ANNUAL REPORT
2016

لأجـلـك. لأجـل الـوطـن.
For You. For Our Nation.

HIS MAJESTY SULTAN QABOOS BIN SAID

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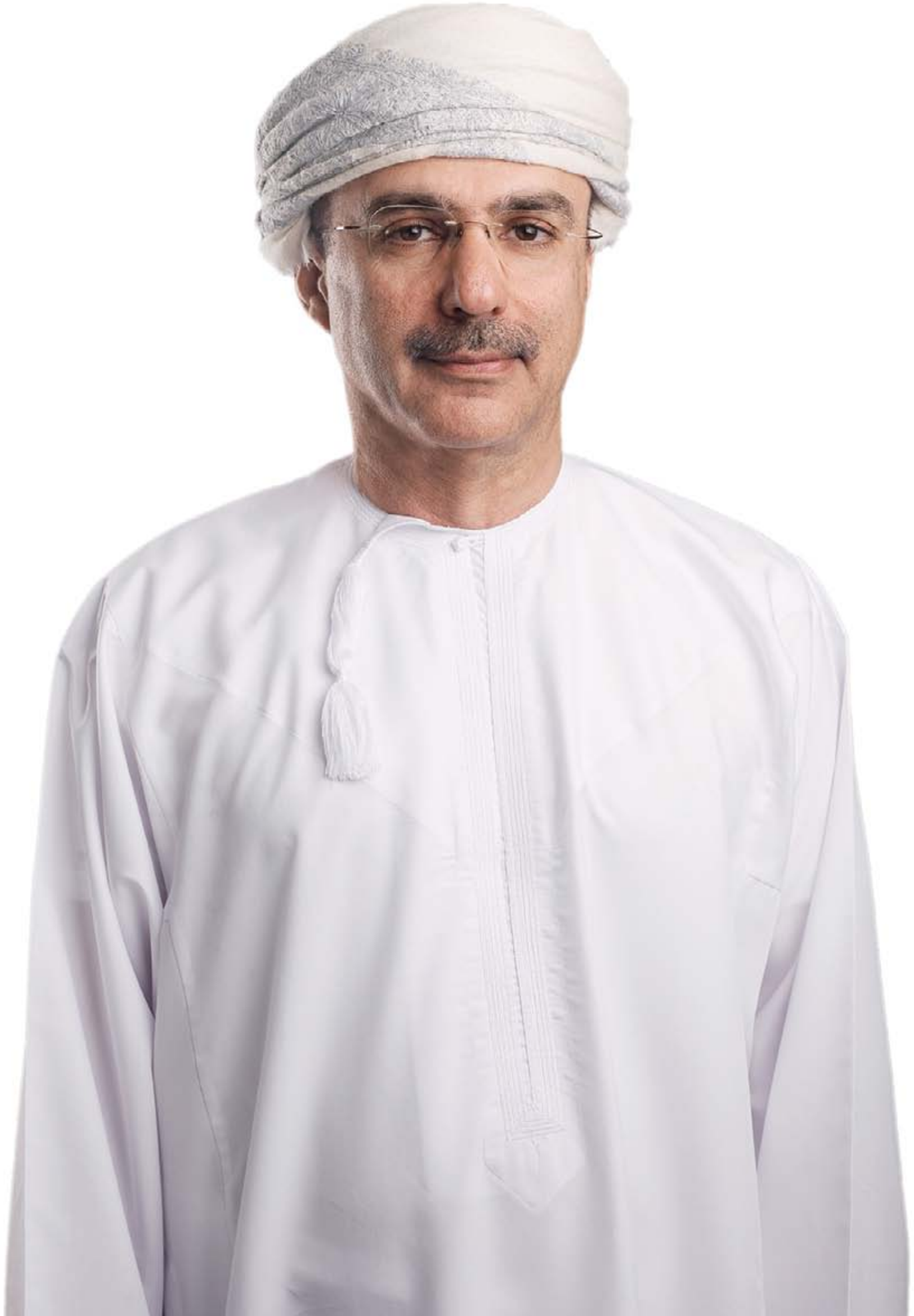
Being Oman's bank of choice is a journey, not a destination, and we look forward to delivering more innovation, more excellence and more success in 2017.

Mohammed Mahfoodh Al Ardhi
Chairman



Dear Shareholders,

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to present the financial results and the accompanying financial statements for the year ended 31st December 2016.

Economic developments

2016 has been a year characterized by regional governments and economic actors adjusting to the emerging realities associated with the prospect of continued twin deficits of state budgets and current accounts in the medium term.

Across the region, oil dependent economies have had to grapple with these challenges and stakeholders will have been encouraged that strong measures have been taken to mitigate the impacts of oil prices that are invariably below budget break-even levels.

In Oman, although economic activity has slowed during 2016, corrective measures to consolidate income and spending levels closer to each other have included subsidy and tax reforms, moderation of capital spending and determination to significantly arrest the hitherto high growth levels in current spending, consisting mostly of salaries and benefits for government employees. At the same time the government has embarked on a programme of debt issuance to ensure that funds are available to cover deficits in the medium term as structural reforms begin in earnest. The issuance during 2016 has been well received by markets and it is clear that appetite for Oman risk remains robust.

Significantly, the government has launched the Tanfeedh national initiative to engage the private sector in helping shape the future direction of economic policy in the Sultanate. Over 300 participants from both the public and private sectors have dedicated six full weeks to this initiative led by the Supreme Council for Planning. NBO has dedicated significant resources to support Tanfeedh with the secondment of several members of the senior management to the programme. The recommendations that have emerged from Tanfeedh, including an increased focus on public private partnership (ppp) to develop priority sectors as well as regulatory and legal reforms to encourage foreign investment, economic diversification and employment creation, will encompass the main planks of Oman's economic strategy over the medium to long term.

The recent increase in the oil price to above USD 50 levels spurred on by a long-awaited OPEC led agreement to curb production has helped to stabilize sentiment and there is a growing consensus that oil prices will remain relatively stable going forward, albeit at levels still consistent with prolonged yet lower deficits. Essentially, higher oil prices and lower deficits provide more time and breathing space for governments to continue the pursuit of much needed economic reforms to diversify away from hydrocarbon dependency.

The UAE, another key market for NBO, is also in the midst of a cyclical slow-down in economic activity and this is expected to continue to have an impact on growth going forward. Despite the slowdown, the UAE has been weathering the fall in oil prices relatively well and Dubai in particular, given the much lower dependence it has on the oil price relative to its neighbors, is expected to continue to see increasing levels of development spending as the government remains focused on becoming a leading global hub for trade and investment. Notwithstanding these positive aspects, challenges remain for Dubai and the UAE as a whole and the bank will continue to take a cautious approach to its lending activities in that market until greater visibility emerges.

Banking Sector

The slowdown in the economy in 2016 has had a cascading effect on all sectors of the economy including the banking sector. Credit appetite and liquidity conditions have tightened considerably over the last 12 months, yet credit granted by banks has still shown a growth of 9.2 per cent for the first 11 months of the year according to the Central Bank of Oman. However, liquidity has noticeably tightened in the last 18 months with deposits showing a growth of just 4.7 per cent during the first 11 months.

Government deposits into conventional banking have reduced in 2016. As would be expected during this phase of the economic cycle, the banking sector is faced with the challenge of mobilizing deposits at reasonable rates while maintaining sound asset quality.

NBO's focus in this environment will be on maintaining strong profitability, optimal levels of liquidity, robust capital buffers and superior asset quality over the medium term.

Operating Performance

During 2016, the bank achieved a net profit of RO 55.8 million, a reduction of 7.2 per cent compared to the previous year, as a focus on strong asset quality, enhancing customer experience and loyalty levels and tight balance sheet management took precedence over loan growth.

Notwithstanding the above, net interest income from conventional banking and revenues from Islamic financing activities increased by 7.2 per cent to RO 101.6 million driven by modest growth in loans and a favorable funding mix. Net interest margins have shown a marginal decrease over the last year, primarily due to a higher cost of funds, despite higher asset yields. NBO has performed creditably in this environment maintaining the highest spreads among our peers.

Non-interest income decreased by 15.7 per cent to RO 34.5 million primarily due to lower insurance referral income, which was impacted by regulatory changes implemented at the beginning of the year. Furthermore, as the bank has focused on maintaining sound asset quality versus asset growth in 2016, loan origination fees have inevitably moderated.

Operating costs increased by a modest 4.4 per cent over the corresponding period last year as a result of government mandated minimum pay rises and ongoing strategic investments in people and infrastructure. The bank's cost to income ratio stood at 46 per cent as compared to 44.2 per cent in the last year. Operating profit has decreased marginally by 3 per cent.

Impairments on loans and advances have increased to RO 10 million during the year compared to RO 6.3 million during the same period last year. The bank maintains provisions on a conservative basis, given the current stage of the economic cycle and as such will continue to prioritize profitability and selective asset growth in the medium term.

Return on shareholder's funds, a key measure of profitability, has reduced to 13.7 per cent compared to 15.9 per cent in December 2015, as a result of lower fee income and higher provisions. Despite the decrease, NBO remains the most profitable bank in the country with the highest ROEs and ROAs in the industry.

Net loans and advances grew by 5.4 per cent as compared to the corresponding period last year, reaching RO 2,670 million. Customer deposits have registered a similar growth of 6.6 per cent to fund the growth in loans.

The bank continues to diversify its deposit base to manage funding costs effectively. During the year, the bank successfully concluded a USD 100 million EMTN tap issuance at a 2 per cent spread clearly indicating the positive sentiments it has developed with its investor base since its inaugural issuance in 2014.

Non-performing loans as a percentage of gross loans stood at 2.2 per cent, a slight increase as compared to 1.9 per cent as of December 2015. The coverage ratio on 31st December 2016 stood at 139 per cent. The bank continues to exercise a very tight vigil over its portfolio whilst emphasizing prudent credit underwriting standards.

The board will be recommending dividends at a conservative level to ensure the bank remains well capitalized throughout the cycle and to prepare for significant imminent regulatory changes including IFRS 9. Final decisions in this regard for all banks are subject to regulatory approvals.

The bank's capital adequacy ratio after the dividend pay-out at recommended levels is projected at 17.4 per cent, against the regulatory requirement of 13.25 per cent. The bank's core equity ratio stands at 12.3 per cent, against the regulatory requirement of 8.25 per cent reflecting the bank's very robust capital position. With ample room for Tier 2 capital, NBO is strongly positioned to leverage any potential growth opportunities which, as described earlier, will be selectively pursued.

UAE Performance

2016 was a challenging year for the bank's UAE business. While the business performed well at an operating profit level with a 37 per cent growth, it was impacted by provisions from one large exposure that had a significant impact on the bank's bottom line. The bank's prudent risk management approach to lending resulted in a flat loan book as compared to the corresponding period last year. However, given the resilience, strength and diversity of the UAE economy, the bank is confident that compelling growth opportunities exist for its UAE business and the market remains an important plank of the bank's long-term competitive strategy.

As in our core market of Oman, the bank continues to strengthen its monitoring resources, processes and systems in order to be even better prepared to proactively and robustly address any signs of deterioration in asset quality which typically feature during this stage of the economic cycle.

Muzn Islamic Banking

The bank's Islamic window "Muzn" has continued to deliver growth with income rising by 12 per cent to RO 3.7 million. Net profit grew by 89 per cent over the corresponding period last year to RO 1.2 million.

Key Achievements

In a year beset by global economic uncertainty, NBO continued to reach new milestones in its mission to lead the Sultanate's financial services industry.

This was evident in the bank's full-year financial performance, with profitability measures remaining the highest in the industry underscoring the robust management of all aspects of the operation.

NBO's retail banking proposition took another major leap forward in 2016 with a series of strategically important initiatives aimed at attracting and retaining the most profitable customer segments whilst finding ways to deliver superior service to its entire customer base with increasing efficiency. Our product mix was further strengthened with the additions of several innovative Life and General Insurance products, as well as enhancing value propositions to encourage a culture of savings across customer segments.

We continued to aggressively innovate in the way we deliver our products and services, with a particular focus placed on expanding our already extensive alternative distribution capabilities. New retail banking and stock market trading mobile phone apps were launched in response to specific customer needs, while an enhanced Corporate Internet Banking platform delivered a seamless experience for companies operating between Oman and the UAE.

Our ability to serve customers was further enhanced by NBO's dedicated customer experience division, which continued to drive down response times while ramping up service standards.

Another NBO trademark is our continued support of the Sultanate's long-term economic diversification agenda. SMEs and entrepreneurs were ably served by the bank's expert team and suite of specialized Tijarati products in 2016.

Our Corporate Banking and Government Banking divisions provided finance and expertise to some of Oman's largest infrastructure projects whilst the corporate solutions division continues to take steady strides forward both in Oman and the UAE by providing bespoke advice to companies looking to raise capital, diversify their sources of funding or engage in strategic acquisitions or divestments. The year also saw NBO take an active role in the Tanfeedh initiative, which brought together key players from the private and public sectors to find collaborative solutions to achieve the Sultanate's diversification goals.

NBO remained heavily involved in supporting the Sultanate's fast-growing tourism sector throughout 2016, and was particularly successful in helping to position Oman as a world class golfing destination. The 2016 NBO Golf Classic Grand Final proved to be

a spectacular culmination to the European Challenge Tour and brought together people from across the world for a four-day festival of golf in Muscat, while the bank also supported initiatives to increase participation in the sport among Oman's youth.

The next generation were also the focus of the Chairman's Speaker series, which held several events during the year. Students, as well as members of the public and other stakeholders, were inspired by talks from prominent leaders and thinkers, including His Excellency Dr. Joong-Kyung Choi, Korea's Former Minister of Knowledge Economy, and Dr. Rebecca Winthrop, Director of the Center for Universal Education at the Brookings Institution.

Young people were also inspired to achieve success through NBO's Innovation in SME Award, which held two competitions for full-time undergraduate university students in 2016. The bank is now working with the winners to help them turn their fledgling business ideas into fully operational companies.

NBO was able to achieve excellence across so many areas in 2016 thanks to the contribution of our highly trained workforce. The Academy of Excellence, our in-house training division, strengthened employees' core competencies through programmes covering the gamut of key business and banking skills, while the pioneering Women@NBO initiative provided mentoring to female employees and developed a strong pipeline of women in leadership roles. The bank's technological leadership was also deployed to support our HR strategy, with a new onboarding platform for new employees to help them easily transition into the organization.

The team can reflect on a year in which the strength of NBO's financial performance was more than matched by the quality of its service levels, the innovation of its product mix, and the contribution it made to the wider community.

The focus now is on building upon these achievements and finding new ways to meet the changing needs of customers, whether individuals, entrepreneurs, large corporations or the public sector.

Being Oman's bank of choice is a journey, not a destination, and we look forward to delivering more innovation, more excellence and more success in 2017.

Mohammed Mahfoodh Al Ardhi
Chairman

> NBO remains the most profitable bank in the country with the highest ROEs and ROAs in the industry.

BOARD OF DIRECTORS

Mohammed Mahfoodh Al Ardhi is currently the Chairman of the National Bank of Oman (NBO) and the Executive Chairman of Investcorp.

He started out his career in 1978 as a young ambitious fighter pilot in the Royal Air force of Oman which led to him becoming the Chief of the Omani Air force from 1992 to 2003. His Majesty the Sultan of Oman awarded him the "Order of Oman" in 2000.

After retiring from the Airforce, holding a Bachelor of Science degree in Military Science from Royal Air Force Staff College in Bracknell, England. Mohammed pursued his Master's degree in Public Policy focusing on managing financial institutions from the Kennedy School, Harvard University, USA. Upon his return from Harvard, he joined his family business as Chairman of Rimal Holding.

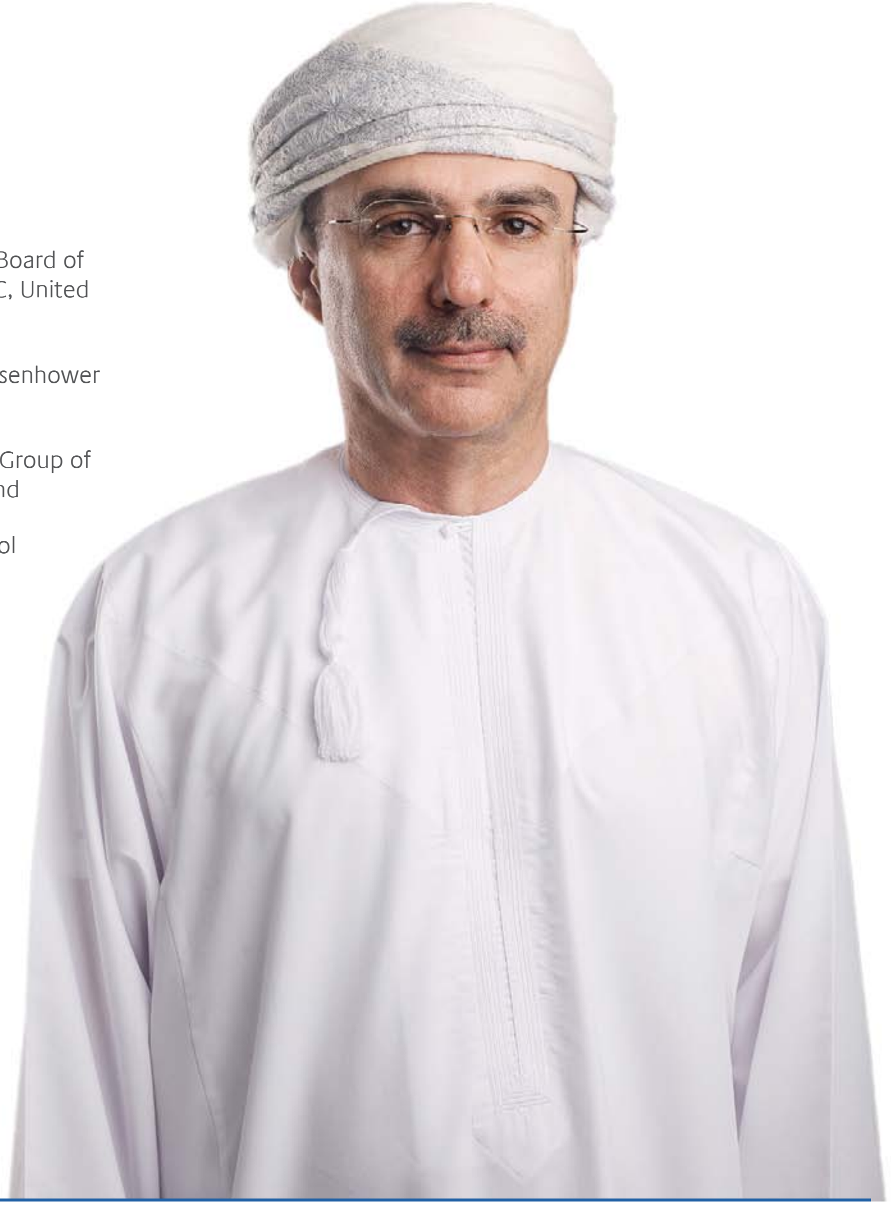
Mohammed joined the board of NBO as Deputy Chairman in March 2011 and became the Chairman of the Board on 26th March 2014. Under his Chairmanship, the Bank established a vision of growth and an execution strategy that made NBO the fastest growing and the most profitable bank in Oman.

Air Vice Marshal (Ret'd) Mohammed bin Mahfoodh bin Saad Al Ardhi

Chairman

Positions:

- Chairman, National Bank of Oman
- Executive Chairman, Investcorp
- Member of the International Advisory Board of The Brookings Institute Washington DC, United States of America
- Member on the Board of Trustees of Eisenhower Fellowships Philadelphia, USA
- Member of the Community Chairmen Group of the World Economic Forum, Switzerland
- Member of the Harvard Kennedy School Dean's Council

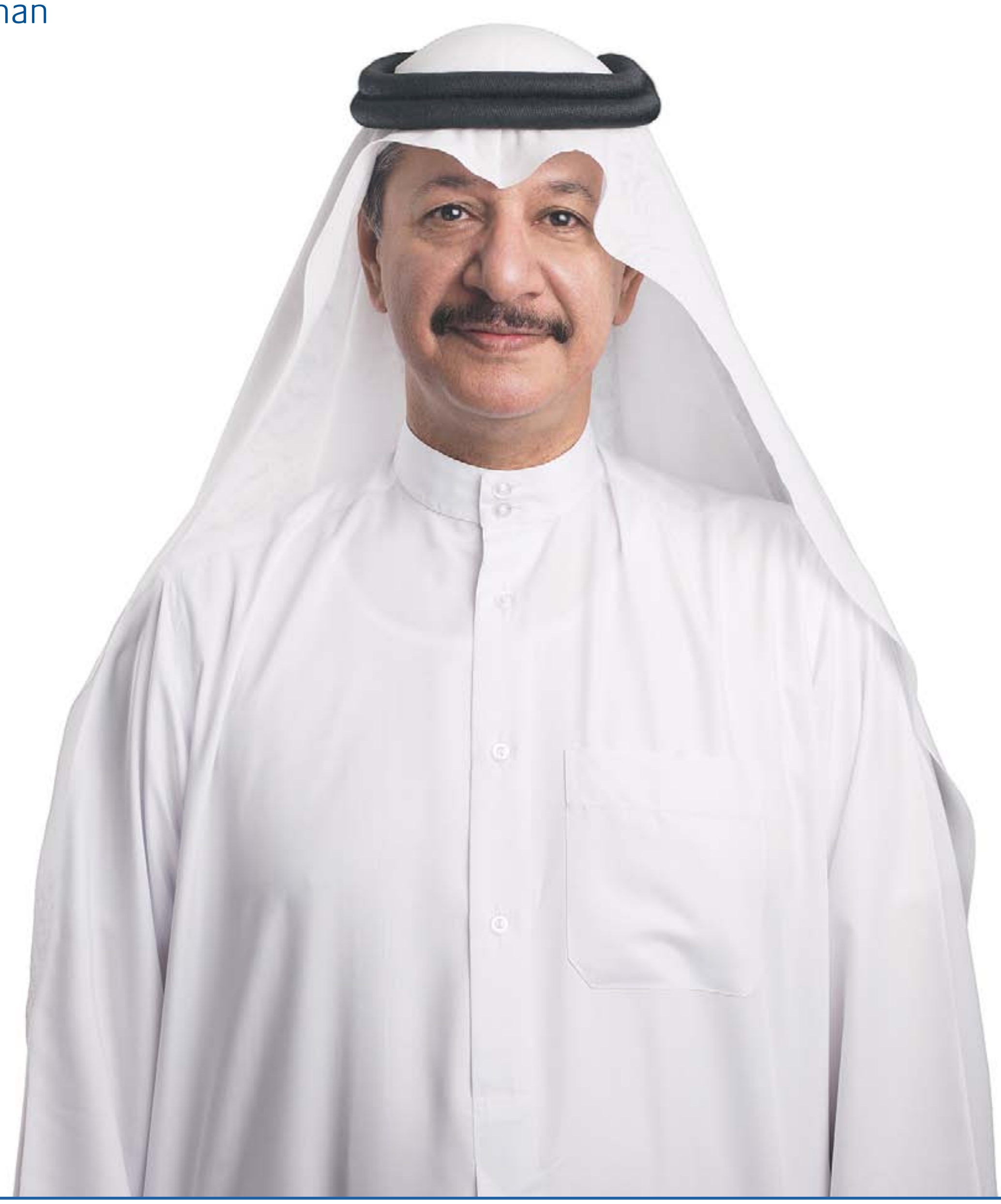


H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani has been a Director of the Bank since July 2005 and serves as a member of the Board Executive, Nomination and Remuneration Committee (ENRC). His Excellency is the Chairman of The Commercial Bank (P.S.Q.C.) in Qatar, a member of the Board of Directors for United Arab Bank, P.J.S.C. in UAE and is the Owner of Vista Trading Company (Qatar), a Partner in Dar Al Manar (Qatar), Domopan Qatar and Integrated Intelligence Services Company (Qatar).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani holds a Bachelor of Arts Degree in Social Science from Qatar University.

