	**-**	**8**

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2015

I. LIQUIDITY RISK (continued)

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.

2014	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	72,212	16,994	14115	11,076	114,397
Certificates of deposit	200,000				200,000
Due from banks	95,758	-			95,758
Loans and advances	253,712	148,369	318882	538,873	1,259,836
Investment securities	23,983	-	28908	22,000	74,891
Other assets (as restated)	35,784	5,563	533	7	41,887
Property and equipment	-	-	0	29,322	29,322
Total assets	**681,449**	**170,926**	**362,438**	**601,278**	**1,816,091**
Liabilities					
Due to banks	5,891	-	0	-	5,891
Deposits from customers	421,739	290,732	488998	266,844	1,468,313
Other liabilities (as restated)	64,667	2,674	7332	119	74,792
Subordinated bond	-	-	50000	-	50,000
Taxation	3,917	319	-	-	4,236
Total liabilities	**496,214**	**293,725**	**546,330**	**266,963**	**1,603,232**
Net assets	**185,235**	**(122,799)**	**(183,892)**	**334,315**	**212,859**
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	19,800	3,701			23,501
Sale contracts	(19,785)	(3,697)			(23,482)
	15	**4**	**-**	**-**	**19**

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 172% as at 31 December 2015.

Basel III-Liquidity Coverage Ratio "Consolidated"

Bank: Oman Arab Bank **(RO '000)**

	Stock of HQLA	Factor	Book Balance	Adjusted amount
	Level 1 assets			
1	Coins and bank notes	100%	48,248	48,248
2	Qualifying central bank reserves	100%	149,375	149,375
3	Qualifying marketable securities from sovereigns,central banks, PSEs and multilateral development banks	100%	-	-
4	Domestic sovereign or Central Bank debt for non-0% risk weighted sovereigns	100%	96,218	96,218
5	**Total Level 1 assets**		**293,841**	**293,841**
	Level 2A			
6	Sovereign,CB,PSE, multilateral development banks assets (qualifying for 20% risk weighing)	85%	-	0
7	Qualifying Corporate debt securities AA- or higher	85%	-	0
8	Qualifying Covered bonds AA- or higher	85%	-	0
9	**Total Level 2A**		**0**	**0**
	Level 2B			
10	Qualifying RMBS	75%	-	0
11	Qualifying corporate debt securities, rated between A+ and BBB-	50%	1,010	505
12	Qualifying common equity shares	50%	8,261	4,130
13	Total Level 2B (maximum 15% of HQLA)	3%	9,271	4,635
14	**Total level 2 assets (Maximum 40% of HQLA)**	**3%**	9,271	4,635
15	**Total Stock of liquid assets**		**303,112**	**303,112**
	Cash outflows			
	A. **Retail Deposit (Customer Deposit)**			
	Demand Deposits + Term Deposits with residual maturity upto 30 days			
16	...Stable deposits (deposit insurance scheme meets addl criteria)	3%	-	-
17	- Stable Deposits	5%	11,152	558
18	- Less Stable retail Deposits	10%	49,945	4,995
19	Term Deposits with residual maturity of more than 30 days	**0%**	37,638	-
	B. **Unsecured Wholesale Funding**			
20	Demand and term deposits (less than 30 days) -stable deposits	5%	1,552	78
21	Less Stable deposits	10%	8,861	886
22	Non financial corporates, sovereigns,central banks and PSE	40%	309,296	123,719
23	…If entire portion covered by deposit insurance	20%	-	0