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani

Deputy Chairman



BOARD OF DIRECTORS

Sayyidah Rawan Ahmed Al Said is the Managing Director and CEO of Takaful Oman SAOG, a Sharia Compliant Insurance Company. Prior to joining Takaful Oman, she was the Managing Director and CEO of ONIC Holding Corporation. Before moving to the Private Sector, Rawan was the Deputy CEO-Investment for the State General Reserve Fund of Oman, leading the execution of many mega investments internationally. She has over 28 years of experience in the financial industry, 20 of which are in the Public sector.

She is on the Board of a number of reputed Companies and Financial Institutions in Oman and in the region. She has been recently appointed as a Board Member of Oman Oil Company SOAC and its Audit Committee. She is also a Board Member of the Public Authority for the SME Development (Riyada), Board Member of Oman National Investments Development Company ONIDCO and Chairperson of its Equity and GCC Funds, the Chairperson of Oman Investment Corporation SOAC, Deputy Chairperson in Takaful Oman SOAG, and a Board Member and Audit Committee Chairperson in National Bank of Oman SOAG, Board Member in Oman Oil Marketing SOAG, Board Member in International General Insurance (IGI) Jordan, and National Finance House (NFH), Bahrain.

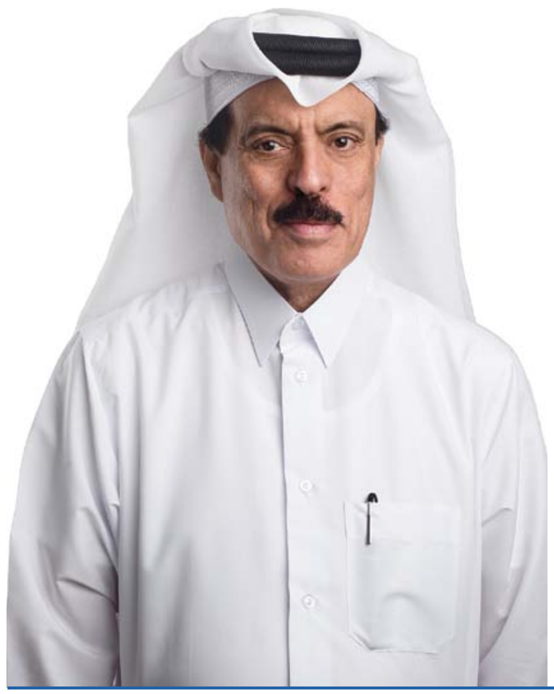
She is also a Member on the Investment Committee of the Public Authority for Social Insurance, Chairperson of Al Kawther Fund (Islamic Compliant Fund) and a Member of the Investment Committee of Orphans & Incapacitated Funds in the Ministry of Justice.

Sayyidah Rawan Ahmed Al Said is the First and the only female who holds a CEO position in a public listed company in Oman.

In 2011, She was bestowed with the Business Professional (BizPro) Leader Award. In 2012, she was ranked 14th in Forbes Middle East for the 'Most Powerful Arab Business Women in Listed Companies'. In 2014, Rawan was named among the Best Chief Executives in the region by Trend in collaboration with INSEAD (The Business School for the World). Also she was Awarded Hall of Fame by MARA Excellence Awards. In 2015, she was honored with two prestigious Awards; Asian Women Leadership and Leadership of the Year in MENA. In 2016 she was honored with Honorary Doctorate Degree from the Commonwealth University in UK.

Sayyidah Rawan has an MSc in Economics & Finance from Loughborough University UK. She also holds a Post Graduate Diploma in Investment Analysis from Stirling University UK, and BA in Economics & Political Science from the American University in Cairo (AUC).

Sayyidah Rawan Ahmed Al Said
Director



His Excellency Abdul Rahman bin Hamad Al Attiyah has been a Director of the Bank since November 2014. He serves as a member of the Board Risk Committee (BRC) and is a member of the Board of The Commercial Bank (P.S.Q.C.) since March 2014. He began his career in 1972 at Qatar's Ministry of Foreign Affairs and has served as Qatar's Ambassador in Geneva, Saudi Arabia, France, Italy, Greece, Switzerland, Yemen, and Djibouti. He also served as a permanent representative to the United Nations in Geneva, the Food and Agriculture Organization (FAO) in Rome, and UNESCO in Paris. He is the Minister of State of Qatar and holder of the state award of appreciation.

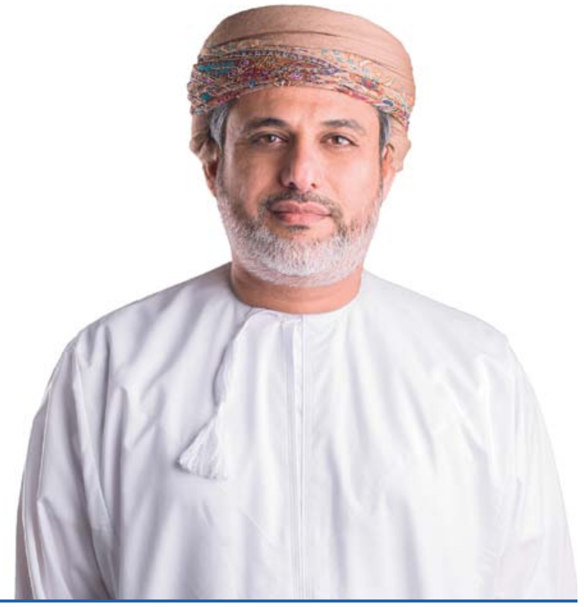
His Excellency Al Attiyah was the former Secretary-General of the Gulf Cooperation Council (GCC) from 2002 until 2011. He holds a Bachelor of Arts Degree in Political Science and Geography from the University of Miami, United States of America. He is the owner and Chairman of Mawten Trading in Qatar and Vice President of the Board of Trustees of the Arab Thought Forum – Amman, Jordan.

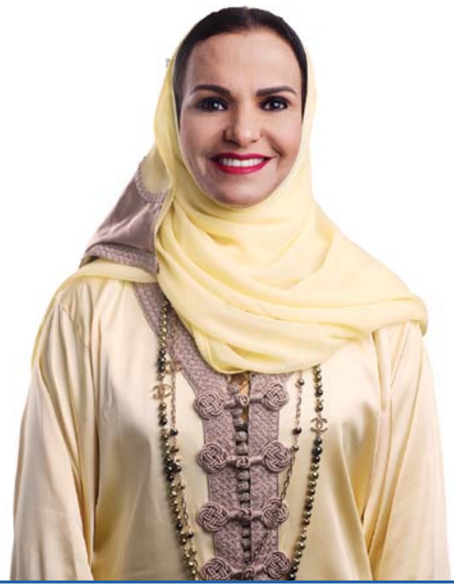
His Excellency Abdul Rahman bin Hamad Al Attiyah
Director

Mr. Hamad Mohammed Al Wahaibi has been a Director of the Bank since March 2014. He is the Chairperson of the Credit Committee of the Board. He has 16 years of experience in the GCC. He has been a director of investment with the Ministry of Defence Pension Fund for the past seven years. Mr. Al Wuhaibi is also a member of the boards of Galfar Engineering and Contracting Company, Voltamp Energy Company and Al Madina Takaful Company.

Mr. Al Wahaibi holds a Masters of Business Administration (MBA) degree, specializing in Finance, and he is a Chartered Financial Analyst (CFA) charterholder, as well as a Chartered Alternative Investment Analyst (CAIA) charter holder.

Mr. Hamad Mohammad Hamood Al Wahaibi
Director





Member of the Executive, Nomination and Remuneration Committee (ENRC) and the Board Risk Committee (BRC). Ms. Amal Suhail Bahwan is the Vice Chairperson of Suhail Bahwan Group Holding LLC. She has extensive experience in managing companies across the Bahwan Group.

She is also the Chairperson of Oman Ceramics SAOG, Director and Executive Committee member of National Pharmaceutical Industries SAOG and Director of Oman Oil Marketing Co SAOG.

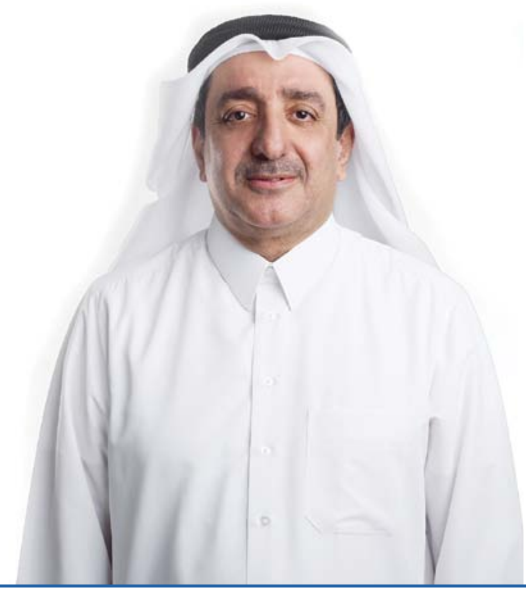
Ms. Amal has a Bachelor's degree in Education and a Master's degree in Administration from the Sultan Qaboos University.

Ms. Amal Suhail Bahwan
Director

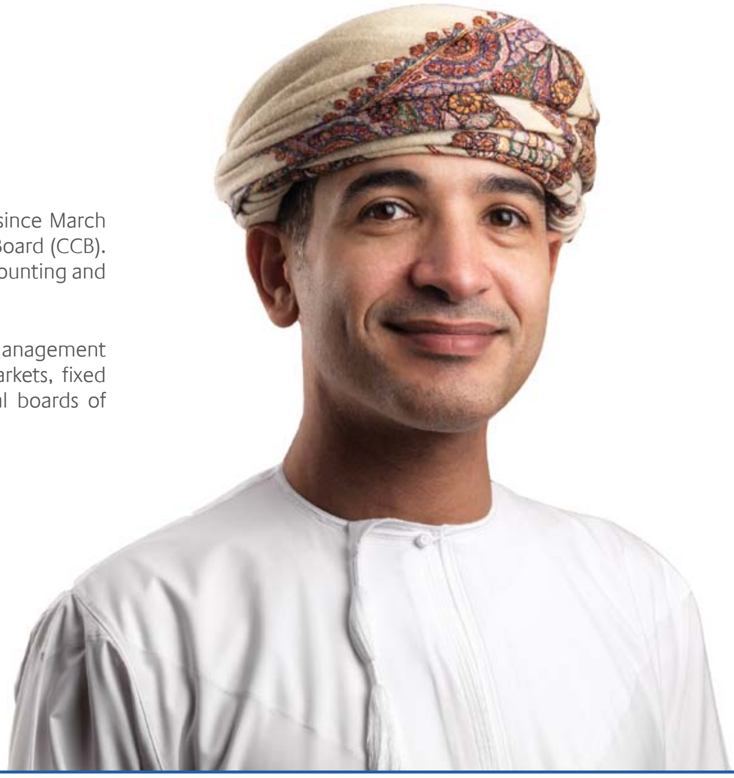
Mr. Mohammed Ismail Mandani Al Emadi has been a Director of the Bank since November 2014 and serves as the Chairperson of the Board Risk Committee (BRC) and a member of the Board Audit Committee (BAC). He is also a member of the Board for The Commercial Bank (P.S.Q.C.) and a member of the Board of Alternatifbank A.S. (ABank), Turkey and has over 30 years of banking experience. Mr. Al Emadi has held a number of key roles at Commercial Bank until 2006, after which he served as Chief Executive Officer of Qatar Real Estate Investment Company Q.S.C. up to 2011, and also served as its Director from 2003 until 2005.

Mr. Al Emadi holds a Bachelor of Arts Degree in Business Administration and Economics from Holy Names University, California.

Mr. Mohammed Ismail Mandani Al Emadi
Director



BOARD OF DIRECTORS



Mr. Saif Said Al Yazidi has been a Director of the Bank since March 2008. He is a member of the Credit Committee of the Board (CCB). He holds a first degree in Management Sciences and Accounting and a Masters degree in Business Administration (MBA).

Mr. Al Yazidi has over 18 years of experience in asset management covering various investment classes such as capital markets, fixed income and alternative investments. He sits on several boards of public and private companies locally and abroad.

Mr. Saif Said Salim Al Yazidi
Director

Dr. Faisal Abdullah Al Farsi has been a Director of the Bank since September 2011. He is a member of the Audit Committee and Risk Committee of the Board. In 1995 he joined the Public Authority for Social Insurance where he occupied various positions including manager of Insurance Benefits, and acting manager of Insurance Services. He has been a board member of several General Joint Stock Companies including Banks. Currently he is the Manager of the Planning Department at the Public Authority for Social Insurance.

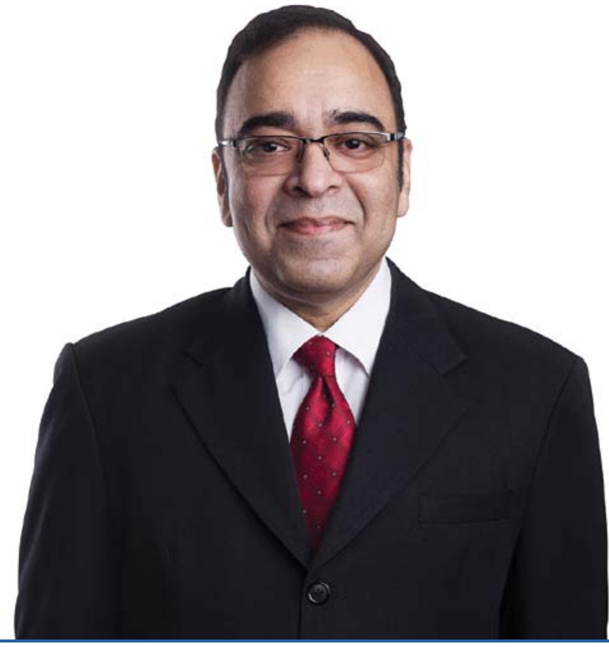
Dr. Al Farsi holds a PHD in General Administration from the National School of General Administration in Morocco in 2016 and a Masters Degree in International Business Law from Hull University in the United Kingdom in 2003.

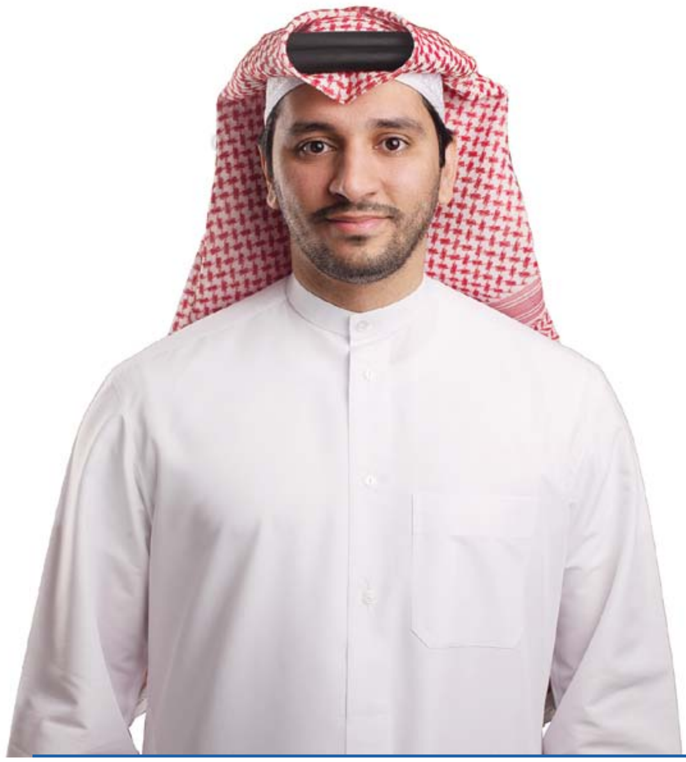
Dr. Faisal Abdullah Al Farsi
Director

Mr. Rahul Kar has been a Director of the Bank since April 2016, and is a member of the Board Audit Committee and Credit Committee of the Board. Mr. Kar is a Chartered Accountant with over 25 years of relevant experience and is currently working as the Financial Advisor to the Chairman of Suhail Bahwan Group Holding LLC.

Mr. Rahul is also a Director and an Audit committee member of National Pharmaceutical Industries SAOG and Al Suwadi Power Co SAOG. He is also a Director and Nomination & Remuneration committee member of Oman United Insurance Company SAOG.

Mr. Rahul Kar
Director





Mr. Fahad Badar has been a Director of the Bank since May 2016, and serves as a member of the Credit Committee (CCB). He is also a member of the Board for Alternatifbank A.S. (ABank), Turkey since September 2013 and a member of the Board for ALease, Turkey since March 2016. He is also a member of the Board for United Arab Bank, P.J.S.C. in UAE since July 2016.

Mr. Badar's career at The Commercial Bank (P.S.Q.C.) in Qatar spans over 17 years. Prior to his current role as Executive General Manager, International Banking, he held a number of key roles in International Banking, the Government and Public Sector Relations and the Wholesale Banking Divisions.

Mr. Badar holds an MBA from Durham University, UK and a Bachelor of Arts Degree in Banking & Finance from the University of Wales.

Mr. Fahad Badar
Director

EXECUTIVE MANAGEMENT

1. **Ahmed Al Musalmi** / Chief Executive Officer
2. **Nasser Al Hajri** / General Manager - Chief Human Resources Officer and Head of Corporate Affairs
3. **Nasser Al Rashdi** / General Manager - Chief Commercial Banking Officer and Head of International Business
4. **Salma Al Jaaidi** / General Manager - Chief Risk Officer
5. **John Chang** / General Manager - Chief Retail Banking Officer
6. **Faizal Eledath** / General Manager - Chief Information Officer and Head of Transformation
7. **Ananthraman Venkat** / General Manager - Chief Financial Officer
8. **Andre Loots** / General Manager - Chief Operating Officer
9. **Kumar Keswani** / General Manager – Head of Corporate and Transaction Banking
10. **Al Sayyid Wasfi Bin Jamshid Al Said** / Deputy General Manager- Head of Capital Markets and Advisory
11. **Hassan Abdul Amir Shaban** / Deputy General Manager- Head of Government and Institutional Banking
12. **Hamood Al Aisri** / Chief Internal Auditor
13. **Leen Al Atassi** / Head of Corporate Communications and Corporate Social Responsibility

Our Vision, Values, & Strategic Objectives

Our Vision

To be The Bank of Choice

Our Values

Customer 1st

Execution

One Bank

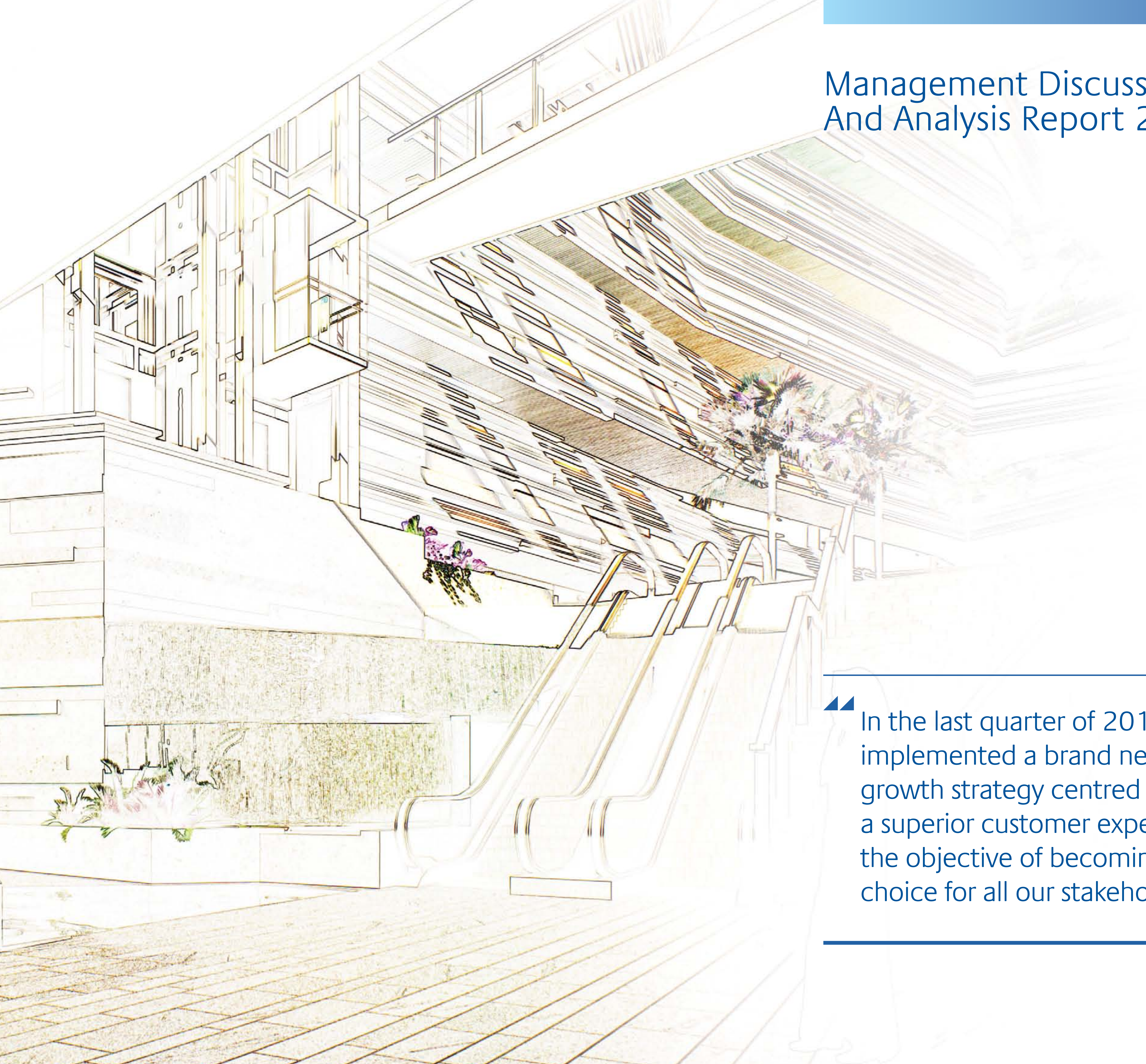
Integrity

Quality

Our Strategic Objectives

- Customers: The best bank in service, value and convenience for our target customer segments.
- Employees: The best workplace and career opportunities for our employees.
- Shareholders: The highest return on equity and sustainability for our shareholders.
- Community: For You. For Our Nation.

Management Discussion And Analysis Report 2016



In the last quarter of 2014, NBO implemented a brand new five-year growth strategy centred on delivering a superior customer experience with the objective of becoming the bank of choice for all our stakeholders.

Loans & Deposits (in OMR' million)

Year	Loans	Deposit
2016	2768	2399
2015	2622	2250
2014	2396	2178
2013	2157	2179
2012	1986	1887
2011	1734	1600

2768 OMR' million

NBO has achieved a sustainable loan book growth of 5.6% from the previous year, while maintaining a strong focus on high quality assets.

2399 OMR' million

Customer deposits have registered a growth of 6.6% to fund the growth in loans.

Total Income (in OMR' million)

2016	136.1
2015	135.7
2014	114.2
2013	103.9
2012	98.6
2011	92.2

136.1 OMR' million

Net Profit (in OMR' million)

2016	55.8
2015	60.1
2014	50.3
2013	41.4
2012	40.7
2011	34.2

55.8 OMR' million

During 2016 NBO achieved a net profit of OMR 55.8 million, a reduction of 7.2% compared to the previous year, in the face of very challenging market conditions.

Shareholders' Funds (in OMR' million)

2016	423
2015	399
2014	362
2013	328
2012	304
2011	281

423 OMR' million

Cost to Income %

2016	46%
2015	44.2%
2014	47.6%
2013	46.7%
2012	47.3%
2011	47.1%

46%

Operating costs increased by a modest 4.4 per cent over the corresponding period last year as a result of government mandated minimum pay rises and ongoing strategic investments in people and infrastructure. NBO's cost to income ratio stood at 46 per cent as compared to 44.2 per cent in the previous year.

Return on Average Equity %

2016	13.7%
2015	15.9%
2014	15.1%
2013	13.4%
2012	11.5%
2011	13.9%

13.7%

Highest return on equity and return on assets in the industry.

Return on Average Assets %

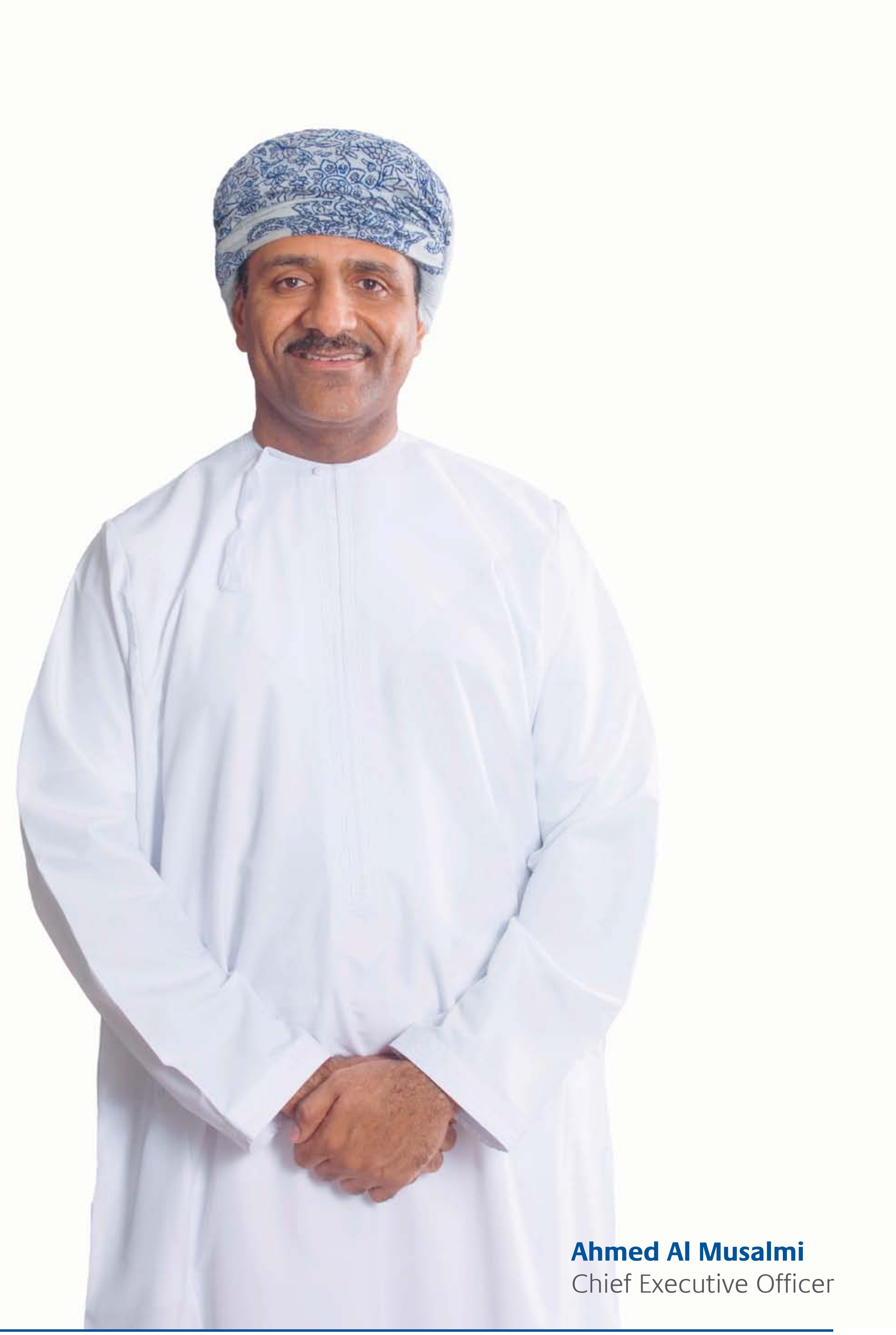
2016	1.6%
2015	1.9%
2014	1.5%
2013	1.4%
2012	1.3%
2011	1.7%

1.6%

Capital Adequacy

	Core Capital	AT-1	
2016	12.3%	3.6%	17.4%
2015	12.4%	3.9%	18.2%
2014	12.3%		14.6%
2013	11.8%		14.6%
2012	11.7%		14.4%
2011	12.3%		15.3%

17.4%



Ahmed Al Musalmi
Chief Executive Officer

Management Discussion
And Analysis Report 2016

Introduction

In the last quarter of 2014, NBO implemented a brand new five-year growth strategy centred on delivering a superior customer experience with the objective of becoming the bank of choice for all our stakeholders. Just over two years since we began this journey, we can take satisfaction in our achievements to date, whilst recognizing that there is still much to do to realise our ambitious vision.

Today, NBO is the fastest growing and most profitable bank in Oman by several different measures. By investing heavily in people and systems, continuously improving our processes and providing customers with safe, fast and efficient transaction and advisory platforms, we are able to deliver superior value and experiences for each of our customers and employees.

We allocated further significant resources, including direct oversight from the most senior officers of the bank, to build upon our already impressive customer service delivery platforms and we continued to focus on enhancing standards and interaction experiences.

We have remained committed to investing in strategically important pillars of the economy, including key projects of national importance, trade, home ownership, SMEs and entrepreneurs.

Clearly, 2016 was not without its challenges. Notwithstanding the significant tests felt by all economic actors, NBO's focus on the customer as the primary stakeholder as well as its expertise in risk management and partnership building and its highly skilled and versatile workforce, once again delivered solid results, underscored by a net profit of RO 55.8 million for the year. Indeed, financial performance across the organization as a whole was commendable in such an environment and it is appropriate to recognise and appreciate the role all of our stakeholders have played in sustaining such a performance in 2016.

Underpinning our performance throughout 2016 was our highly trained and experienced team of financial services professionals. A high-performance, values-based culture is now evident at every level of the organisation. The skills and expertise of our employees are key differentiators for our customers and we will not let up in our determination to maintain the best and happiest workforce by creating an environment where employees are given opportunities to improve themselves and contribute. Our people and our values are central to our ability to serve customers to the highest standards. Moreover, our success has enabled us to keep creating new employment opportunities for talented, ambitious and committed Omani nationals and we are delighted that our Omanisation level now stands at 91 per cent.

Beyond our business and at the core of our being is a serious focus on contributions we can all make as individuals and as a bank to the wider community. During 2016, the bank has supported entrepreneurs, promoted innovation, supported and developed local talent, promoted Oman's sports and cultural platforms and helped to organise assistance for low-income families. We are totally committed to making a positive difference to the society that sustains us.

NBO's financial success and broader contribution did not go unrecognised by industry observers. It is gratifying and humbling that for the second year running NBO was ranked first in the annual Business Today-Ernst & Young survey of the Sultanate's banks and non-banking financial companies. NBO also won the award for large companies at the 8th AIWA Awards for Best Performing Companies.

On behalf of the NBO team, I thank our customers, shareholders, partners and the wider community for their continuous support throughout the year. We are proud to serve them and look forward to delivering further success in 2017.

Operating Environment

The continued low oil price environment, coupled with a series of notable elections and referendums in the US and Europe, meant much of 2016 was characterized by a sense of global economic and political uncertainty.

As economies and investors have begun adjusting to oil prices at US$50 per barrel, and the aftermaths of Brexit and the US presidential election subsided, the economic picture has started to improve. The latter part of 2016 witnessed a strong boost to oil prices, inflation picking up in many major economies, and interest rate rises back on the table, most notably in the US.

Subdued oil prices have inevitably had a substantial impact on Oman's economy as well in 2016. However, the Sultanate was further cushioned from the global economic headwinds by the Omani government's robust plans for fiscal stability. The government has introduced reforms to cut spending, reform taxation including the introduction of new taxes and boost private sector activity over the medium and long term supported by the ongoing implementation of the government's transformative diversification and growth plans.

NBO in 2016

During 2016, NBO achieved a net profit of RO 55.8 million, a reduction of 7.2 per cent compared to the previous year, in the face of very challenging market conditions.

Net interest income from conventional banking and revenues from Islamic financing activities increased by 7.2 per cent to RO 101.6 million driven by modest growth in loans and a favourable funding mix.

Non-interest income decreased by 15.7 per cent to RO 34.5 million primarily due to lower insurance referral income, which was impacted by regulatory changes implemented at the beginning of the year. Furthermore, as NBO has focused on maintaining sound asset quality versus asset growth in 2016, loan origination fees have inevitably moderated.

Operating costs increased by a modest 4.4 per cent over the corresponding period last year as a result of government mandated minimum pay rises and ongoing strategic investments in people and infrastructure. NBO's cost to income ratio stood at 46 per cent as compared to 44.2 per cent in the previous year. Operating profit has decreased marginally by 3 per cent.

Net impairment on assets stood at RO 10 million, while NBO's coverage ratio stood at 139 per cent (2015: 153 per cent). Non-performing loans at the end of the period were at 2.2 per cent (2015: 1.9 per cent).

Net loans, advances and financing activities grew by 5.4 per cent to RO 2,670 million, with NBO remaining focused on quality assets and maintaining sound underwriting standards throughout 2016. Customer deposits have registered a similar growth of 6.6 per cent to fund the growth in loans. We continue to maintain a favourable deposit mix with low cost deposits comprising of 61 per cent of the total customer deposit base in 2016.

Return on shareholders' funds, a key measure of profitability decreased to 13.7 per cent in December 2016 (2015: 15.9 per cent).

As of December 31, 2016, NBO's capital adequacy ratio stood at 17.4 per cent as against a regulatory requirement of 13.25 per cent, with core equity at 12.3 per cent.

UAE Operations

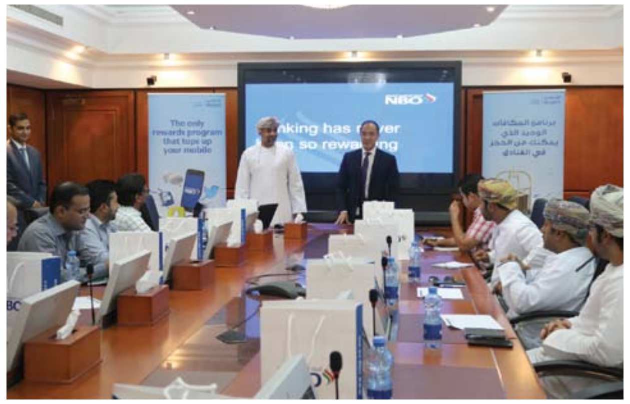
NBO's UAE operations continued to grow strongly in 2016. Our branches in Abu Dhabi and Dubai are now well established and have proved to be highly effective at serving the banking requirements of our large corporate customers, including cash management and payment solutions.

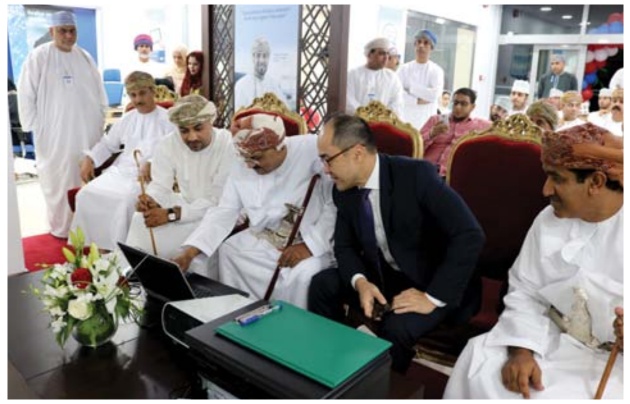
Our investments into the UAE have given NBO a clear competitive advantage and enabled us to play a unique role in support of cross-border trade between Oman and the UAE. The natural advantage we enjoy by virtue of our geographical reach was further developed in 2016 with the launch of a seamless cross-border banking offering to boost Oman-UAE trade. This platform enables clients to make instant transfers between Oman and the UAE using one account only. Similarly, clients operating cross-border can instantly clear cheques and place deposits, execute trade transactions and make cash withdrawals. In addition, clients can carry out all of these services from their NBO account to a non-NBO account in Oman and the UAE. Transactions and requests will be done in real time from an NBO branch or by using NBO's secure Corporate Internet Banking platform.

We have taken the decision, as a precautionary measure, to book a total provision of approximately RO 7 million primarily related to possible fraudulent activities that occurred with a corporate client we have provided facilities to. As part of our continual review of our internal controls and processes, we have enhanced preventive measures to mitigate against potential future risks of this type from developing again.

Islamic Banking

NBO's Islamic window, Muzn, was the first provider to launch in the market. Its distribution footprint has grown to six dedicated branches across the Sultanate. In 2016, Muzn's total assets reached RO 139 million, an increase of 19 per cent over the corresponding period in the previous year. Revenues grew by 12 per cent to reach RO 3.7 million translating into a net profit of RO 1.2 million. Demand for Islamic banking products and services in Oman is clearly





growing strongly and Muzn is well positioned to remain as a premium provider of Sharia' based products in the country.

Bank Performance – Core Segments

Retail Banking

The Retail Banking Group delivered another strong year in 2016. Customer retention and acquisition was helped by the 2016 launch of the innovative Nuqati loyalty programme, with customers rewarded for every day transactions like increasing their balance or making a salary transfer. Nuqati is Oman's first comprehensive banking loyalty programme and the launch represented a landmark retail banking initiative.

Another key proposition launched in 2016 was our Youth Banking product suite, which is dedicated to the specific financial and lifestyle needs of 18 to 25-year-olds and includes a strong online and mobile banking proposition. The comprehensive, feature-packed suite of products and services is designed to not only support the banking needs of younger customers, but also to increase levels of financial literacy among this key demographic.

> Nuqati is Oman's first comprehensive banking loyalty programme and the launch represented a landmark retail banking initiative.

NBO also enhanced the attractiveness of the flagship Al Kanz savings product in 2016 to offer opportunities to win significant cash prizes each month while saving money, with guaranteed winners from every region within the Sultanate. NBO also holds exclusive Al Kanz prize draws for the youth.

Over the last year, NBO has steadily transformed the market by enhancing its digital banking solutions. NBO's mobile banking app is designed to deliver security, speed, convenience and simplicity to clients. The app also helps customers manage their Nuqati loyalty programme, including enquiring about their balance and redeeming points.

Helping people prepare for the unexpected was an area where NBO demonstrated its innovation and leadership in 2016. NBO now offers a unique Elite Life plan, a first-of-its-kind comprehensive product that includes life, travel and gadget insurance to cater to both a customer's lifestyle and financial needs. In addition, we also launched a Unit Linked Insurance Plan, a whole of life plan aimed at providing flexible Investment Options to a client to meet a variety of long-term financial objectives. The product offers flexibility in choosing the right investment based on the customer's risk appetite. Similarly, NBO also introduced Himayati My Health Plus, a first-of-its-kind comprehensive Takaful plan offering a broad level of financial protection for women in the Sultanate.

Operationally, NBO's dedicated customer experience division continued to review turnaround times, operational efficiencies and business processes, with their work closely guided by customer feedback and research.

Corporate, Government and Investment Banking

Given the Sultanate's ambitious diversification strategy, providing advisory services and financing for nationally important infrastructure projects was a key priority for NBO in 2016. Over the last three years alone, we have committed more than US$1 billion to support major developments, and we continued to play a full and active role in this area in 2016.

Throughout the year, NBO was proud to utilise its financial strength and technical expertise to support strategically important projects of national importance. NBO was particularly active in projects in the tourism, oil & gas and infrastructure sectors.

We have introduced an exclusive priority service for key corporate clients to deliver customer service excellence and further strengthened business-to-business solutions to offer uninterrupted banking services to our corporate clients.

The Government Banking and Financial Institutions Group has recorded strong growth in deposits, in the midst of a challenging economic environment, with a sharpened focus on driving technological leadership through the introduction of various business-to-business digital banking solutions that seek to enhance clients' banking experience and deliver a seamless one-stop-shop service.

To enhance NBO's position at the forefront of innovation in Oman's banking industry, a series of unique apps were introduced over the last 12 months, including NBO's MarketZone app, which was launched to provide a quick, simple and secure way for customers to monitor and trade stocks on the Muscat Securities Market.

Commercial Banking Group

Small & Medium Enterprises (SME)

NBO has a long and proud track record of providing the Sultanate's SMEs with the financial and technical support they need to thrive. NBO has gained a reputation for being the premier banking solutions provider for SMEs. Our suite of Tijarati products supports SMEs with core solutions such as a business current account and a full range of loans and finance, in addition to a much deeper level of guidance provided by our first-of-their-kind SME Hubs, staffed by dedicated, expert employees.

We believe the growth of the entrepreneurial sector in Oman will also lead to a boom in cross-border trade, particularly with the UAE. This, in turn, is supporting diversification efforts by helping local companies grow by expanding overseas.

Business Banking

NBO's suite of Business Banking products and services includes trade finance, cash management, treasury, trade finance, retail banking for employees, and the exclusive Sadara banking service for the businesses' senior management team. The team also provides contract financing and construction loans to mid sector corporates.

The Business Banking team takes an advisory-led approach to serving clients with the objective of supporting them with their operational and strategic decision making. Moreover, NBO works with clients to create bespoke financial and advisory solutions tailored to their unique needs and requirements.

This approach continues to deliver success. As of December 31, 2016, total credit extended to the mid corporate sector stood at RO 101 million, a 13 per cent growth over the corresponding period last year.

Risk Management

Our robust approach to risk management is at the core of our financial strength and business model. We continue to implement various controls and risk mitigation measures to safeguard NBO against any potential market and liquidity risks, as well as operative and strategic risks.

As a testament to this, we recently strengthened our Corporate Credit Administration Unit, Compliance, Trade Finance and Operations divisions, we continue to enhance our Early Warning Indicator process to proactively identify and manage any high risk accounts across our businesses, and we continue to automate our credit risk processes to enhance efficiencies and to sharpen our focus on strong and quality assets.