24	Cooperative banks in an institutional network (qualifying deposits with with the centralised institution)	25%	-	-
25	Other legal entity customers	100%	9,459	9,459
26	Operational deposits generated by clearing, custody and cash management activities	25%	-	0
27	…..Portion covered by deposit insurance	5%	-	0
	C. **Secured Funding**			
28	Secured funding transactions with a central bank or backed by Level I assets with any counterparty	0%	-	0
29	Secured funding transactions backed by Level 2A assets with any counterparty	15%	-	0
30	Secured funding transactions backed by non level 1 or non level 2A assets with domestic Sovereign, domestic PSE, multilateral development banks as a counterparty	25%	-	0
31	Backed by RMBS eligible for inclusion in level 2B	25%	-	0
32	Backed by other level 2B assets	50%	-	0
33	All other secured funding transactions	100%	-	0
	D. **Additional Requirements**			0
34	Liquidity needs (e.g. collateral calls)related to financing transactions, derivatives and other contracts , downgrade of up to 3 notches	100%	-	0
35	Market valuation changes on derivatives (largest absolute net 30 day collateral flows realised during preceding 24 months-look back approach)	100%	-	0
36	Valuation changes on non-level 1 posted collateral securing derivatives	20%	-	0
37	Excess collateral held by a bank related to derivative transactions contractually callable at any time by its counterparty	100%	-	0
38	Liquidity needs related to collateral contractually due from reporting bank on derivative transactions	100%	-	0
39	Increased Liquidity needs related to derivative transactions that allow collateral substitution to non-HQLA assets	100%	-	0
40	Liabilities maturing from SPV's, ABCP's and SIV's etc. (applied to maturing amounts and returnable assets)	100%	-	0
41	Asset backed securities (including covered bonds) applied to maturing amounts	100%	-	0
	Currently undrawn portion of credit lines			-
42	(i) Retail and small business	5%	5,145	257
43	(ii)Non Financial corporates, Sovereign,CB,PSEs, multilateral development banks **credit** facility	10%	66,852	6685
44	(iii)Non Financial corporates, Sovereign,CB,PSEs, multilateral development banks -liquidity facility	30%	-	0
45	(iv) Banks subject to prudential supervision	40%	-	0
46	(v) Other Financial Institutions credit	40%	-	0
47	(vi) Other Financial institutions-liquidity	100%	-	0
48	(vi) Other Legal entity customers, credit and liquidity facilities	100%	-	0
49	Other contingent funding liabilities (L/cs,LGs)	20%	858,236	171,647

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50	Trade finance	5%	1,101	55
51	Customer short positions covered by other customers' collateral	50%	-	-
52	Any Other outflows	100%	1,915	1,915
53	**Total cash outflows**		1,361,152	320,253
	<u>Cash Inflows</u>			
	Maturing secured lending transactions backed by following collateral:-			
54	Level 1 assets	0%	4,574	0
55	Level 2A assets	15%	-	0
56	Level 2B assets-eligible RMBS	25%	-	-
57	…..Other assets	50%	-	0
58	Margin lending backed by all other collaterals	50%	-	0
59	All other assets	100%	-	0
60	Amts to be received from retail counterparties	50%	12,221	6,111
61	Amts to be received from non financial wholesale counterparties from transactions other than those listed.	50%	119,738	59,869
63	Amts to be received from financial institutions and central banks from transactions other than those listed	100%	-	0
64	Credit or liquidity facilities provided to the reporting bank	0%	233,582	-
65	Operational deposits held at other financial institutions	0%	-	0
66	Other contractual cash inflows	100%	77,930	77,930
67	Net derivatives cash inflows	100%	-	0
68	**Total cash inflows**		-	143,910
69	**75% of outflows**			240,190
70	Inflows restricted to 75% of outflows			143,910
71	**Net cash Outflow**			176,343
72	**LCR (%)**			172%

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 134.6 million at December 31 2015 (2014: RO 122.8 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 will be gradually implemented starting from 2013 and the higher capital requirements would be 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.