> The Group had initiated a lean management programme titled "Al Jawda", a staff engagement initiative that seeks to drive operational efficiencies across all layers.

Digital Banking

Achieving technological leadership and driving innovation internally and externally continue to be key themes for the bank. Recent years have seen NBO embrace the latest technology to transform the way we interact with customers. In particular, we have invested heavily in mobile banking solutions, as well as emerging technologies.

Innovations have included the launch of instant debit and credit card issuance machines at flagship branches, and the roll-out of a new core banking platform for Muzn and Commercial Banking clients to enhance customers' banking experience.

NBO's Ibtikar platform was introduced in 2014 with the underlying objective of motivating employees to develop original innovations that can be used to introduce new products and services, enhance productivity, advance the customer experience, boost turnaround time, improve our overall business performance, create synergies, and to build key differentiators for NBO. Last year, over twenty innovative prototypes were developed by employees, with the customer at the heart of these innovations. Some of these innovations will be rolled out very shortly. The implementation of programmes like this underpin our determination to unlock potential and harness innovation by engaging, informing and educating NBO's staff.

Operations

The Operations Group had consolidated its activities to enhance productivity and efficiency across the organization to deliver a consistently superior customer experience across all customer touch-points. To this effect, the Group had initiated a lean management programme titled "Al Jawda", a staff engagement initiative that seeks to drive operational efficiencies across all layers.

We also continued to invest in enhancing our IT infrastructure to enhance operational controls and mitigate any potential risks.

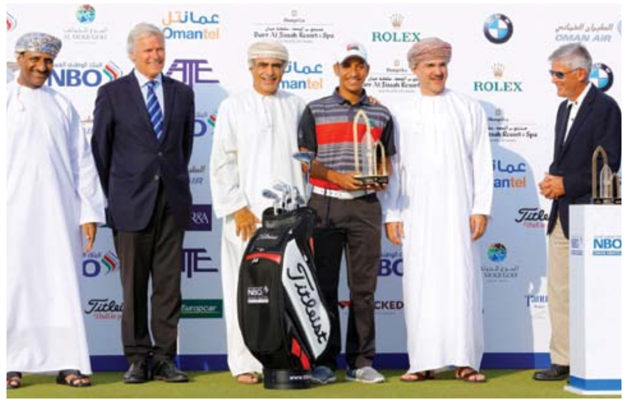
Building on our commitment to our customers, we further strengthened our complaint handling processes with a marked improvement in service levels. We also introduced various initiatives to improve the service culture by ensuring that over 50 per cent of our workforce were trained to deliver a superior customer experience in line with our new service code.

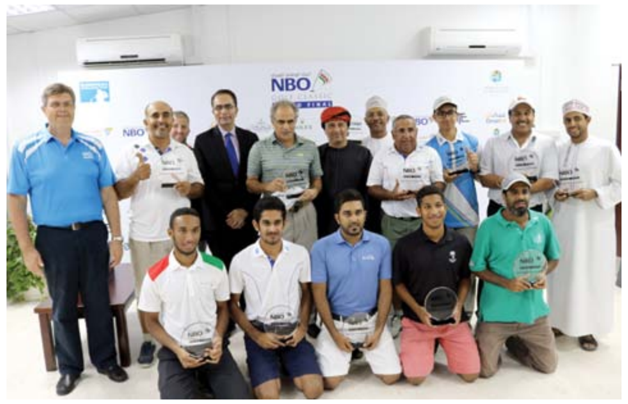
Human Resources

Engaging, informing and educating employees remained priorities throughout 2016. Led by our in-house training division the Academy of Excellence, NBO delivered a comprehensive range of programmes for employees covering key skills such as personal effectiveness, leadership and technical proficiency.

Courses included the intensive ten-week Core Banking Programme, a three-day Project Management course aimed at strengthening core competencies of employees, and the NBO Leadership Programme designed to harness the leadership qualities of middle managers. The Gold and Silver Leadership Programmes form part of our wider talent and leadership development framework to identify and develop the next generation of middle management and junior level talent respectively.

Both the Qadat Al Mustaqbal and Training Programme for Diploma Holders were management trainee initiatives that were introduced to identify talent and to help facilitate





a smooth take-off to a career in the banking industry for students. The pioneering Women's Leadership Programme initiative was also launched this year to deliver coaching and mentoring to NBO's potential female leaders.

Corporate Social Responsibility (CSR)

As focused as NBO is on achieving financial success, we remain steadfast in our commitment to the communities we serve. In 2016 we delivered a comprehensive Corporate Social Responsibility programme that makes a meaningful and sustainable difference in the Sultanate.

We are particularly active in trying to encourage the entrepreneurial instincts of young people and organised a number of events in the successful NBO Chairman's Speaker Series platform in 2016. Each event invites a leader in a specific field to give a talk on their life story while introducing novel and profound ideas, which helps to spark the entrepreneurial spirit among Oman's youth.

Another initiative with the same aim is NBO's Innovation in SME Award for students, a unique competition open to all full-time undergraduate university students in Oman, with entrants spending several months developing an innovative and promising business idea related to a range of sectors, with the winner receiving a cash prize and mentorship from NBO. Let's Go Company, makers of an innovative camping chair founded by students from the Higher College of Technology, won the second edition of the competition in 2016 and is now working with the National Business Center's prestigious incubator programme, while "High-tech" company, founders of the unique water distribution system, won the third edition of the competition this year.

> We created 15 university scholarships for students from low income families, who upon completion of their studies will be offered a two-year employment contract with NBO.

2016 saw further outstanding young Omanis earn places on the scholarship programme created to mark the 45th anniversary of His Majesty Sultan Qaboos bin Said's reign. We created 15 university scholarships for students from low income families, who upon completion of their studies will be offered a two-year employment contract with NBO.

NBO's commitment to the strategically important tourism sector was evident once again in 2016, as we have been particularly active in supporting the fast-growing sport tourism segment. A highlight was November's NBO Golf Classic Grand Final in Muscat, the season-ending event of the European Challenge Tour Season, which also attracts sponsorship from companies such as BMW Group Importer, Oman Air, Shangri-La, Al Turki and Majan Shipping. In addition, we signed a strategic sponsorship with the Desert Marathon Challenge, which attracts sports enthusiasts from various countries across the globe, while promoting tourism and supporting entrepreneurs in the area.

The Women@NBO initiative was launched in February to deliver coaching and mentoring to NBO's female employees, with a prominent speaker invited to give a talk each quarter to women working at NBO. It is championed by NBO's Salma Al Jaaidi, the first female Chief Risk Officer in Oman.

At NBO, we have made it a strategic priority to give our unwavering support to the Tanfeedh initiative, the National Programme for Enhancing Economic Diversification. Over a six-week period, the NBO team worked alongside hundreds of companies in the private and public sector in a series of workshops, seminars and presentations. As a result, a visual representation of 121 projects and initiatives were revealed. Through our active involvement and as the only banking

partner heavily involved, we have seen the benefits of the scheme first-hand. Bringing people together and establishing clear metrics for success aligns firmly with our approach, and we are proud to play a part in such an impactful programme.

As a testament to our commitment to preserving our environment and heritage, we also partnered with the Diwan Royal Court's Conservation of the Environment Office to fund a three-year research study that will trace the movements of the Arab Ibex, an endangered species, with the ultimate goal of protecting this species and ensuring its continuity in the near future.

We continue to support local Omani talent and stars such as our brand ambassador Ahmad Al Harthy, and our Omani amateur golf players.

An unwavering commitment to the community was a defining characteristic over the last 12 months, and an aspect of paramount importance to NBO. A series of annual Iftar Sa'im initiatives were held to support families with essential provisions. A team of volunteers including the bank's senior management team delivered more than 1,400 food hampers to low income families across the Sultanate to ensure they had essential food staples ahead of the Holy Month.

Outlook

Despite potential headwinds in the global economy, NBO's strong balance sheet, clearly defined strategy, and laser-like focus on serving customer segments according to their unique needs gives us optimism about the outlook for 2017.

Oman is an economy in transition, and as a bank with vast local and regional experience, financial strength and networks, NBO will continue to be at the centre of this success story over the coming years and decades. The shift from cash to cards and offline to online is also gathering pace in Oman and will inevitably become the norm all over the world in the not too distant future. NBO will remain at the forefront of the digital banking revolution taking place across the industry.

In summary, in 2017, we will continue to drive our strategy forward by delivering a consistently superior banking experience and compelling value propositions, optimizing distribution channels, maintaining technological leadership, encouraging innovation and enhancing efficiencies and productivity across the organisation.

We are confident this approach will continue to yield results in 2017.

Ahmed Al Musalmi
Chief Executive Officer

Corporate Governance Report 2016

EY
Building a better working world

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

REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

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

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

2) We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2016. The Bank's Board of Directors has identified certain areas of non-compliance with the Code, which are included in the Bank's report.

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of National Bank of Oman SAOG to be included in its annual report for the year ended 31 December 2016 and does not extend to any financial statements of National Bank of Oman SAOG, taken as a whole.

Ernst & Young LLC

Muscat
5 March 2017

A member firm of Ernst & Young Global Limited

CORPORATE GOVERNANCE REPORT – 2016

Corporate governance deals with the way companies are managed and led, defines the roles of the Directors and formalizes the internal control process within the institution.

The Board of Directors of National Bank of Oman (the Bank) supports the fostering of a healthy governance culture at the Bank. Accordingly, the Board and its Committees continuously evaluate and improve their governance practices, policies and procedures and confirm that the Bank applies the principles set out in the Capital Market Authority (the "CMA") Code of Corporate Governance (the "Code") as amended for Muscat Securities Market (the "MSM") Listed Companies and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (the "CBO"). In 2016, a new Code of Corporate Governance ("Code") issued by the Capital Market Authority (CMA) came into effect on July 22nd. The Board and Senior Management have worked together to ensure the prompt and proper implementation of the principles stipulated in the Code. The Executive Committee of the Board (EXCOB) was restructured to become the Board "Executive, Nomination and Remuneration Committee" (ENRC). Memberships and Terms of Reference of some of the Board committees were amended accordingly. Many existing policies have been revised and some new policies were established to be in line with the new Principles of the Code.

In recognition of the best practices and corporate governance measures applied, the Bank has reached its highest achievements in 2016 by winning the 8th AIWA Awards for Best Performing Companies "large cap category", organized annually by Alam Al-Iktissad Wal-Aamal magazine, the GCC Best Employer Brand at the annual GCC Best Employer Brand Awards 2016 held in Dubai and finally awarded First Rank for the second year in a row in the annual Business Today-Ernst & Young survey of the Sultanate's banks and non-banking financial companies.

In accordance with the directives of the Code promulgated by the CMA, the Bank continues to include a separate report on the Bank's Corporate Governance which is duly certified by the statutory auditors within the Annual Report.

Board of Directors

The Board of Directors is responsible for the overall direction, supervision and control of the Bank. Specific responsibilities of the Board include approving the business objectives of the Bank, approving strategies and policies which need to be pursued in order to achieve these objectives, and reviewing on an on-going basis the performance of the Bank in relation to its stated objectives as well as adherence to policies.

Appointment of Directors

The Board is comprised of 11 members who were elected by the shareholders in March 2014 for a period of three years. The current term of all the Directors will expire at the end of March 2017.

Process of nomination of the Directors

The nomination of the Directors is as per Articles 29 to 34 of the Bank's Articles of Association and also in accordance with CBO, CMA, Ministry of Commerce and Industry ("MOCI") and MSM regulations. The ENRC reviews the appropriate skills and characters required of the Board Members and recommends suitable names to the shareholders for election. Shareholders retain the power to elect any candidate to the Board irrespective of whether this candidate is recommended by the Board or otherwise.

Characteristics and core competency of the Board

Members of the Board and its committees bring appropriate knowledge and experience as well as independent judgment to Board meetings and in passing resolutions. The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities over the Executive and Senior Management of the Bank.

Information given to the Board

The Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational, risk, compliance and governance issues. The information provided to the Board is as per the guidelines provided in the Code.

On appointment, each Director receives information about the Bank through an induction pack and is advised of the legal, regulatory and other obligations devolving upon a Director of listed companies.

Composition of the Board

No Director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is in the Sultanate of Oman, or is a Chairman of more than two such companies.

The following tables show the position of each of the current Board members in line with the Code's requirements:

Table (1)

Name of Director	Representing	Category of the Director*
Mr. Mohammed Mahfoodh Al Ardhi Chairman	Rimal Investment Projects LLC Equity Investor	NEX-IND
Sheikh Abdulla Bin Ali Bin Jabor Al Thani Deputy Chairman	The Commercial Bank Equity Investor	NEX-IND
Sayyidah Rawan Ahmed Al Said – Director	Herself	NEX-IND
H.E. Abdul Rahman Al Attiyah - Director	Himself	NEX-IND
Ms. Amal Bahwan – Director	Suhail Bahwan Group Holding Equity Investor	NEX-NIND
Mr. Hamad Mohammed Al Wuhaibi – Director	Ministry of Defense Pension Fund Equity Investor	NEX-IND
Mr. Mohamed Mandani Al Emadi – Director	Himself	NEX-IND
Mr. Saif Said Al Yazidi - Director	Himself	NEX-IND
Dr. Faisal Abdullah Al Farsi - Director	Public Authority for Social Insurance Equity Investor	NEX-IND
Mr. Rahul Kar - Director	Himself	NEX-IND
Mr. Fahad Abdul Rahman Badar - Director	Himself	NEX-NIND
Mr. Ezzeddine Bizri – Company Secretary	N/A	N/A

*NEX: Non-Executive Director, IND: Independent, NIND: Non Independent

As per the CMA guidelines, nine Board members are currently considered as independent (which is more than one third of the Board) as per the required minimum number of Independent Directors as stated in the Bank's Articles of Association and the Commercial Companies Law.

Corporate Governance
Report 2016

Table (2)

Name of the Director	Other Board Committees Membership*	No. of other S.A.O.G Boards membership	No. of Board meetings attended	Attended last AGM on 27th March 2016
Mr. Mohammed Mahfoodh Al Ardhi Chairman	ENRC	NIL	7	Yes
Sheikh Abdulla Bin Ali Bin Jabor Al Thani Deputy Chairman	ENRC	NIL	6 (2 by proxy)	Yes
Sayyidah Rawan Ahmed Al Said	BAC	2	6	Yes
H.E Abdulrahman Hamad Al Attiyah	BRC	NIL	5 (2 by proxy)	Yes
Ms. Amal Suhail Bahwan (Appointed on 27/04/2016)	ENRC, BRC	NIL	4	No
Mr. Mohammed Ismail Al Emadi	BRC, BAC	NIL	6 (1 by proxy)	Yes
Mr. Hamad Mohammed Al Wahaibi	CCB, ENRC	3	6	Yes
Mr. Saif Said Al Yazidi	CCB	2	7	Yes
Mr. Rahul Kar (Appointed 27/04/2016)	BAC, CCB	3	4 (1 by proxy)	No
Dr. Faisal Abdullah Al Farsi	BAC, BRC	1	5	Yes
Mr. Fahad Badar (Appointed on 17/05/2016)	CCB	NIL	3	No
Mr. Andrew Stevens (Resigned on 14/04/2016)	EXCOB, CCB	NIL	2	Yes
Mr. Suresh Shivdasani (Resigned on 31/03/2016)	EXCOB, BRC	NIL	2	Yes
Mr. Omar Suhail Bahwan (Resigned on 31/03/2016)	CCB	NIL	NIL	No

*BAC: Board Audit Committee, CCB: Credit Committee of the Board, BRC: Board Risk Committee, ENRC: Executive, Nomination and Remuneration Committee, EXCOB Executive Committee of the Board

Number and dates of Board meetings

National Bank of Oman held seven Board meetings during 2016. They were on January 25th, March 27th, April 24th, July 21st, October 31st, December 14th and December 28th 2016. The maximum interval between two meetings was 102 days. This is in compliance with the current regulations, which require meetings to be held within a maximum time gap of four months.

Remuneration to Board and Top Management

The sum of the benefits (e.g. salaries, perquisites, bonuses, gratuity, pension, etc.) paid to the top 5 senior managers of the Bank in 2016 is RO 1,707,038/-

Staff service contracts are two years for expatriate officers and determined by the prevailing labor laws for Omanis. The notice period is between two and six months for the existing contracts.

As all members of the Board are Non-Executive Directors, accordingly no fixed remuneration or performance linked incentives are applicable. The Non-Executive Directors are paid sitting fees and reimbursement of expenses for attending the Board and Committee meetings. In addition to the sitting fees paid, the total remuneration for the Directors, in 2016, is RO 108,100.000

subject to the Annual General Meeting approval proposed to be held on 26th March 2017.

The details of the sitting fees paid or accrued for payment during 2016 are as follows:

Table (3)

Name of the Directors	Total fees RO	Remarks
Mr. Mohammed Mahfoodh Al Ardhi **Chairman**	7,650	
Sheikh Abdulla Bin Ali Bin Jabor Al Thani Deputy Chairman	3,600	
Sayyidah Rawan Ahmed Al Said	9,900	
H.E. Abdulrahman Hamad Al Attiyah	5,250	
Ms. Amal Suhail Bahwan	7,200	Appointed on 27/04/2016
Mr. Mohammed Ismail Al Emadi	10,000*	
Mr. Hamad Mohammed Al Wahaibi	10,000*	
Mr. Saif Said Al Yazidi	10,000*	
Mr. Rahul Kar	7,050	Appointed on 27/04/2016
Dr. Faisal Abdullah Al Farsi	10,000*	
Mr. Fahad Badar	5,850	Appointed on 17/05/2016
Mr. Suresh M Shivdasani	1,500	Resigned on 31/03/2016
Mr. Andrew Charles Stevens	3,900	Resigned on 14/04/2016
Mr. Omar Suhail Bahwan	Nil	Resigned on 31/03/2016
Total	**91,900**	

*The total amount of sitting fees that can be paid to a Director during a financial year is RO 10,000 according to the current regulations.

The total training, hotel and travel expenses related to the Board Members during 2016 are RO 60,501.424.

Board Committees

As at the end of December 2016, The Board of Directors has four standing committees: Executive, Nomination and Remuneration Committee (ENRC), the Board Audit Committee (BAC), the Board Risk Committee (BRC) and the Credit Committee of the Board (CCB).

Board Audit Committee (BAC):

The BAC comprises of four members all of which are independent. The committee has met seven times in 2016.

The composition of the BAC and particulars of meetings attended by the members of the BAC are given in the table below:

Table (4)

Name	Position	Meetings attended	Remarks
Sayyidah Rawan Ahmed Al Said	**Chairperson**	7	
Mr. Mohd Ismail Mandani Al-Emadi	Member	6	
Mr. Faisal Abdullah Al Farsi	Member	6	
Mr. Rahul Kar	Member	3	Joined the committee on 01/05/2016
Mr. Omar Bahwan	Ex-Member	Nil	Resigned from the committee on 31/03/2016

The Audit Committee Charter which specifies the responsibility and authority of the Board Audit Committee is approved annually by the Board.

The responsibilities of the Committee as specified in the Audit Committee Charter include but are not limited to:

- Assisting the Board in discharging its statutory/oversight responsibilities on financial and accounting matters.
- Overseeing the financial reporting process, on behalf of the Board, including reviewing the annual and quarterly financial statements and recommending such statements for the approval by the Board. To review accounting qualifications, if any, in the draft financial statements and discussion of the accounting principles with the external auditors.
- Reviewing the audit plans and reports of the external auditors and internal auditors and considering the effectiveness of the actions taken by management on the auditors' recommendations.
- Appraising and reporting to the Board on the audits undertaken by the external auditors and internal auditors, the adequacy of disclosure of information and the appropriateness and quality of the system of management including internal controls.
- Reviewing the independence (particularly with reference to any other non-audit services), fees and terms of engagement of the bank's external auditor and recommend their selection to the Board for placing before Annual General Meeting for appointment.
- Reviewing and approving the Audit Division Charter annually, which describes the independence, authority, scope, responsibility and standards of the Internal Audit function. Directing and supervising the activities of the Internal Audit function.
- Review and discuss with the Chief Internal Auditor, the findings of critical importance arising from the internal audits carried out in the period between meetings.
- Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
- Review and discuss with the management, internal auditors and external auditors the adequacy and effectiveness of the internal control system, including information technology security, accounting and financial controls and the bank's system to monitor and manage business risk, and its legal and ethical compliance programmes. They may appoint external consultants if deemed necessary.

Credit Committee of the Board (CCB):

The CCB comprises of four members. The committee has met eleven times during 2016. The names of the members, their positions and their meeting attendance appear in the table below:

Table (5)

Name	Position	Meetings attended	Remarks
Mr. Hamad Al Wahaibi	**Chairperson**	11	
Mr. Saif Said Al Yazidi	Member	11	
Mr. Rahul Kar	Member	5	Joined the committee on 01/05/2016
Mr. Fahad Badar	Member	6	Joined the committee on 17/05/2016
Mr. Andrew Charles Stevens	Ex-Member	3	Resigned from the committee on 14/04/2016
Mr. Omar Suhail Bahwan	Ex-Member	Nil	Resigned from the committee on 31/03/2016

The CCB's main responsibilities, include but are not limited to:

- To approve and renew credit transactions up to the maximum legal limits of the Bank including underwriting exposures and sell down targets.
- Review reports of risk assets covering bank wide portfolio trends including higher risk assets, exposures as well as the other reports at least every quarter.

Board Risk Committee (BRC):

The Board Risk Committee comprises of four members. The committee has met six times during the year 2016. The major responsibilities of the committee include risk identification and review, risk policy, risk limits and risk management and monitoring, review management of recovery strategies of problem loans and adequacy of provisioning.

The names of the members of the BRC, their positions and their meeting attendance appear in the table below:

Table (6)

Name	Position	Meetings Attended	Remarks
Mr. Mohd Ismail Mandani Al-Emadi	**Chairperson**	6	
H.E. Abdul Rahman Hamad Al-Attiyah	Member	5	
Dr. Faisal Al Farsi	Member	6	
Ms. Amal Bahwan	Member	4	Joined the committee on 01/05/2016
Mr. Suresh M Shivdasani	Ex-Member	0	Resigned from the committee on 31/03/2016

The responsibilities of the Committee as specified in the Terms of Reference which includes but is not limited to:

- The Committee sets the policy on all risk issues and maintains oversight of all Bank risks through the Management Risk Committee (MRC). More specifically the key responsibilities of the Committee are:

1. To establish an appropriate Credit Risk Environment.
2. To develop appropriate Operational Risk Management.
3. To maintain an oversight on Interest Rate Risk, the bank's balance-sheet and income risks
4. Management of Liquidity Risk.
5. Management of all other Market Risks including Foreign Exchange.
6. Approval of new policies of the Bank and periodic review of the existing policies.
7. Consider strategic Risks facing the Bank and refer suggestions for mitigating such risks to the full Board.
8. Approval of credit loss write-offs which are over the limits prescribed for the Management.
9. Overseeing information security risk and business continuity risk.
10. Review management of recovery strategies of problem loans and adequacy of provisioning.

- **Specific Responsibilities of the Committee include the following:**

1. Recommend the Risk Strategy of the Bank, including but not limited to credit strategy, for Board approval.
2. Recommend the Risk Charter of the Bank for Board approval, review the Charter annually
3. Set a high-level bank-wide risk policy framework within the segments of credit, market, operational, reputation, legal and accounting risks.
4. Establish risk tolerance levels and portfolio limits, including limits associated with industry sector, geography, asset quality and others, as appropriate.
5. Monitor the enterprise wide dashboard of risk through the MRC.
6. Review and assess the performance of MRC and the Risk Group in monitoring and controlling all risk to ensure that risk strategies and policies approved by the Board are adhered to and implemented.
7. Direct oversight over Regulatory and Legal Compliance through the MRC.
8. Regularly review stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and that predicted by the risk measures.
9. Monitor compliance of various risk parameters by business lines.
10. Approval and annual review of all asset and liability product strategies to include but not be restricted to, all retail credit and deposit products, treasury and investment products and any other non-standard products relating to corporate banking.
11. Direct oversight over specific credit policy issues including but not limited to
    - Credit rating models, country limits, concentration issues, loan review mechanism and findings classification policy for loans and provisioning policy.
    - Approval of new product strategies/ initiatives having credit implications for the Bank.
    - Review of appropriateness of credit authorities and delegations to management.
    - Periodic review of the Bank's Credit Risk Rating methodology and appropriateness of risk ratings.
12. Review the Corporate Governance Report.

Executive, Nomination & Remuneration Committee of the Board (ENRC)

The ENRC comprises of four members and met four times during the year 2016.

The names of the ENRC members, their positions and their meeting attendance appear in the table below:

Table (7)

Name	Position	Meetings Attended	Remarks
Mr. Mohammed Mahfoodh Al Ardhi – Chairman	**Chairperson**	4	
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairman	Member	1	Joined the committee on 01/05/2016
Ms. Amal Suhail Bahwan	Member	3	Joined the committee on 01/05/2016
Mr. Hamad Mohammed AL Wahaibi	Member	2	Joined the committee on 21/07/2016
Sayyidah Rawan Ahmed Al Said	Ex-Member	2	Resigned from the committee on 21/07/2016
Mr. Andrew Charles Stevens	Ex-Member	1	Resigned from the committee on 14/04/2016
Mr. Suresh M Shivdasani	Ex-Member	0	Resigned from the committee on 31/03/2016

The main responsibilities of the ENRC as specified in the Terms of Reference include but are not limited to:

- Develop the long term strategy of the Bank based on economic and market conditions and the Board's vision and recommend it for Board approval.
- Review the Bank's overall strategy and monitor implementation and execution.
- Review the performance of the Bank against approved strategy and budgets.
- Review and recommend for Board approval the Bank's annual Budgets and Business Plans including all Operating and Capital Expenditure budgets of the Bank in line with the long term strategy and changes in economical, market and regulatory environments.
- Review reports and analysis of the Bank's financial and operating performance, and evaluate key performance indicators against their accompanying strategies.
- Review the performance of the Investment Banking function including all investments reports.
- Review and recommend to the Board the Bank's proposals for Capital Raising Plan.
- Review and approve the Banks Dividend Policy and recommend to the Board the proposed dividend payout.
- Review and approve NBO's brand vision.
- Review and approve the Bank's Human Resources Manual and Policy and the Bank's Compensation Policy and Bonus Plan.
- Be responsible for setting the Bank's remuneration framework for management and staff as per the Bank's Compensation Policy and Bonus Plan and ensure its proper implementation.
- Review prevailing compensation and benefits and ensure consistency with market trends as per the Bank's Compensation Policy and Bonus Plan in accordance with regulatory guidelines.
- Review, approve and amend policies related to employee reward and performance related incentive plans and assume the function and responsibilities of the Remuneration Committee as specified in the Bank's Compensation Policy as approved by the Board.
- Handle appointment and movement of key executives in the Bank from the reward level Assistant General Manager (AGM) and above.
- Review and approve major changes in the Bank's organizational structure at the level of Divisional Heads and above.
- Have specific responsibility to recommend for Board approval, and to review and update as necessary, a general strategy and policies for the acquisition, ownership and development of the Bank's properties.

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- Approve the acquisition and sale of any property required for the business of the Bank.
- Approve the appointment of construction companies and consultants for the Bank's Head Office, and agree the terms of any construction contract (including any variation order), consultancy or property or facilities management contract relating to any property owned by the Bank.
- Shall oversee the performance and implementation of any property-related projects.
- Propose the annual CSR and Sustainability budget to the Board, which shall submit the same to the shareholders in their Annual General Meeting for approval.
- Identify methods of payment for CSR and Sustainability Initiatives.
- Submit a report at the end of the year to the AGM for ratification of amounts paid to CSR and Sustainability Initiatives.
- Adopt a transparent method in preparing the Nomination Policy targeting directors of high competence and caliber, without prejudice to the right of any of the shareholders to stand for election or to nominate whoever they see fit.
- Exert the best efforts to the assist the Bank in formulating clear, credible and accessible policies to inform the shareholders about Director's and executives' remuneration.
- Prepare detailed job descriptions of the role and responsibilities for Directors including the Chairperson. This will facilitate the orientation of the Directors towards their tasks and roles and appraise their performance.
- Look for and nominate qualified persons to act as interim directors on the Board in the event a seat becomes vacant.

Board Members Profiles

Air Vice Marshal (Ret'd) Mohammed bin Mahfoodh bin Saad Al Ardhi, Chairman

Mohammed Mahfoodh Al Ardhi is currently the Chairman of the National Bank of Oman (NBO) and the Executive Chairman of Investcorp.

He started out his career in 1978 as a young ambitious fighter pilot in the Royal Air force of Oman which led to him becoming the Chief of the Omani Air force from 1992 to 2003. HM the Sultan of Oman awarded him the "Order of Oman" in 2000.

After retiring from the Air force, holding a Bachelor of Science degree in Military Science from Royal Air Force Staff College in Bracknell, England. Mohammed pursued his Master's degree in Public Policy focusing on managing financial institutions from the Kennedy School, Harvard University, USA. Upon his return from Harvard, he joined his family business as Chairman of Rimal Holding.

Mohammed joined the board of NBO as Deputy Chairman on March 2011 and became the Chairman of the Board on 26th March 2014. Under his Chairmanship, the Bank established a vision of growth and an execution strategy that made NBO the fastest growing and the most profitable bank in Oman.

Positions:

- Chairman, National Bank of Oman
- Executive Chairman, Investcorp
- Member of the International Advisory Board of The Brookings Institute Washington DC, United States of America
- Member on the Board of Trustees of Eisenhower Fellowships Philadelphia, USA
- Member of the Community Chairmen Group of the World Economic Forum, Switzerland
- Member of the Harvard Kennedy School Dean's Council

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani, Deputy Chairman

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani has been a Director of the Bank since July 2005 and serves as a member of the Board Executive, Nomination and Remuneration Committee (ENRC). His Excellency is the Chairman of The Commercial Bank (P.S.Q.C.) in Qatar, a member of the Board of Directors for United Arab Bank, P.J.S.C. in UAE and is the Owner of Vista Trading Company (Qatar), a Partner in Dar Al Manar (Qatar), Domopan Qatar and Integrated Intelligence Services Company (Qatar).

H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani holds a Bachelor of Arts Degree in Social Science from Qatar University.

Sayyidah Rawan Ahmed Al Said, Director

Rawan Ahmed Al Said is the Managing Director and CEO of Takaful Oman SAOG, a Sharia Compliant Insurance Company. Prior to joining Takaful Oman, she was the Managing Director and CEO of ONIC Holding Corporation. Before moving to the Private Sector, Rawan was the Deputy CEO-Investment for the State General Reserve Fund of Oman, leading the execution of many mega investments internationally. She has over 28 years of experience in the financial industry, 20 of which are in the Public sector.

She is on the Board of a number of reputed Companies and Financial Institutions in Oman and in the region. She has been recently appointed as a Board Member of Oman Oil Company SOAC and its Audit Committee. She is also a Board Member of the Public Authority for the SME Development (Riyada), Board Member of Oman National Investments Development Company ONIDCO and Chairperson of its Equity and GCC Funds, the Chairperson of Oman Investment Corporation SOAC, Deputy Chairperson in Takaful Oman SOAG, and a Board Member and Audit Committee Chairperson in National Bank of Oman SOAG, Board Member in Oman Oil Marketing SOAG, Board Member in International General Insurance (IGI) Jordan, and National Finance House (NFH), Bahrain.

She is also a Member on the Investment Committee of the Public Authority for Social Insurance, Chairperson of Al Kawther Fund (Islamic Compliant Fund) and a Member of the Investment Committee of Orphans & Incapacitated Funds in the Ministry of Justice.

Sayyidah Rawan Ahmed Al Said is the First and the only Female who holds a CEO position in a public listed company in Oman.

In 2011, She was bestowed the Business Professional (BizPro) Leader Award. In 2012, was ranked 14th in Forbes Middle East for the 'Most Powerful Arab Business Women in Listed Companies'. In 2014, Rawan was named among the Best Chief Executives in the region by Trend in collaboration with INSEAD (The Business School for the World). Also she was Awarded Hall of Fame by MARA Excellence Awards. In 2015, she was honored with two prestigious Awards; Asian Women Leadership and Leadership of the Year in MENA. In 2016 she was honored with Honorary Doctorate Degree from Commonwealth University in UK.

Sayyidah Rawan has a MSc in Economics &Finance from Loughborough University UK. She also holds a Post Graduate Diploma in Investment Analysis from Stirling University UK, and BA in Economics & Political Science from the American University in Cairo (AUC)."

His Excellency Abdul Rahman bin Hamad Al Attiyah, Director

Excellency Abdul Rahman Bin Hamad Al Attiyah has been a Director of the Bank since November 2014. He serves as a member of the Board Risk Committee (BRC) and is a member of the Board of The Commercial Bank (P.S.Q.C.) since March 2014. He began his career in 1972 at Qatar's Ministry of Foreign Affairs and has served as Qatar's Ambassador in Geneva, Saudi Arabia, France, Italy, Greece, Switzerland, Yemen, and Djibouti. He also served as a permanent representative to the United Nations in Geneva, the Food and Agriculture Organization (FAO) in Rome, and UNESCO in Paris. He is the Minister of State of Qatar and holder of the state award of appreciation.

Excellency Al Attiyah was the former Secretary-General of the Gulf Cooperation Council (GCC) from 2002 until 2011. His holds a Bachelor of Arts Degree in Political Science and Geography from the University of Miami, United States of America. He is the owner and Chairman of Mawten Trading in Qatar and Vice President of the Board of Trustees of the Arab Thought Forum – Amman, Jordan.

Mr. Hamad Mohammad Hamood Al Wahaibi, Director

Mr. Hamad Mohammed Al Wahaibi has been a Director of the Bank since March 2014. He is the Chairperson of the Credit Committee of the Board (CCB) and is a member of the Board Executive, Nomination and Remuneration Committee (ENRC). He has 16 years of experience in the GCC. He has been a director of investment with the Ministry of Defense Pension Fund for the past seven years. Mr. Al Wuhaibi is also a member of the boards of Galfar Engineering and Contracting Company, Voltamp Energy Company and Al Madina Takaful Company.

Mr. Al Wahaibi holds a Masters of Business Administration (MBA) degree, specializing in Finance, and he is a Chartered Financial Analyst (CFA) charterholder, as well as a Chartered Alternative Investment Analyst (CAIA) charter holder.

Ms. Amal Suhail Bahwan, Director

Member of the Executive, Nomination and Remuneration Committee (ENRC) and the Board Risk Committee (BRC). Ms. Amal Suhail Bahwan is the Vice Chairperson of Suhail Bahwan Group Holding LLC. She has extensive experience in managing companies across the Bahwan Group.

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She is also the Chairperson of Oman Ceramics SAOG, Director and Executive Committee member of National Pharmaceutical Industries SAOG and Director of Oman Oil Marketing Co SAOG.

Ms. Amal has a Bachelor's degree in Education and a Master's degree in Administration from the Sultan Qaboos University.

Mr. Mohammed Ismail Mandani Al Emadi, Director

Mr. Mohammed Ismail Mandani Al Emadi has been a Director of the Bank since November 2014 and serves as the Chairperson of the Board Risk Committee (BRC) and a member of the Board Audit Committee (BAC). He is also a member of the Board for The Commercial Bank (P.S.Q.C.) and a member of the Board of Alternatifbank A.S. (ABank), Turkey and has over 30 years of banking experience. Mr. Al Emadi has held a number of key roles at Commercial Bank until 2006, after which he served as Chief Executive Officer of Qatar Real Estate Investment Company Q.S.C. up to 2011, and also served as its Director from 2003 until 2005.

Mr. Al Emadi holds a Bachelor of Arts Degree in Business Administration and Economics from Holy Names University, California.

Mr. Saif Said Salim Al Yazidi, Director

Member of the Credit Committee of the Board (CCB). Mr. Saif Said Al Yazidi has been a Director of the Bank since March 2008. He is a member of the Credit Committee of the Board (CCB). He holds a first degree in Management Sciences and Accounting and a Master degree in Business Administration (MBA).

Mr. Al Yazidi has over 18 years of experience in asset management covering various investment classes such as capital markets, fixed income and alternative investments. He sits on several boards of public and private companies locally and abroad.

Dr. Faisal Abdullah Al Farsi, Director

Dr. Faisal Abdullah Al Farsi has been a Director of the Bank since September 2011. He is a member of the Audit Committee and Risk Committee of the Board. In 1995 he joined the Public Authority for Social Insurance where he occupied various positions including manager of Insurance Benefits, and acting manager of Insurance Services. He has been a board member of several General Joint Stock Companies including Banks. Currently he is the Manager of the Planning Department at the Public Authority for Social Insurance.

Dr. Al Farsi holds a PHD in General Administration from the National School of General Administration in Morocco in 2016 and a Master Degree in International Business Law from Hull University in the United Kingdom in 2003.

Mr. Rahul Kar , Director

Mr. Rahul Kar has been a Director of the Bank since April 2016, and is a member of the Board Audit Committee)BAC) and Credit Committee of the Board (CCB). Mr. Kar is a Chartered Accountant with over 25 years of relevant experience and is currently working as the Financial Advisor to the Chairman of Suhail Bahwan Group Holding LLC.

Mr. Rahul is also a Director and an Audit committee member of National Pharmaceutical Industries SAOG and Al Suwadi Power Co SAOG. He is also a Director and Nomination & Remuneration committee member of Oman United Insurance Company SAOG.

Mr. Fahad Badar, Director

Mr. Fahad Badar has been a Director of the Bank since May 2016, and serves as a member of the Credit Committee (CCB). He is also a member of the Board for Alternatifbank A.S. (ABank), Turkey since September 2013 and a member of the Board for ALease Board, Turkey since March 2016. He is also a member of the Board for United Arab Bank, P.J.S.C. in UAE since July 2016.

Mr. Badar's career at The Commercial Bank (P.S.Q.C.) in Qatar spans over 17 years. Prior to his current role as Executive General Manager, International Banking, he held a number of key roles in International Banking, the Government and Public Sector Relations and the Wholesale Banking Divisions.

Mr. Badar holds an MBA from Durham University, UK and a Bachelor of Arts Degree in Banking & Finance from the University of Wales.

Composition of the Management

The organization chart of the Bank's management includes a Chief Executive Officer (CEO) as the leader of the organization whose appointment, functions and package are determined by the Board. The General Managers are appointed to assist the CEO and to lead functional groups in the Bank. The organization chart also includes Divisional Heads of all the direct subordinates of the CEO. The following table gives details of the top eight management officers along with their positions:

Table (8)

Name	Position
Ahmed Jaffer Al Musalmi	**CEO**
Ananthraman Venkat	GM - Chief Financial Officer
Andre Loots	GM - Chief Operating Officer
Faizal Mohamed Eledath	GM - Chief Information Officer and Head of Transformation
John Chang	GM - Chief Retail Banking Officer
Kumar Keswani	GM - Corporate and Transaction Banking
Nasser Mohammed Al Hajri	GM - Chief Human Resource Officer and Head of Corporate Affairs
Nasser Salim Al Rashdi	GM - Chief SME Officer and Head of International Business
Salma Salim Said Al Jaaidi	GM - Chief Risk Officer

Market Price Data:

The following table shows the high, low, and average prices of the Bank's shares and compares the Bank's performance against the broad index of banks and investment companies during 2016.

Table (9)

NBO AND MSM BANK & INVESTMENT INDEX - FY 2016

Banking & Investment Index

DATE	HIGH	LOW	CLOSE
January -16	6,336.520	6,081.47	6,336.52
February -16	6,671.62	6,644.98	6,658.16
March -16	6,976.11	6,906.51	6,906.71
April -16	7,750.37	7,716.76	7,726.58
May -16	7,466.89	7,414.21	7,414.26
June -16	7,276.46	7,263.75	7,266.32
July -16	7,494.50	7,469.38	7,469.38
August -16	7,386.18	7,322.39	7,322.39
September -16	7,410.74	7,374.24	7,376.86
October -16	7,115.02	7,086.84	7,096.93
November -16	7,202.61	7,171.98	7,202.61
December -16	7,701.88	7,671.87	7,671.92

NBO

DATE	HIGH	LOW	CLOSE
January -16	0.265	0.250	0.259
February -16	0.266	0.263	0.265
March -16	0.256	0.255	0.255
April -16	0.264	0.264	0.264
May -16	0.250	0.242	0.245
June -16	0.240	0.238	0.239
July -16	0.256	0.256	0.256
August -16	0.250	0.240	0.245
September -16	0.240	0.237	0.238
October - 16	0.227	0.226	0.227
November -16	0.235	0.231	0.232
December -16	0.237	0.237	0.237

Related Party Transactions

Details of all transactions where a Director and/or other related parties might have a potential interest are provided to the Board for their review and approval, and the interested Director neither participates in the discussions, nor do they vote on such matters.

On a half yearly basis, as of June 30th and December 31st of each financial year, the details of the Bank's related parties are produced and submitted to the Central Bank and other regulatory bodies for information and proper disclosure.

Details of all the related party transactions are provided to the shareholders as part of the financial statements submitted for approval at the Annual General Meeting along with the statement that transactions are on an arm's length and independent basis and are reasonable.

Internal Control Review

The Board attaches great importance to maintaining a strong control environment and their review has covered all controls, including financial, operational, compliance and risk management.

The Board has a collective responsibility for the establishment, maintenance and review of a system of internal controls that provides reasonable assurance of effective and efficient operations, internal financial control, and compliance with the relevant laws and regulations.

The Board has established a management structure that clearly defines roles and responsibility and reporting lines and has approved the updated policies including credit, expenditure, disclosure, corporate governance etc.

The Bank's financial position, operational and business performance is regularly reported to the Board. The actual performance achieved against budgets and prior period is reported and closely monitored.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. They are monitored through compliance with policies and procedures manuals, desk performance instructions and other circulars.

Shareholders

Communication with shareholders and investors

The Board is committed to ensure that all material information relating to the Bank's business operations is regularly communicated to its stakeholders and members of the investment community.

The Bank has its own website, where relevant information relating to the Bank, its products, its operations and annual and quarterly financial statements are posted. The Bank's website address is www.nbo.om.

Quarterly results are published and made public. https://www.nbo.om/en/Pages/About-Us/Investor-Relations.aspx

The quarterly, half-yearly, and annual results of operations of the Bank are published in leading Arabic and English newspapers in the Sultanate of Oman. After completion of the statutory audit, the annual report and the summary financial statements are sent by post to all shareholders along with the notice of the forthcoming Annual General Meeting of the Bank. Further, the shareholders are advised to contact the Bank whenever they require any updated information regarding the Bank or its operations.

The Bank also displays official new releases on its website https://www.nbo.om/en/Pages/News/Home.aspx for the shareholders, analysts and investors.

Distribution of Dividends

The distribution of dividends to the shareholders by the Bank during the last five years appears in the table below:

Table (10)

Year	Cash dividend	Bonus shares
2012	17.5%	Nil
2013	15%	10%
2014	17%	10%
2015	17%	10%
2016 ((Recommended by the Board subject to Shareholders' approval)	**15.92%**	**5%**

Corporate Social Responsibility (CSR)

During the year 2016, the Bank distributed donations to the charitable organizations and other non-profitable organizations and participated in CSR initiatives totaling RO 639,735 which is within the budget limit approved by the Annual General Meeting held on 27th March 2016.