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RECONCILIATION	Financial Position as in published financial statements As at Dec-31-2015	Under regulatory scope of consolidation As at Dec-31-2015
Assets	**RO '000**	**RO '000**
Cash and balances with Central Bank of Oman	192,124	192,124
Certificates of deposit	-	-
Due from banks	83,226	83,226
Loans and advances	1,519,571	1,519,571
Investments in securities	118,357	118,357
Loans and advances to banks	-	-
Property and equipment	28,565	28,565
Other assets	40,856	40,856
Total assets	**1,982,699**	**1,982,699**
Liabilities		
Due to banks	9,404	9,404
Customer deposits	1,601,158	1,601,158
Current and deferred tax liabilities	-	-
Other liabilities	71,755	71,755
Subordinated bonds	70,000	70,000
Taxation	4,363	4,363
Total liabilities	**1,756,680**	**1,756,680**
Shareholders' Equity		
Paid-up share capital	116,000	116,000
Share premium	-	-
Legal reserve	33,368	33,368
General reserve	26,560	26,560
Retained earnings	13,351	13,351
Cumulative changes in fair value of investments	(3,260)	(3,260)
Subordinated debt reserve	40,000	40,000
Total shareholders' equity	**226,019**	**226,019**
Total liability and shareholders' funds	**1,982,699**	**1,982,699**

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2015

RECONCILIATION	Financial Position as in published financial statements	Under regulatory scope of consolidation
	As at Dec-31-2015 RO '000	As at Dec-31-2015 RO '000
Assets		
Cash and balances with CBO	**192,124**	192,124
Certificates of deposit	**-**	-
Balance with banks and money at call and short notice	**83,226**	83,226
Investments :	**118,357**	**118,357**
Of which :		
Held to Maturity	96,855	96,855
Available for Sale	20,667	20,667
Held for Trading	835	835
Loans and advances	**1,519,571**	**1,519,571**
Of which :		
Loans and advances to domestic banks	-	-
Loans and advances to non-resident banks	-	-
Loans and advances to domestic customers	1,513,669	1,435,544
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	-	78,125
Financing from Islamic banking window	50,715	50,715
Provision for loan impairment	(44,813)	(44,813)
Of which :		
Specific provision	(24,072)	(24,072)
General provision	(20,741)	(20,741)
Fixed assets	**28,565**	**28,565**
Other assets	**40,856**	**40,856**
Total Assets	**1,982,699**	**1,982,699**

RECONCILIATION	Financial Position as in published financial statements As at Dec-31-2015 RO '000	Under regulatory scope of consolidation As at Dec-31-2015 RO '000
Capital & Liabilities		
Paid-up Capital	**116,000**	**116,000**
Of which:		
Amount eligible for CET1	116,000	116,000
Amount eligible for AT1	-	-
Reserves & Surplus	**110,019**	**110,019**
Of which:		
Legal reserve	33,368	33,368
General reserve	26,560	26,560
Retained earnings	13,351	1,751
Proposed dividends		11,600
Cumulative changes in fair value of investments	(3,260)	(3,260)
Of which:		
Amount eligible for Tier 2 capital		
Amount ineligible due to regulatory adjustment	(3,260)	(3,260)
Subordinated debt reserve	40,000	40,000
Total Capital	**226,019**	**226,019**

RECONCILIATION	Financial Position as in published financial statements As at Dec-31-2015 RO '000	Under regulatory scope of consolidation As at Dec-31-2015 RO '000
Deposits	**1,601,162**	**1,601,162**
Of which:		
Deposits from banks	-	-
Customer deposits	1,551,778	1,551,778
Deposits of Islamic Banking window	49,384	49,384
Borrowings	**79,404**	**79,404**
Of which:		
From CBO	-	-
From banks	9,404	9,404
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	30,000
Amount de-recognised from Tier 2 capital	-	40,000
Other liabilities & provisions	**76,114**	**76,114**
Total Capital, Other liabilities & provisions	**1,982,699**	**1,982,699**

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

	Common Equity Tier 1 capital: instruments and reserves	**Under regulatory scope of consolidation**	**Reference**
1	Directly issued qualifying common share capital	116,000	b
2	Retained earnings	1,751	e
3	Accumulated other comprehensive income (and other reserves)	96,461	c + d + f+ g
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)**	**214,212**	
7	**Additional Tier 1 capital (AT1)**	-	
8	**Tier 1 capital (T1 = CET1 + AT1)**	**214,212**	
	Tier 2 capital: instruments and provisions		
9	Directly issued qualifying Tier 2 instruments	30,000	h
10	Provisions	20,741	a
11	Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital	-	f
12	**Tier 2 capital (T2)**	**50,741**	
	Total capital (TC = T1 + T2)	**264,953**	