Details of NBO's main donations and CSR initiatives during the year 2016:

Table (11)

	INITIATIVES	DETAILS	BUDGET
1	Diwan Royal Court - Conservation of the Environment	The Arab Ibex is an endangered species that is at risk of becoming extinct. The study traces the movements of the Arab Ibex with the ultimate goal of creating a reservation in the near future. This is a 3-year research study that will include volunteering opportunities for our employees. As part of the MOU, the researchers will produce annual reports to highlight the results of the study, which will be widely publicized.	RO 15,146/-
2	Sustainability Report	The Sustainability Report measures the impact of our CSR strategy and activities. It outlines the impact of our initiatives and potential areas for improvement. It reinforces a basic pillar of our strategic framework: Transparency.	RO 15,000/-
3	National Innovation Programme	Launch a first-of-its-kind National innovation programme to position NBO as a thought leader & to inspire Oman's youth to create new & innovative products and services.	RO 25,000/-
4	Innovation in SME Award – 2 events	To inspire the conceptualization and development of new business ideas amongst Oman's youth and to encourage the transformation of these ideas into businesses/SMEs with robust and sustainable business plans and strategies. Three short-listed candidates presented their ideas to a panel of four judges in the form of a business plan in Q3. The winning idea was selected based on a number of criteria, namely: The quality of the business plan/idea, its uniqueness and USP, sustainability and feasibility and its potential for success. A RO10K cash prize was awarded to the most innovative and commercially-promising business idea. The winner will join NBO's Tijarati SME mentoring programme and will have access to the Bank's Academy of Excellence, NBO's network of corporate clients & will be recognized publicly.	RO 50,123.63 /-
5	'Iftar Sai'm' Community Drive	To engage with the community and support low-income families ahead of the holy month of Ramadhan, NBO's staff distributed food hampers to over 1,200 families across the Sultanate. To complement this initiative, we also launched a national donation campaign to encourage customers to donate under Muzn's umbrella.	RO 19,893/-
6	'Omniyati' national campaign	Omniyati ('My Wish') will seek to fulfill the dreams of five children. The Chairman & CEO will visit the children in their communities to make their 'wish' a reality. This will be documented and shared via social media channels to encourage others to make a difference in their communities.	RO 25,000/-
7	NBO Chairman's Speaker Series	A platform for inspirational leaders to share their experience, knowledge and ideas with a cross-section of Omani society & to help bridge the gap between Oman's hopeful youth & seasoned professionals. Two events were held in 2016. We hosted H.E. Dr Joong Kyung Choi, Former Minister of Knowledge Economy – Korea in March and Dr. Rebecca Winthorpe in July.	RO 36,881.450/-
8	4th Oman Desert Marathon	The Marathon attracts sports enthusiasts from various countries and helps contribute to the tourism & SME sectors. This is a strategic partnership to promote the Sultanate globally. 100 people ran the 165 km race designed to support Oman's tourism and promote Oman globally and put our Nation on the world sports map.	RO 25,000/-
9	NBO's Scholarships Programme	To mark our 45th National Day Celebrations, NBO's Chairman announced the launch of a unique scholarship programme, enabling 15 students from low-income families to complete their undergraduate degrees at the top Universities in the UK. Hakima Al Hosni was selected in 2015, she's currently completing her Foundation Programme at Bellerbys College. Three more scholarships were awarded in 2016 to students that have just graduated from the Sultan's School (from low-income families).	RO 90,000/-
10	Youth Development Programme – Enriching Experience	The objective of this initiative is to inspire a journey of intellectual growth amongst participants, instilling a pro-active mindset to overcome economic & social challenges. Invitations have been extended to the public to attract energetic and innovative youth to attend various skill-development workshops to implement three projects that would tackle specific social challenges. The participants are being mentored (over a 7-month period) and their projects will have a tangible, measurable & sustainable impact on our society.	RO 10,000/-
11	Educational devices for SQU students with Special Needs	Provided educational/electronic devices for 9 students with special needs (currently studying at SQU) to ensure they are able to continue their studies.	RO 5,000/-
12	Inspiring change	The objective of this initiative is to promote awareness around important societal challenges and areas of focus in a fun and entertaining way.	RO 7,500/-

	INITIATIVES	DETAILS	BUDGET
13	Women@NBO	The objective of the programme is to inspire Women@NBO to achieve personal & professional fulfilment, and to empower them to unlock their full potential. This event will be piloted internally and then extended to the public.	RO 30,500/-
14	Investing in our Economy - Economist Roadshows	To position NBO as a thought leader in the market & to encourage Investments. An exclusive dinner would be arranged for Sadara & Corporate clients & our in-house experts will provide a snapshot of the local, regional, and global economy.	RO 25,000/-
15	Promoting Oman to Global Investors	A partnership with the State General Reserve Fund to hold a dinner for 100 international investors to promote Oman and to shed light on the business opportunities for international investors..	RO 11,360/-
16	Support Local Talent: Team Oman	A partnership with the Oman Karting team to support their international racing tournaments & promote Oman globally.	RO 25,000/-
17	Supporting Local Talent- Ahmed Al Harthy	NBO continues to support local talent who are promoting Oman globally	RO 10,000/-
18	Muscat & Khareef Festival	The festivals seek to promote Tourism in the Sultanate. We supported the Muscat Festival in January 2016 and the Khareef Festival in July 2016.	RO 15,000/-
19	SQU's Innovation Centre	Finance the establishment of an innovation centre & MOOC platform. NBO's support will help boost SQU's standing in the global rankings.	RO 150,000/-
20	NBO's 46th National Day Celebrations	We marked Oman's 46th National Day by organising a special celebration in the branch and recording a special tribute video from NBO staff to the nation. The video was published on the Bank's social media pages and reached over 100k viewers in 3 days. The Bank also supported the Omani embassy in the UK & the UAE by funding their national day celebrations.	RO 13,604.92/-
21	Board of Directors Institute	BDI is not-for-profit organization dedicated to making a positive impact on the economies and societies of the region by promoting sound Corporate Governance practices. A 3-year agreement was signed in October to support this initiative.	RO 6,500/-
22	ROP Road Traffic Awareness Week	NBO participated in the Road Traffic Safety Exhibition that was organized by ROP, under the auspices of the President of Muscat Municipality. The objective was to promote awareness around safe driving habits. NBO leveraged the opportunity to spread positive messages, with a driving simulator available at the stall to raise awareness	RO 11,926/-

	INITIATIVES	DETAILS	BUDGET
23	Falling Walls Lab	Falling Walls fosters discussion on research and innovation and promotes the latest scientific findings among a broad audience from all parts of society. TRA hosted the Omani edition of the Falling Walls Lab, which was sponsored by NBO. Hafsa Al Ansari, a young Omani student from the Sohar College of Applied Sciences designed a new Android-based system, which facilitates better communication between passengers and the cabin crew on a flight. The innovative concept and excellent application won her the first prize at the introductory Falling Walls Lab competition in Oman. Securing the top place among 132 participants, she also won herself a trip to Berlin to attend the annual Falling Walls Lab conference.	RO 6,000/-
24	Harvard Dinner & GCC Harvard Trek	Sponsor a dinner for Harvard alumni to promote thought leadership, in addition to attracting a group of influential Harvard Masters' students (influential global decision makers) to learn more about the Middle East region	RO 3,000
25	Tanfeedh Open Day	Tanfeedh is a national initiative that was introduced to support Oman's ambitious diversification strategy, it has involved the private and public sector to develop robust plans and roadmaps to achieve the nation's strategic goals. As the only banking partner to support this initiative, NBO will also produce a video to showcase its contributions to this national initiative & the potential outcomes of the programme.	RO 7,000
26	Volunteers' Recognition Programme Talent	An event organized to recognize volunteers	RO 300/-
		Total Spend = RO 639,735/-	

Distribution of Shareholding:

Major shareholders (5% and above)

Table (12)

Shareholder name	No. of shares as on 31st December 2016	% of Capital
THE COMMERCIAL BANK	514,696,494	34.90
SUHAIL BAHWAN GROUP HOLDING LLC	217,445,528	14.74
CIVIL SERVICE EMPLOYEES PENSION FUND	158,237,284	10.73
HSBC A/C MINISTRY OF DEFENCE PENSION FUND	112,931,817	7.66
PUBLIC AUTHORITY FOR SOCIAL INSURANCE	98,118,012	6.65

The shareholding pattern as on 31 December 2016 was:

Table (13)

Number of Shares	Number of Shareholders	Total Shares	% of Capital
7,000,000 and above	16	1,322,695,636	89.68%
3,000,000 to 6,999,999	9	35,977,442	2.44%
1,500,000 to 2,999,999	19	40,328,090	2.76 %
500,000 to 1,499,999	43	35,292,985	2.39%
100,000 to 499,999	118	27,587,708	1.9%
Below 100,000	998	12,899,414	0.23%
Total	1,203	1,474,781,275	100%

A copy of the Management Discussion and Analysis is circulated as part of the Annual Report.

There are no Global Depository Receipts/ Warrants or any Convertible Instruments outstanding.

Details of non-compliance

Annexure 4 of the Code of Corporate Governance requires the Bank to provide details of non-compliance. This includes any penalties, strictures imposed on the Bank by the MSM / CMA or any statutory authority such as the CBO, on any matter related to capital markets, during the last three years (2014 / 2015 and 2016). The Bank has identified the following amounts below paid during the last three years.

Table (14)

Particulars in RO	2014	2015	2016
PASI	0	32,098	0
CBO	10,000	600	4,000
Total	10,000	32,698	4,000

Auditors

Having strong internal and external auditors is recognized by the Board as part of sound corporate governance providing an independent and continuous assessment of the adequacy of, and compliance with, the Bank's established policies and procedures.

ERNST & Young (E & Y) Profile

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

The MENA practice of EY has been operating in the region since 1923 and employs over 6,500 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,400 partners and approximately 100,000 professionals. Globally, EY operates in more than 150 countries and employs 231,000 professionals in 700+ offices. Please visit ey.com for more information about EY.

EY in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs). During the year 2016, EY billed an amount of RO 136,241 towards professional services rendered to the Company (RO 84,250 for audit, RO 30,000 for issuance of comfort letters for work performed by statutory auditor's and RO 21,991 for tax and other services).

Declaration

The Board of Directors declares its liability for preparation of the financial statements in accordance with the applicable standards and rules.

For the year under review the Board has conducted a review of the effectiveness of the Bank's internal control policies and procedures and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the Code's requirements.

The Board of Directors confirms that there are no material issues that affect the continuation of the company and its ability to continue its operations during the next financial year.

Mohammed Mahfoodh Al Ardhi
Chairman

BASEL II and III – PILLAR III REPORT 2016

EY
Building a better working world

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

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

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman's (CBO) circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of National Bank of Oman SAOG (the bank) as at and for the year ended 31 December 2016. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular number 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular No. BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and BM 1114 dated 17 November 2013.

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2016 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Ernst & Young LLC

5 March 2017
Muscat

Name: - NATIONAL BANK OF OMAN S.A.O.G
This is a standalone entity.

CAPITAL STRUCTURE

The authorised share capital of the bank as at 31 December 2016 is 2,000,000,000 shares of RO 0.100 each.

The issued and paid up capital of the bank as at 31 December 2016 is 1,474,781,280 shares of RO 0.100 each

The bank has assigned capital for operations in UAE and Egypt, amounts equivalent to RO 34.1 million and RO 19.25 million respectively. These amounts cannot be withdrawn without the approval of the Central Banks of the respective countries. In addition, within Oman, the bank has allocated RO 13.5 million of capital towards the Islamic banking window.

The bank's consolidated capital structure as at close of 31 December 2016, based on Central Bank of Oman's (CBO) guidelines is as follows:

Elements of Capital	Amount in RO 000's
Tier I Capital	
Local Banks	
Paid-up capital	147,478
Share premium	34,465
Legal reserve	49,159
General reserve	-
Subordinated debt reserve	40,700
Stock dividend(Proposed)	7,374
Retained earnings*	114,764
Common equity Tier 1 before regulatory adjustments	**393,940**
Deduction	
Deferred tax asset	(828)
Common equity Tier 1	**393,112**
Additional Tier 1 Capital	
Tier 1 Perpetual Bond	115,500
Tier I capital after all deductions	**508,612**
Tier II Capital	
Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	501
General loan loss provision/General loan loss reserve	38,411
Subordinated debt (After amortization)	8,400
Total Tier II Capital	**47,312**
Total Regulatory Capital	**555,924**

*Note: Retained earnings are after deduction of RO 23.5 million towards proposed cash dividend.

CAPITAL ADEQUACY

Qualitative Disclosures

The ultimate objectives of capital management are three fold:

- Ensure stability of the bank by holding enough capital to cover unexpected loss
- Enhance the efficiency of the bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that “excess” capital is not held unnecessarily)
- Incentivise informed decision making and proactive risk management through an efficient and effective allocation of capital across the business.

The capital management plan envisaged for the bank is based on the regulatory risk capital framework of Basel II and using standardised approach for calculating the credit as well market risk and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy of the bank aims to ensure that on a Risk Adjusted Return On Capital basis (RAROC), individual lines of business are allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on interest rates, which are followed.

The Asset Liability Committee (ALCO) reviews and monitors capital adequacy and requirement for capital on an ongoing basis. Capital adequacy calculation is prepared and submitted for ALCO’s review every month. Various stress scenarios, taking into account the earning volatility, credit and market risk impact along with capital allocation by line of business is reviewed in this forum.

Qualitative Disclosures

A set of triggers is followed as part of the capital management so as to provide the bank with an early warning system in terms of its level of capital, to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. This document addresses through objective and subjective evaluation, the adequacy of capital after considering the impact of additional risks, such as, Residual Credit Risk, Residual Credit Risk Mitigation (CRM) Risk, Residual Credit Risk - Equity, Residual Market Risk - Currency, Credit Concentration Risk, Interest Rate Risk in Banking Book, Settlement Risk, Reputation Risk, Strategic Risk and Compliance Risk as well as various levels of stress tests. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP is carried out and submitted to the Central Bank of Oman in accordance with the prescribed guidelines. The bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment.

BASEL II and III – PILLAR III REPORT 2016

Position as at 31.12.2016 (RO’000)

Details	Amount
Tier I capital (after supervisory deductions)	**508,612**
Tier II capital (after supervisory deductions & upto eligible limits)	**47,312**
Tier III capital (upto a limit where Tier II & Tier III does not exceed Tier I)	-
Of which, total Eligible Tier III Capital	-
Risk Weighted Assets (RWAs) – Banking Book	**2,887,599**
Risk Weighted Assets (RWAs) – Operational Risk	**241,288**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**3,128,887**
Minimum required capital to support RWAs of banking book and operational risk	395,022
Minimum required capital comprises of;	
i) Tier I capital	347,710
ii) Tier II capital	47,312
Balance Tier I capital available for supporting Trading Book	160,902
Balance Tier II capital available for supporting Trading book	-
Risk Weighted Assets (RWAs) – Trading Book	59,900
Total capital required to support Trading Book	7,562
Minimum Tier I capital required for supporting Trading Book	2,155
Total Regulatory Capital	**555,924**
Total Risk Weighted Assets – Whole bank	**3,188,787**
BIS Capital Adequacy Ratio	**17.4**

Basel III Disclosures

In compliance with CBO circular BM 1114 dated 17 November 2013; certain mandatory capital adequacy disclosures are made below:

Position as at 31.12.2016 (RO'000)

Details	Gross balance (Book value)	Net balance (Book value)	Risk Weighted Assets
On balance sheet items	3,593,833	3,485,429	2,563,049
Off balance sheet items	337,949	337,948	313,848
Derivatives	10,702	10,702	10,702
Operational Risk	-	-	241,288
Market Risk	-	-	59,900
Total	**3,942,484**	**3,834,079**	**3,188,787**
Common equity Tier I Capital	-	-	508,612
Additional Tier 1 Capital	-	-	47,312
Tier 2 Capital	-	-	-
Total Regulatory Capital	**-**	**-**	**555,924**
Total required Capital @ 12.625%	-	-	402,584
Capital requirement for credit risk	-	-	364,559
Capital requirement for market risk	-	-	7,562
Capital requirement for operational risk.	-	-	30,463
Common equity Tier 1 Ratio	-	-	12.3
Tier I Ratio	-	-	16.0
Total Capital ratio	**-**	**-**	**17.4**

RISK EXPOSURE AND ASSESSMENT

Risk Management

The primary objective of risk management is to safeguard the Bank's resources from the various risks which the Bank faces. The Risk Group comprises Corporate Credit Risk, SME Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk and Loan Review section. All risk management functions report to Chief Risk Officer and are independent from Business Units.

The Bank's Credit Risk Strategy is aimed at adopting a structured approach to credit growth and de-emphasizing areas that are considered relatively high risk based on the prevailing and expected market conditions.

The administrative framework and the policies and procedures in place for the management of risks are based on international best practices, the recommendations of the Basel Committee and the guidelines of the Central Bank of Oman.

The Bank has exposure to the following risks:-

BASEL II and III – PILLAR III REPORT 2016

Credit Risk

Qualitative Disclosures

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fail to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The Bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman. The objective of the Bank in management of credit risk is to protect the credit quality of its credit exposures. Credit Risk is managed within the regulatory requirement of Central Bank of Oman, risk framework provided in the Risk Charter and Credit Policies and Procedures.

The policies and procedures are periodically reviewed by the Management and the Board Risk Committee to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures are done in coordination with respective Business Units as per established procedures.

The Bank has in place a robust credit risk management structure comprised of Corporate Credit Risk, SME Credit Risk, Retail Credit Risk, Loan Review Mechanism, Remedial Management and Credit Administration and Control Divisions.

Corporate Credit Risk and SME Credit Risk

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate Banking and Financial Institutions exposures while SME Credit Risk Division independently reviews Business Banking and Small Business Unit exposures. Both the Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc., and deviations, if any are highlighted. The bank follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The bank has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the bank in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. Further, the bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

Retail Credit Risk

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs. A programmed lending approach contains standard risk acceptance criteria and loan processing practices in order to optimize the efficiency and risk/ reward of those portfolios. Product programs are approved by Board Risk Committee and their performance is monitored on a regular basis and reviewed.

Based on the prevailing market conditions, the Bank sustained its continuous monitoring of the portfolio with a thorough review of the Credit Policy / Product Program. Credit facilities outside the Product Programs / Policy Parameters are individually reviewed and assessed by the Retail Banking division & the Retail Credit Risk Division.

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency and to enhance the recovery methodologies of the retail portfolio. The Bank has an automated Loan Collection System in order to enhance its collections and recovery processes. It also has an automated Loan Origination System to further enhance its Retail Credit Risk framework.

Loan Review Mechanism

An independent Loan Review Mechanism Division evaluates the quality of loan book, balance between risk and reward and brings about qualitative improvements in credit administration. The division evaluates effectiveness of loan administration, integrity of credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc.

Remedial Management:

Remedial Management is responsible for pursuing each delinquent account, by using all available measures, to reduce exposure to high risk groups, to maximize recoveries, rehabilitating these relationships so that they can be returned to the business lines as fully performing accounts and progressively improve the status of the portfolio.

Credit Administration and Control

The Credit Administration and Control section ensures:

- Documentation for all loans is properly completed, executed and maintained.
- The correct approving authority approves credit lines and details are accurately recorded.
- Production of adequate and accurate reports covering various credit risk exposures.
- Irregularities are reported and corrective action is taken.
- Review of and participation in any new/existing product offerings of the Bank.
- Various internal reporting and external reporting is prepared on a periodical basis.
- That all approved limits are input into the system under a "maker and checker" concept.
- Disbursement of funds for all approved credit exposures is appropriately authorized.

Risk Reporting and Measurement Systems

The scope and nature of the risk reporting and/or measurement system are as follows:

Risk Reporting

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Risk Committee of the Board. Salient areas covered in the review include:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions

In addition, the bank conducts industry studies in various sectors considered to have a bearing on the portfolio credit quality, such as, real estate, leasing, and sectors impacted by volatility in commodity prices. For FIG exposures the bank conducts stress tests and quarterly reviews of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

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These reports are reviewed periodically by the Management and Board Risk Committees.

A review of the Retail Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the latest report is presented to the Board Risk Committee. Salient areas covered in the review include:

- Portfolio review
- Management summary, delinquency and NPA trends (including product-wise delinquency analysis, vintage analysis, delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the month
- Recoveries

Measurement

Currently the Bank computes the expected losses on its credit exposure on the basis of risk classification of both corporate and retail loans to delinquent category based on guidelines of the Central Bank.

The Bank obtains collateral/ credit mitigants against loans and advances in the form of mortgage over property, pledges over cash/ securities, guarantees, etc. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and at regular intervals as per internally approved procedures - every three years for properties, daily for equities, etc. Collateral generally is not held against credit exposures to banks.

Definition of past due and impaired:

A loan, where repayments of principal and interest are pre-determined, shall be considered as past due, when it has not been paid on the due date fixed by the Bank, as per terms of sanction.

Credit facilities like overdrafts, lines of credit, etc. where no definite repayments are pre-determined shall be treated past due, if:

- The outstanding balance remains continuously in excess of 10% of the sanctioned/authorized limit, or
- In cases where the outstanding balance in the principal operating account is less than the sanctioned/authorised limit, but there are not enough credits in the account to cover the interest charged, or
- In cases where unauthorsed drawings have frequently been allowed.
- Bills, which remain unpaid on due dates, shall be considered as past due.

All loans and advances, which are classified as substandard, doubtful and loss, are categorized as Non-Performing Loans ("NPL") i.e. impaired assets.

An evaluation is made on an ongoing basis, at least quarterly, to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognized in the income statement.

Credit Risk Management Policy

A comprehensive set of Corporate Credit Risk Policy and Procedures Manuals, provides detailed policy guidelines and embedded in which are the regulatory/ in-house limits. Further, procedures manuals provide detailed process guidelines about the credit process and the templates to be used to process the individual credit applications. Financial Institutions Group (FIG) exposures are managed as per the Financial Institutions Policy guidelines. Retail Credit Policy outlines the policy guidelines related to retail banking and covers product programs and parameters relating to Salary Related Loans, Mortgages, Credit Cards and other retail product offerings. Credit Policies and Procedures are periodically reviewed to ensure that they are aligned to the market and regulatory guidelines

Quantitative Disclosure:

(i) Total gross credit exposures, plus daily average of gross exposure over the period broken down by major types of credit exposure as at 31 December 2016:

(RO'000)

Sl No	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		Current Year	Previous Year	**31 December 2016**	31 December 2015
1	Overdrafts	**79,860**	70,666	**87,419**	69,987
2	Personal loans	**1,284,937**	1,144,657	**1,339,426**	1,190,195
3	Loans against trust receipts	**139,817**	137,686	**120,806**	149,388
4	Other loans	**1,201,775**	1,117,964	**1,148,421**	1,151,643
5	Bills purchased / discounted	**60,928**	43,612	**72,224**	61,092
	Total	**2,767,316**	2,514,585	**2,768,296**	2,622,305

(ii) Geographic distribution of exposures by major types of credit exposure as at 31 December 2016:

(RO'000)

S. No	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	Pakistan	Others	Total
1	Overdrafts	70,242	17,177	-	-	-	**87,419**
2	Personal loans	1,338,363	899	-	-	164	**1,339,426**
3	Loans against trust receipts	83,606	37,200	-	-	-	**120,806**
4	Other loans	963,821	161,110	13,104	8,470*	1,916	**1,148,421**
5	Bills purchased / discounted	56,082	16,142	-	-	-	**72,224**
	Total	**2,512,114**	**232,528**	**13,104**	**8,470***	**2,080**	**2,768,296**

*Note: The exposure is fully secured by an unconditional and irrevocable guarantee of a Government related entity based out of Oman.

(iii) Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2016:

(RO'000)

S. No	Economic Sector	Overdraft	Loans	Bills Purchased / Discounted	Others	Gross Total	Off Balance Sheet Exposure
1	Import trade	-	-	-	83,738	83,738	-
2	Wholesale & retail trade	16,097	111,970	10,227	14,482	152,776	71,039
3	Mining & quarrying	2,154	50,923	3,825	-	56,902	1,122
4	Construction	15,626	194,348	31,742	1,468	243,184	274,610
5	Manufacturing	10,017	197,673	4,999	12,086	224,775	68,586
6	Electricity, gas and water	232	41,308	100	-	41,640	6,638
7	Transport and communication	1,403	44,157	887	-	46,447	7,566
8	Financial institutions	8,219	148,034	-	-	156,253	63,671
9	Services	13,795	264,421	3,770	7,337	289,323	26,461
10	Personal loans	-	1,339,213	-	-	1,339,213	270
11	Agriculture and allied activities	237	6,892	18	-	7,147	202
12	Government	-	1,028	-	-	1,028	-
13	Non-Resident lending	-	38,427	-	-	38,427	-
14	All others	19,639	49,453	16,656	1,695	87,443	23,533
	Total	**87,419**	**2,487,847**	**72,224**	**120,806**	**2,768,296**	**543,698**

(iv) Residual contractual maturity as at 31 December 2016 of the whole loan portfolio, broken down by major types of credit exposure:

(RO'000)

S. No	Time Band	Overdraft	Loans	Bills Purchased / Discounted	Others	Total	Off Balance Sheet Exposure
1	Up to 1 month	4,371	131,348	35,674	18,890	190,283	167,549
2	1-3 months	4,371	158,387	22,070	65,480	250,308	113,642
3	3-6 months	4,371	56,808	14,480	36,229	111,888	81,922
4	6-9 months	4,371	51,030	-	207	55,608	63,489
5	9-12 months	4,371	151,750	-	-	156,121	46,191
6	1-3 years	21,855	349,856	-	-	371,711	67,919
7	3-5 years	21,855	202,286	-	-	224,141	2,809
8	Over 5 years	21,854	1,386,382	-	-	1,408,236	177
	Total	**87,419**	**2,487,847**	**72,224**	**120,806**	**2,768,296**	**543,698**

(v) Total loan broken down by major industry or counter party type as at 31 December 2016:

(RO'000)

S. No	Economic Sector	Gross Loans	Of which, NPLs	General Provisions held	Specific Provisions held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Import trade	83,738	-	837	-	-	(104)	-
2	Wholesale & retail trade	152,776	8,864	1,528	5,920	2,240	2,619	251
3	Mining & quarrying	56,902	241	569	175	66	342	-
4	Construction	243,184	4,808	2,432	2,019	280	967	93
5	Manufacturing	224,775	17,026	2,248	9,328	6,300	362	17
6	Electricity, gas and water	41,640	-	416	-	-	(119)	-
7	Transport and communication	46,447	2,546	464	1,504	683	(622)	50
8	Financial institutions	156,253	7	1,563	2	-	681	-
9	Services	289,323	10,957	2,893	5,724	365	4,784	54
10	Personal loans	1,339,213	27,575	23,717	14,372	1,816	9,115	11,982
11	Agriculture and allied activities	7,147	1,294	71	397	773	(7)	-
12	Government	1,028	-	10	-	-	10	-
13	Non-Resident lending	38,427	-	384	-	-	(41)	-
14	All others	87,443	545	1,208	7,587	120	1,656	689
	Total	**2,768,296**	**73,863**	**38,341**	**47,028**	**12,643**	**19,645**	**13,135**

(vi) Amount of impaired loans as at 31 December 2016, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

(RO'000)

S. No	Countries	Gross Loans	Of which NPL's	General Provisions Held	Specific Provisions Held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Oman	2,512,114	56,164	34,781	34,162	10,583	9,594	13,135
2	Other GCC Countries	232,528	17,544	3,323	12,746	2,024	10,051	-
3	OECD Countries	13,104	-	131	-	-	-	-
5	Pakistan	8,470	-	85	-	-	-	-
6	Others	2,080	155	21	120	35	-	-
	Total	**2,768,296**	**73,863**	**38,341**	**47,028**	**12,643**	**19,645**	**13,135**

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(vii) Movement of gross loans

(RO'000)

S. No	Details	Movement of Gross Loans during the year ended 31 December 2016					
		Performing Loans		Non-performing Loans			
		Standard	Special Mention	Sub-Standard	Doubtful	Loss	Total
1	Opening balance	2,492,249	68,495	9,810	10,024	41,727	**2,622,305**
2	Migration / changes (+/-)	(168,898)	137,335	1,713	15,624	14,226	**-**
3	New loans	936,861	7,209	1,858	1,974	3,310	**951,212**
4	Recovery of loans	(744,025)	(34,793)	(4,502)	(6,107)	(2,659)	**(792,086)**
5	Loans written off	-	-	-	-	(13,135)	**(13,135)**
6	**Closing balance**	**2,516,187**	**178,246**	**8,879**	**21,515**	**43,469**	**2,768,296**
7	Provisions held	38,344	2,639	2,257	9,841	32,291	**85,372**
8	Reserve interest	-	-	155	708	11,780	**49,324**

Credit Risk - Disclosures for portfolios subject to the standardised approach.

Qualitative Disclosures:

- The bank is following Moody's rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk.
- With the approval of the CBO, the bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.
- Similarly, with the approval of CBO, the bank uses the discretion of the simple approach for recognising collaterals.

Quantitative Disclosures:

Gross exposure amount as at 31 December 2016, subject to the standardised approach is as below:

(RO'000)

Sr No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
	Rated							
1	Sovereign	612,977	-	-	-	1,985	-	**614,963**
2	Banks	-	50,002	-	48,065	24,528	117	**122,712**
	Unrated							
1	Corporate	-	25,168	-	-	1,203,853	-	**1,229,021**
2	Retail	-		-	-	909,468	-	**909,468**
3	Claims secured by residential property	-	-	274,293	-	128,936	-	**403,229**
4	Claims secured by commercial property	-	-	-	-	94,011	-	**94,011**
5	Past due loans	-	-	-	-	69,653		**69,653**
6	Other assets	46,587	2,931	-	-	97,397	379	**147,295**
7	Venture capital & private equity investments	-	-	-	-	-	3,483	**3,483**
8	Off-balance Sheet Items	4,277	1,733		36,872	305,767	-	**348,649**
	Total Banking Book	**663,841**	**79,834**	**274,293**	**84,937**	**2,835,598**	**3,979**	**3,942,483**

Credit Risk Mitigation

Qualitative Disclosures:

The bank holds collateral against loans and advances to customers in the form of cash, government development bonds, acceptable financial securities, mortgage interest over property, and other registered charge over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed on an on-going basis.

The Bank has adopted the simple approach for collaterals.

Quantitative Disclosures:

(RO'000)

S.No	Details	Amount
1	Corporate Cash Collateral	48,732
2	Specific provisions and reserve interest on loans and advances and due from banks	59,671
	Total	**108,403**

The capital requirement on credit risk as at 31 December 2016 is RO ('000) 364,559

Market Risk

Market Risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The board has set limits for acceptable levels of Market Risk. The Assets and Liabilities Committee (ALCO) monitors this on a regular basis. Market Risk is managed based on Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Separate market risk policies exist for the Bank's operations in Egypt and UAE to make them compatible with the local regulatory and operational environments. Stress tests are also conducted periodically to analyse the impact of bank and market specific stress factors crises on the earnings and capital of the Bank. Variables include movements in equity value, foreign exchange, etc. The results are reviewed by ALCO, Management and Board Committees.

Market Risk Division provides risk-weightings for treasury products in line with best practices based on potential future exposure. The middle-office along with Treasury and Investment Banking Operations monitors the Market Risk positions of the Bank.

Trading Book

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Value-at-risk (VaR) is computed every month for all non-pegged currencies in which the Bank's end-of-the-day position is above a minimum threshold. The VaR is reviewed by ALCO, Management Risk Committee and Board Risk Committee.

The bank has a very small Held for Trading (HFT) book consisting of investments in equities which is managed by the Investment Banking division. The exposures are daily monitored by the Middle Office as per the approved stop loss and exposure limits through Mark-to-Market (MTM) reports.

For the purpose of capital charge, the three month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date. The capital charge is computed at 12.625% to reflect the general market risk.

Capital required for trading book as at 31 December 2016:

- Foreign Exchange Risk - RO ('000) 4,792

Banking book

Equity Price Risk

The proprietary equity positions are held in the 'Available for Sale' (AFS) category and not in the 'Held for Trading' category. As such, no VaR is calculated for the AFS portfolio. The market risk is monitored though daily Mark to Market reports which are circulated to the management and required actions, if any, are promptly taken as per the investment Policy, which inter-alia provides sector concentration limits, trigger levels and other guidelines for prudent management of the portfolio.

Interest Rate Risk

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in yield curves to review the impact on the economic value of the assets and liabilities and the equity of the Bank and impact on the earnings of the Bank up to one year.

In respect of monitoring the impact of interest rate changes on the earnings of the Bank, the Bank has set internal limits. Positions are monitored on a monthly basis and hedging strategies used to ensure positions are maintained within established limits.

The methods for interest rate sensitivity analysis are a traditional Maturity Gap Analysis (to measure the interest rate sensitivity of earnings), and duration (to measure interest rate sensitivity of capital) as per methodology provided by Basel Committee in 2004.

Quantitative Disclosures:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the interest sensitivity of earnings and interest rate sensitivity of capital.

As at December 2016	200 bps increase	200 bps decrease
Earnings impact - RO'000s	9,086	(9,086)
Earnings impact - USD'000s	23,600	(23,600)

The bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The analysis is carried out at monthly rests and results thereof monitored against the in-house prescribed limits; the results are also actively deliberated at the ALCO meetings. There have not been any significant changes in interest rate risk management process in the bank during the year.

Interest Rate Risk (Continued)

The bank's interest sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2016 was as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	**RO'000**
Cash and balances with Central Banks	N/A	253	-	-	-	511,341	**511,594**
Due from banks and other money market placements (net)	1.29%	55,047	26,181	-	-	34,102	**115,330**
Loans, advances and financing activities for customers (net)	5.17%	914,600	571,226	647,679	536,776	-	**2,670,281**
Financial investments	2.28%	8,766	24,633	57,930	5,200	31,854	**128,383**
Premises and equipment	N/A	-	-	-	-	46,345	**46,345**
Other assets	N/A	-	-	-	-	60,750	**60,750**
Total assets		**978,666**	**622,040**	**705,609**	**541,976**	**684,392**	**3,532,683**
Due to banks and other money market deposits	2.46%	110,582	107,281	3,879	-	3,493	**225,235**
Customers' deposits and unrestricted investment accounts	1.18%	229,266	1,096,042	298,292	-	775,761	**2,399,361**
Euro medium term notes	2.20%	-	-	233,105	-	-	**233,105**
Other liabilities	N/A	-	-	-	-	80,062	**80,062**
Taxation	N/A	-	-	-	-	7,406	**7,406**
Subordinated debt	5.17%	-	-	115,500	-	-	**115,500**
Shareholders' equity	N/A	-	24,100	25,000	-	-	**49,100**
Tier 1 Perpetual Bonds	7.88%	-	-	-	-	422,914	**422,914**
Total liabilities and shareholders' equity		**339,848**	**1,227,423**	**675,776**	**-**	**1,289,636**	**3,532,683**
Total interest rate sensitivity gap		**638,818**	**(605,383)**	**29,833**	**541,976**	**(605,244)**	**-**
Cumulative interest rate sensitivity gap		**638,818**	**33,435**	**63,268**	**605,244**	**-**	

Liquidity Risk

Qualitative Disclosures:

Liquidity may be defined as a bank's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a bank's potential inability to meet its liabilities when they become due. Conversely, liquidity risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

The strategy of the Bank in management of liquidity risk is to minimize the resultant impact on the earnings of the Bank. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank manages the liquidity risk based on Central Bank of Oman guidelines and Liquidity Risk Policy and Liquidity Contingency Policy.

NBO takes a two-tiered approach to Liquidity Risk Management

Going concern Liquidity Management - management of the liquidity position within specified parameters to ensure all liabilities can be met on a timely basis.

Event Risk Liquidity Management - ensuring that in the event of either a firm-specific or general market event, the Bank is able to generate sufficient liquidity to withstand a short term liquidity crisis. Event Risk Liquidity Management includes the following tools:

- Stress test: a quantitative analysis of liquidity impact of several (market and bank specific) liquidity crises.
- Liquidity buffer: mitigation of an event risk is achieved through the provision of standby liquidity in the form of unencumbered, Central Bank eligible collateral and stand-by lines.
- Contingency Funding Plan: A comprehensive Liquidity Contingency Plan is in place at the Bank.

The overall Liquidity Risk is kept at such a level that NBO is able to resume its business after a specified crisis.

Treasury division of the Bank receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury division maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank is subject to liquidity limits prescribed by the CBO. Additionally, the bank has also set internal mismatch limits by currency and limits for ensuring that liquidity lines are sufficient to meet short term maturing obligations.

The monthly liquidity position is monitored through the Statement of Maturities of Assets and Liabilities to ensure that the gaps are within the limits prescribed by the regulator and those set in-house. The Bank also periodically conducts stress tests on liquidity based on market and bank specific events.

Management periodically reviews the strategy and policies related to management of liquidity to ensure that necessary actions are implemented for monitoring and controlling liquidity risk.

The Bank has in place an effective and efficient liquidity risk management structure comprising an active ALCO which meets at monthly intervals and more frequently, if required. ALCO is kept informed regularly of the liquidity situation of the Bank and immediately if there are any material changes in the Bank's current or prospective liquidity position.

Liquidity Risk (continued)

The scope and nature of the risk reporting and/or measurement system:

Scope and Nature of Risk Reporting:

Maturities of Assets and Liabilities is prepared on a monthly basis and more frequently, as required, setting out the maturity profile of the various assets and liabilities and off-balance sheet items. The statement contains the cumulative gaps vis-à-vis cumulative liabilities for each prescribed time band and the position of these gaps vis-à-vis the Regulatory and in-house limits is also reported therein. This statement is placed before the ALCO at its meetings and in case any of the gap limits is exceeded, the same is escalated immediately to the ALCO along with analysis and further action planned to bring the position within the limits.

A Liquidity Lines statement is also prepared based on assumptions set out in the Liquidity Policy to evaluate the Bank's ability to meet its liabilities maturing in one month time band. Further, the liquidity of the Bank is assessed under bank specific and market specific stress scenarios and impact on gap positions and Liquidity Lines is estimated. Daily Financial Risk Report is used for monitoring the daily ratios and gaps and Early Warning Indicators for assessing any potential liquidity impact of leading indicators. These reports are regularly reviewed by the ALCO, Management and Board Risk Committee.

Measurement:

The monitoring and control of Liquidity Risk is done on an ongoing basis. The Bank uses the maturity ladder approach, which calculates the cumulative surplus or deficit of funds at selected time bands. The cash flows are placed in different time bands based on future behavior of assets, liabilities and off-balance sheet positions. In order to ensure uniformity in the treatment of behavioral patterns of assets, liabilities and off-balance sheet positions, the Central Bank has evolved a broad framework, which has been subscribed to by the Bank. In addition, the Bank regularly evaluates its liquidity position with respect to the liquidity ratios prescribed in the Liquidity Risk Policy.

The Bank has put in place "Liquidity Risk Policy" and "Liquidity Contingency Plan"- duly approved by the Board Risk Committee, which provides detailed guidelines for mitigating the risk. In case of a contingency, the policy provides a blue-print for asset sales, market access and restructuring the maturity and composition of assets and liabilities.

As an on-going mitigant the Bank has in place the availability of liquidity support in the form of committed lines of credit and reciprocal arrangements. The continuing availability of the CBO liquidity window, which was introduced in the wake of the global financial crisis, is also one of the mitigants of the liquidity risk. Besides, the Bank ensures the liquidity of certain assets as per the Liquidity Contingency Plan as a buffer against liquidity events.

The Bank has also put in place Country and Transfer Risk Policies to primarily control and monitor cross border exposures.

Liquid coverage ratio – framework

The Central Bank of Oman has issued final guidelines on the implementation of liquidity norms along with the phase-in arrangements.

The standard for LCR requirement is applicable from January 1, 2015. However, the requirement would be minimum 60% for the calendar year 2015 i.e. with effect from January 1, 2015, and rise in equal steps to reach the minimum required level of 100% on January 1, 2019, as per the time-line given below:

	1 Jan 2015	1 Jan 2016	1 Jan 2017	1 Jan 2018	1 Jan 2019
Minimum LCR	60%	70%	80%	90%	100%

Liquid Coverage Ratio as per Basel III based on weighted average value is 362.74%

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Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at **31 December 2016** was as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	**RO'000**
Cash and balances with Central Banks	411,741	41,628	453,369	31,522	26,703	58,225	**511,594**
Due from banks and other money market placements (net)	89,149	16,556	105,705	-	9,625	9,625	**115,330**
Loans, advances and financing activities for customers (net)	440,592	250,106	690,698	595,852	1,383,731	1,979,583	**2,670,281**
Financial investments	94,543	13,905	108,448	19,935	-	19,935	**128,383**
Premises and equipment	-	-	-	-	46,345	46,345	**46,345**
Other assets	56,309	3,870	60,179	571	-	571	**60,750**
Total assets	**1,092,334**	**326,065**	**1,418,399**	**647,880**	**1,466,404**	**2,114,284**	**3,532,683**
Due to banks and other money market deposits	114,075	107,281	221,356	3,879	-	3,879	**225,235**
Customers' deposits and unrestricted investment accounts	606,580	757,964	1,364,544	571,298	463,519	1,034,817	**2,399,361**
Euro medium term notes	-	-	-	233,105	-	233,105	**233,105**
Other liabilities	76,279	2,587	78,866	1,196	-	1,196	**80,062**
Taxation	7,406	-	7,406	-	-	-	**7,406**
Subordinated debt	-	24,100	24,100	25,000	-	25,000	**49,100**
Shareholders' equity	-	-	-	-	422,914	422,914	**422,914**
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	**115,500**
Total liabilities and shareholders' equity	**804,340**	**891,932**	**1,696,272**	**834,478**	**1,001,933**	**1,836,411**	**3,532,683**

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

The bank follows basic indicator approach for determining operational risk.

The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net interest income (+) Non interest income (+) Provisions for unpaid interest (-) realized profit on sale of Available for Sale (AFS) investments (-) extraordinary / irregular items of income

Capital requirement for operational risk as per Basel II is RO (000s) 30,463

Insurance is another tool used by the bank as an operational risk mitigant. Insurance such as Bankers' Blanket Bond, Electronic and Computer Crimes, Professional Indemnity, incomplete transactions, etc as obtained by the bank aim at protecting the bank from high severity risks by reducing the financial impact of the same.

In addition to the above and in order to keep control of operational incidences / losses the bank has set in place a special operational risk appetite against which incidents / losses are being monitored regularly for possible breaches and appropriate mitigants are put in place.

BASEL III – Transition Disclosure:

Further to the Guidelines on composition of capital disclosure requirements (CP1 & CP2) issued by Central Bank of Oman, the following are the mandatory disclosures for the year ended 31 December 2016.

Basel III common disclosure during the transition of regulatory adjustments (i.e. from 1 January 2013 to 1 January 2018) (RO '000)

	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	181,943
Retained earnings	122,138
Accumulated other comprehensive income (and other reserves)	89,859
Public sector capital injections grandfathered until 1 January 2018	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory adjustments	**393,940**
Common Equity Tier 1 capital: regulatory adjustments	
Deferred tax assets arising from temporary differences (net of related tax liability)	(828)
Total regulatory adjustments to Common equity Tier 1	(828)
Common Equity Tier 1 capital	393,112
Additional Tier 1 capital: instruments	**115,500**
Additional Tier 1 capital: regulatory adjustments Nil	-
Tier 1 capital	**508,612**

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Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase out from Tier 2	8,400
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)	-
of which: instruments issued by subsidiaries subject to phase out	-
Provisions	38,912
Tier 2 capital before regulatory adjustments	**47,312**

Tier 2 capital: regulatory adjustments	
National specific regulatory adjustments	-
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
OF WHICH: Cumulative fair value gains or losses on available for sale instruments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	47,312
Total capital	555,924
Total risk weighted assets	3,188,787
Of which: Credit risk weighted assets	2,887,599
Of which: Market risk weighted assets	59,900
Of which: Operational risk weighted assets	241,288
Capital Ratios	
Common Equity Tier 1 (as a percentage of risk weighted assets)	12.3
Tier 1 (as a percentage of risk weighted assets)	16.0
Total capital (as a percentage of risk weighted assets)	17.4
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIBbuffer requirement expressed as a percentage of risk weighted assets)	
of which: capital conservation buffer requirement	
of which: bank specific countercyclical buffer requirement	
of which: D-SIB/G-SIB buffer requirement	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	4.7
National minima (if different from Basel III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.625
National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.625
National total capital minimum ratio (if different from Basel 3 minimum)	12.625

Disclosure template for main features of all regulatory capital instruments

1. Common Equity.

Common equity comprises of 1,474,781,280 equity shares of RO 0.100 each fully paid up, issued and governed under the laws of Sultanate of Oman.