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2015

The Bank issued unsecured subordinated bonds for OMR 50 Million through private placement on 10 April 2012. The bonds are eligible for inclusion in Tier 2 capital under the Basel III regulations. The full terms and conditions of the bonds are available in the bank's website. The main features of the bonds are as follows:

Main features of Subordinated Bonds		
Issuer	OMAN ARAB BANK	OMAN ARAB BANK
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	-
Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law	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 recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 40 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	-	-

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

	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	116,000
2	Retained earnings	1,751
3	Accumulated other comprehensive income (and other reserves)	99,928
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
	Public sector capital injections grandfathered until 1 January 2018	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**217,679**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(3,260)
8	Goodwill (net of related tax liability)	(207)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage Servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-
28	**Total regulatory adjustments to Common equity Tier 1**	**(3,467)**
29	**Common Equity Tier 1 capital (CET1)**	**214,212**
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-

31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier 1 capital before regulatory adjustments**	**-**
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**
44	**Additional Tier 1 capital (AT1)**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**214,212**
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	30,000
47	*Directly issued capital instruments subject to phase out from Tier 2*	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-
50	Provisions	20,741
51	**Tier 2 capital before regulatory adjustments**	**50,741**
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
	OF WHICH: Cumulative unrealised gains on available-for-sale financial instruments	-

57	**Total regulatory adjustments to Tier 2 capital**	**-**
58	**Tier 2 capital (T2)**	**50,741**
59	**Total capital (TC = T1 + T2)**	**264,953**
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	1,863,250
60	**Total risk weighted assets (60a+60b+60c)**	**1,863,250**
60a	*Of which: Credit risk weighted assets*	1,725,012
60b	*Of which: Market risk weighted assets*	3,616
60c	*Of which: Operational risk weighted assets*	134,625
Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.50%
62	Tier 1 (as a percentage of risk weighted assets)	11.50%
63	Total capital (as a percentage of risk weighted assets)	14.22%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.625%
65	*of which: capital conservation buffer requirement*	*0.625%*
66	*of which: bank specific countercyclical buffer requirement*	
67	*of which: D-SIB/G-SIB buffer requirement*	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	2.22%
National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.63%
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)	20,741
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1.25%
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1* instruments *subject to phase out arrangements*	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-

83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-
84	*Current cap on T2 instruments subject to phase out arrangements*	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-

OMAN ARAB BANK

LIQUIDITY COVERAGE RATIO (LCR)

as per Basel III guidelines

for the period ending 31 December 2015

		Total Unweighted Value (average)	Total Weighted Value (average)
		RO '000	RO '000
1	**Total High Quality Liquid Assets**		**274,112**
	CASH OUTFLOWS		
2	**Retail Deposit and deposits from small customers, of which:**		
3	- Stable Deposits	48,300	552
4	- Less Stable retail Deposits	49,569	4,906
5	**Unsecured Wholesale Funding, of which:**		
6	Operational deposits(all counterparties)	-	-
7	Non-operational deposits(all counterparties)	326,515	130,842
8	Unsecured debt	-	-
9	**Secured Wholesale Funding**		**-**
10	**Additional Requirements, of which:**		
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	-	-
14	Other contractual funding obligations	56,013	3,663
15	Other contingent funding obligations	861,417	176,546
16	**TOTAL CASH OUTFLOWS**	**1,341,813**	**316,508**
	CASH INFLOWS		
17	Secured lending	3,995	-
18	Inflows from fully performing exposures	351,764	63,488
19	Other cash inflows	78,343	78,049
20	**TOTAL CASH INFLOWS**	**434,102**	**141,538**
			Total adjusted value
	TOTAL HQLA		274,112
	TOTAL NET CASH FLOWS		174,971
	LCR (%)		**157%**