2. All other regulatory capital instruments

1	Issuer		National Bank of Oman	National Bank of Oman
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	XS1321921899	Private Placements comprises of 12 issues
3	Governing law(s) of the instrument	-	English	Sultanate of Oman
4	Transitional Basel III rules	-	Additional Tier 1	Tier 2
5	Post-transitional Basel III rules	-	Eligible	Ineligible
6	Eligible at solo/group/group & solo	-	Solo	Solo
7	Instrument type	-	Additional Tier 1	Subordinated debts
8	Amount recognised in regulatory capital	-	RO 115.5 million	RO 8.4 million (Aggregate of 12 issues)
9	Par value of instrument	-	RO 115.5 million	RO 49.1 million (Aggregate of 12 issues)
10	Accounting classification	-	Equity	Liability –amortised cost
11	Original date of issuance	-	18-Nov-15	Between Oct 2011 to Mar 2013
12	Perpetual or dated	-	Perpetual	Dated
13	Original maturity date	-	Not applicable	Oct 2017 to Mar 2019
14	Issuer call subject to prior supervisory approval	-	Yes	Yes – 0 issue, No – 12 issues
15	Optional call date, contingent call dates and redemption amount	-	18-Nov-20	Not applicable
16	Subsequent call dates, if applicable	-	Every five years	Not applicable
Coupons / dividends				
17	Fixed or floating dividend/coupon	-	Fixed	Fixed
18	Coupon rate and any related index	-	7.875%	4.50% to 5.50%
19	Existence of a dividend stopper	-	Yes	No
20	Fully discretionary, partially discretionary or mandatory	-	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	-	No	Yes – 0 issue, No – 12 issues
22	Noncumulative or cumulative	-	Non cumulative	Not applicable
23	Convertible or non-convertible	-	Non convertible	Non-convertible
24	If convertible, conversion trigger (s)	-	Not applicable	Not applicable
25	If convertible, fully or partially	-	Not applicable	Not applicable
26	If convertible, conversion rate	-	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	-	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	-	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	-	Not applicable	Not applicable
30	Write-down feature	-	Yes	No
31	If write-down, write-down trigger(s)	-	Non viability event	No
32	If write-down, full or partial	-	Full (See note)	No
33	If write-down, permanent or temporary	-	Permanent	No
34	If temporary write-down, description of write-up mechanism	-	Not applicable	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	Subordinated to Senior Liabilities and Tier 2 - Subordinted debts	Subordinated to Senior Liabilities
36	Non-compliant transitioned features	-	No	No
37	If yes, specify non-compliant features	-	Not applicable	Not applicable

Note: The Capital Securities can be cancelled (in the case of a write-down in whole) or written-down in part on a pro rata basis (in the case of a write-down in part) as determined by the Bank in conjunction with the Regulator in accordance with the Capital Regulations.

This report on Basel II & III disclosures was authorized for issue by the Board of Directors on 25th January 2017.

Mohammed Mahfoodh Al Ardhi
Chairman

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of National Bank of Oman SAOG (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Other matter

The financial statements of the Bank for the year ended 31 December 2015 were audited by another independent auditor whose report dated 25 January 2016 expressed an unmodified opinion.

Key audit matters

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

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

1. Impairment of loans, advances and financing activities for customers

Impairment of loans, advances and financing activities to customers (loans and receivables) is a highly subjective area due to the level of judgement applied by management in determining the extent of credit losses related to such loans and receivables.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (CONTINUED)

Key audit matters (continued)

1. Impairment of loans, advances and financing activities for customers (continued)

The judgements applied by the management in determining the level of impairment for loans and receivables include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future cash flows relating to loans and receivables.

Due to the material nature of loans and receivables and the related estimation uncertainties involved, including the consideration of prudential requirements, this is considered a key audit matter. The basis of the Bank's impairment provision policy is presented in the accounting policies section and in Note 3.19 to the financial statements. Attention is also drawn to the critical accounting estimates and judgements, disclosures of loans and receivables and the credit risk management set out in notes 2.4.2, 6 and 30.1, respectively to the financial statements.

Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of loans and receivables, and the specific and collective impairment provisioning process, including consideration of prudential requirements, to validate the operating effectiveness of the key controls in place, which identify the impaired loans and receivables and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively.

In addition to testing the key controls, we selected samples of loans and receivables outstanding as at the reporting date and critically assessed the criteria for determining whether an impairment event had occurred that would require an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing loans and receivables where we assessed management's forecast of recoverable cash flows, the valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing loans and receivables, we assessed whether the borrowers exhibited any possible default risk that may affect meeting their scheduled repayment obligations.

For collective impairment provisions, we obtained an understanding of the methodology used by the Bank to determine the collective provisions, assessed the underlying assumptions and sufficiency of the data used by management.

We also assessed whether the financial statement disclosures appropriately reflect the requirements of IFRS.

2. Impairment of available-for-sale investments

The Bank's available-for-sale portfolio comprises investments made in equity and debt instruments. Investments are impaired only when there is an objective evidence of impairment. We considered impairment of available-for-sale investment as key audit matter due to complexity involved in such determination and its materiality to the financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
NATIONAL BANK OF OMAN SAOG (CONTINUED)

Key audit matters (continued)

2. Impairment of available-for-sale investments (continued)

The accounting policy relating to impairment of available-for-sale investments, critical accounting estimates and judgements, the disclosures relating to impairment of available-for-sale investments and fair value measurement are set out in notes 3.19, 2.4.3, 7 and 33, respectively to the financial statements.

Our audit procedures comprised, amongst others, of a critical assessment of the Bank's methodology and the appropriateness of the impairment computation performed by the management on the Bank's available-for-sale investments. We evaluated the Bank's assessment of whether any objective evidence of impairment exists for each investments.

For equity investments, on a sample basis, we:

- assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments;
- evaluated the basis for determining the fair value of investments;
- tested the valuations of investments; and
- considered the price fluctuation / movement during the holding period to determine if the significant or prolonged criteria is met.

For debt instruments, on a sample basis, we assessed the creditworthiness of counter parties based on available market information and assessed the cash flows to consider any defaults based upon the contractual terms and conditions of the instruments.

We also assessed the appropriateness of the disclosures in the financial statements in accordance with IFRS.

Other information included in the Bank's 2016 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Bank's 2016 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2016 Annual Report after the date of our auditor's report:

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

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
NATIONAL BANK OF OMAN SAOG (CONTINUED)

Other information included in the Bank's 2016 Annual Report (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Bank's internal control.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

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

Ernst & Young LLC

Sanjay Kawatra
Muscat
5 March 2017

ارنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

2015 USD'000	2016 USD'000		Notes	2016 RO'000	2015 RO'000
		ASSETS			
790,878	**1,328,816**	Cash and balances with Central Banks	4	**511,594**	304,488
444,117	**299,558**	Due from banks and other money market placements (net)	5	**115,330**	170,985
6,582,075	**6,935,795**	Loans, advances and financing activities for customers (net)	6	**2,670,281**	2,534,099
406,904	**333,462**	Financial investments	7	**128,383**	156,658
90,055	**120,377**	Premises and equipment	8	**46,345**	34,671
162,425	**157,792**	Other assets	9	**60,750**	62,534
8,476,454	**9,175,800**	**TOTAL ASSETS**		**3,532,683**	3,263,435
		LIABILITIES AND EQUITY			
		LIABILITIES			
422,143	**585,026**	Due to banks and other money market deposits	10	**225,235**	162,525
5,843,704	**6,232,107**	Customers' deposits and unrestricted investment accounts	11	**2,399,361**	2,249,826
509,021	**605,468**	Euro medium term notes	12	**233,105**	195,973
207,668	**207,953**	Other liabilities	13	**80,062**	79,952
21,823	**19,236**	Taxation	14	**7,406**	8,402
7,004,359	**7,649,790**			**2,945,169**	2,696,678
135,325	**127,532**	Subordinated debt	15	**49,100**	52,100
7,139,684	**7,777,322**	**TOTAL LIABILITIES**		**2,994,269**	2,748,778
		EQUITY			
348,236	**383,060**	Share capital	16	**147,478**	134,071
89,519	**89,519**	Share premium	17	**34,465**	34,465
123,992	**127,686**	Legal reserve	18	**49,159**	47,737
105,444	**119,990**	Other non-distributable reserves	19	**46,196**	40,596
59,200	**60,982**	Proposed cash dividend	21	**23,478**	22,792
34,823	**19,153**	Proposed stock dividend	21	**7,374**	13,407
275,556	**298,088**	Retained earnings		**114,764**	106,089
1,036,770	**1,098,478**	**TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK**		**422,914**	399,157
300,000	**300,000**	Tier 1 Perpetual Bond	20	**115,500**	115,500
1,336,770	**1,398,478**	**TOTAL EQUITY**		**538,414**	514,657
8,476,454	**9,175,800**	**TOTAL LIABILITIES AND EQUITY**		**3,532,683**	3,263,435

The financial statements were authorised for issue on 25 January 2017 in accordance with a resolution of the Board of Directors.

………………………………… Chairman

………………………………… Chief Executive Officer

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

2015	**2016**		**Notes**	**2016**	2015
USD'000	**USD'000**			**RO'000**	RO'000
317,242	**354,434**	Interest income	23	**136,457**	122,138
(79,322)	**(99,613)**	Interest expense	24	**(38,351)**	(30,539)
237,920	**254,821**	**Net interest income**		**98,106**	91,599
9,683	**12,974**	Income from Islamic financing and investment activities		**4,995**	3,728
(1,535)	**(3,990)**	Unrestricted investment account holders' share of profit		**(1,536)**	(591)
8,148	**8,984**	**Net Income from Islamic financing and investment activities**		**3,459**	3,137
246,068	**263,805**	Net interest income and net income from Islamic financing and Investment activities		**101,565**	94,736
106,447	**89,735**	Other operating income	25	**34,548**	40,982
352,515	**353,540**	**Operating income**		**136,113**	135,718
(93,842)	**(98,395)**	Staff costs		**(37,882)**	(36,129)
(54,195)	**(56,930)**	Other operating expenses	26	**(21,918)**	(20,865)
(7,829)	**(7,439)**	Depreciation	8	**(2,864)**	(3,014)
(155,866)	**(162,764)**	**Total operating expenses**		**(62,664)**	(60,008)
196,649	**190,776**	**PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX**		**73,449**	75,710
(40,187)	**(51,029)**	Credit loss expense – customers' loan	6	**(19,646)**	(15,472)
4,725	**6,673**	Recoveries and releases from provision for credit losses	6	**2,569**	1,819
22,951	**18,678**	Recoveries from loans and advances written off		**7,191**	8,836
(3,935)	**(545)**	Impairment losses on available-for-sale investments	7	**(210)**	(1,515)
(18)	**161**	Credit loss write back / expense - bank loans		**62**	(7)
(16,464)	**(26,062)**	**TOTAL IMPAIRMENT LOSSES (NET)**		**(10,034)**	(6,339)
180,185	**164,714**	**PROFIT BEFORE TAX**		**63,415**	69,371
(24,065)	**(19,834)**	Taxation	14	**(7,636)**	(9,265)
156,120	**144,880**	**PROFIT FOR THE YEAR**		**55,779**	60,106
		OTHER COMPREHENSIVE (EXPENSE) INCOME			
		Items that are or may be reclassified subsequently to profit or loss			
3,070	**(2,450)**	Net movement on available-for-sale investments		**(943)**	1,182
(3,935)	**(545)**	Impairment losses on available-for-sale investments	7	**(210)**	(1,515)
1,932	**-**	Surplus on revaluation of buildings		**-**	744
177	**(174)**	Tax effect of net movement on available-for-sale investments		**(67)**	68
1,244	**(3,169)**	**OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR**		**(1,220)**	479
157,364	**141,711**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**54,559**	60,585
0.10	**0.08**	**Earnings per share: (USD) – Basic and diluted – (RO)**	28	**0.032**	0.039

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Attributable to equity holders of Bank										
	Share capital	Share premium	Legal reserve	General reserve	Other non-distributable reserves	Proposed cash dividend (note 21)	Proposed stock dividend (note 21)	Retained earnings	Total	Tier I perpetual bond	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2016	**134,071**	**34,465**	**47,737**	**-**	**40,596**	**22,792**	**13,407**	**106,089**	**399,157**	**115,500**	**514,657**
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	**55,779**	**55,779**	-	**55,779**
Net movement on available-for-sale investments	-	-	-	-	**(1,220)**	-	-	-	**(1,220)**	-	**(1,220)**
Dividend paid	-	-	-	-	-	**(22,792)**	-	-	**(22,792)**	-	**(22,792)**
Issue of bonus shares	**13,407**	-	-	-	-	-	**(13,407)**	-	-	-	-
Interest paid on Tier I perpetual bond	-	-	-	-	-	-	-	**(8,010)**	**(8,010)**	-	**(8,010)**
Proposed dividend	-	-	-	-	-	**23,478**	**7,374**	**(30,852)**	-	-	-
Transfers	-	-	-	-	**(3,000)**	-	-	**3,000**	-	-	-
Transfer to subordinated debt reserve (note 15)	-	-	-	-	**9,820**	-	-	**(9,820)**	-	-	-
Transfer to legal reserve (note 18)	-	-	**1,422**	-	-	-	-	**(1,422)**	-	-	-
Balance at 31 December 2016	**147,478**	**34,465**	**49,159**	**-**	**46,196**	**23,478**	**7,374**	**114,764**	**422,914**	**115,500**	**538,414**
Balance at 31 December 2016 – In USD'000	**383,060**	**89,519**	**127,686**	**-**	**119,990**	**60,982**	**19,153**	**298,088**	**1,098,478**	**300,000**	**1,398,478**
Balance at 1 January 2015	121,883	34,465	43,380	4,419	41,322	20,720	12,188	83,152	361,529	-	361,529
Total comprehensive income for the year										-	
Profit for the year	-	-	-	-	-	-	-	60,106	60,106	-	60,106
Net movement on available for sale investments	-	-	-	-	479	-	-	-	479	-	479
Dividend paid	-	-	-	-	-	(20,720)	-	-	(20,720)	-	(20,720)
Issue of bonus shares	12,188	-	-	-	-	-	(12,188)	-	-	-	-
Proceeds from Tier I perpetual bond	-	-	-	-	-	-	-	-	-	115,500	115,500
Tier I perpetual bond issuance cost	-	-	-	-	-	-	-	(1,151)	(1,151)	-	(1,151)
Interest on tier I perpetual bond	-							(1,086)	(1,086)		(1,086)
Proposed dividend	`	-	-	-	-	22,792	13,407	(36,199)	-	-	-
Transfers	-	-	-	(4,419)	(11,625)	-	-	16,044	-	-	-
Transfer to subordinated debt reserve (note 15)	-	-	-	-	10,420	-	-	(10,420)	-	-	-
Transfer to legal reserve (note 18)	-	-	4,357	-	-	-	-	(4,357)	-	-	-
Balance at 31 December 2015	134,071	34,465	47,737	-	40,596	22,792	13,407	106,089	399,157	115,500	514,657
Balance at 31 December 2015 – In USD'000	348,236	89,519	123,992	-	105,444	59,200	34,823	275,556	1,036,770	300,000	1,336,770

The attached notes 1 to 35 form part of these financial statements.

2015	2016		Notes	2016	2015
USD'000	**USD'000**			**RO'000**	RO'000
		OPERATING ACTIVITIES			
180,185	**164,714**	Profit before taxation		**63,415**	69,371
		Adjustments for:			
7,829	**7,439**	Depreciation	8	**2,864**	3,014
40,187	**51,029**	Writeback / provision for credit losses – customers' loans		**19,646**	15,472
18	**(161)**	Provision for credit losses - due from banks		**(62)**	7
3,935	**545**	Impairment losses on available for sale investments	7	**210**	1,515
(436)	**(31)**	Profit on sale of equipment (net)		**(12)**	(168)
(2,623)	**(4,447)**	Profit on sale of investments	25	**(1,712)**	(1,010)
(12,026)	**(11,514)**	Investment income		**(4,433)**	(4,630)
217,069	**207,574**	**Operating profit before changes in operating assets and liabilities**		**79,916**	83,571
(12,057)	**(38,062)**	Due from banks and other money market placements		**(14,654)**	(4,642)
135,091	**225,062**	Due to banks and other money market deposits		**86,649**	52,010
(604,566)	**(404,748)**	Loans, advances and financing activities for customers (net)		**(155,828)**	(232,758)
(19,299)	**5,153**	Other assets		**1,984**	(7,430)
187,231	**388,403**	Customers' deposits		**149,535**	72,084
-	**100,000**	Euro medium term notes		**38,500**	-
31,239	**(3,268)**	Other liabilities		**(1,258)**	12,027
(65,292)	**480,114**	**Cash from/(used in) operations**		**184,844**	(25,138)
(18,637)	**(22,358)**	Taxes paid		(8,608)	(7,175)
(83,929)	**457,756**	**Net cash from operating activities**		**176,236**	(32,313)
		INVESTING ACTIVITIES			
(121,979)	**(37,691)**	Purchase of non-trading investments		**(14,511)**	(46,962)
40,158	**34,527**	Proceeds from sale of non-trading investments		**13,293**	15,487
52,016	**77,922**	Proceeds from maturity of government development bonds		**30,000**	20,000
(39,657)	**(38,369)**	Purchase of premises and equipment	8	**(14,772)**	(15,269)
2,423	**255**	Disposal of premises and equipment		**98**	933
7,938	**9,545**	Income from bond and other investments	25	**3,675**	3,056
4,088	**1,969**	Dividend income	25	**758**	1,574
117	**(945)**	Translation differences on premises and equipment and tax		**(363)**	46
(54,896)	**47,213**	**Net cash from/(used in) investing activities**		**18,178**	(21,135)
		FINANCING ACTIVITIES			
(53,818)	**(59,200)**	Payment of dividend		**(22,792)**	(20,720)
(29,870)	**(7,791)**	Net movement in subordinated debt	15	**(3,000)**	(11,500)
300,000	**-**	Proceeds from Tier 1 perpetual bond		**-**	115,500
(2,821)	**(20,805)**	Interest on Tier 1 perpetual bond		**(8,010)**	(1,086)
213,491	**(87,796)**	**Net cash (used in)/from financing activities**		**(33,802)**	82,194
74,666	**417,173**	**INCREASE IN CASH AND CASH EQUIVALENTS**		**160,612**	28,746
813,338	**888,004**	Cash and cash equivalents at the beginning of the year		**341,881**	313,135
888,004	**1,305,177**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**502,493**	341,881
		REPRESENTING:			
789,579	**1,327,517**	Cash and balances with Central Banks	4	**511,094**	303,988
371,863	**188,920**	Due from banks (maturing within 3 months)		**72,734**	143,167
(273,438)	**(211,260)**	Due to banks (maturing within 3 months)		**(81,335)**	!105,274)
888,004	**1,305,177**			**502,493**	341,881

The attached notes 1 to 35 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale, investment and Islamic banking services within the Sultanate of Oman and overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt, the branches operate under a commercial bank license given by the respective Central Bank. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on the Muscat Stock Exchange and its Euro medium term notes are listed on Irish Stock Exchange.

The bank employed 1,544 employees as of 31 December 2016 (31 December 2015 – 1,506 employees).

2 BASIS OF PREPARATION

2.1 Basis of measurement

The financial statements are prepared under the historical cost convention as modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivatives, investments classified as available-for-sale and investments carried at fair value through profit and loss.

2.2 Functional and presentation currencies

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.3 Statement of compliance

The financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS), applicable regulations of the Central Bank of Oman and applicable requirements of the Commercial Companies Law of Oman, as amended and the Capital Market Authority of the Sultanate of Oman.

The bank presents its statement of financial position broadly in order of liquidity.

2.4 Significant accounting judgments and estimates

In the process of applying the bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

2.4.1 Going concern

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

2 BASIS OF PREPARATION (Continued)

2.4.2 Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.) and concentrations of risks.

2.4.3 Impairment of equity investments

The bank treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

2.4.4 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

2.4.5 Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.4.6 Investment Funds

The bank acts as fund manager and investment advisor to investment funds. For all funds managed by the bank, the investors (whose number ranges from 30 to 100) are able to vote by simple majority to remove the bank as fund manager without cause, and the bank's aggregate economic interest is in each case less than 5%. As a result, the Bank has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

2.5 Standards, Amendments and interpretations that are not yet effective and have not been early adopted by the Bank

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2016:

IFRS 9 'Financial instruments' (Annual periods beginning on or after 1 January 2018)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Bank plans to start the implementation of IFRS 9 in the first quarter of 2017 to ensure it is ready to adopt by 2018.

2 BASIS OF PREPARATION (Continued)

IFRS 15 Revenue from Contracts with Customers: IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plan to adopt the new standard on the required effective date. The Bank is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

IFRS 16 Leases: The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The Bank will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

The following new or amended standards are not expected to have a significant impact on the bank's financial statements.

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
- Annual Improvements 2012-2014 Cycle
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures,
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting.

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been early adopted by the bank, are not expected to have a material impact on the bank's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Date of recognition

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

3.2 Initial measurement of financial instruments

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.4 Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'other operating income'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

3.5 Held-to-maturity

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income.

If the bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

3.6 Available-for-sale investments

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

The bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the statement of comprehensive income for the year. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of comprehensive income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss for the year in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Derivative financial instruments and hedging activities

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

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

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

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

The bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the bank applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of comprehensive income within 'Other operating income'.

At inception of the hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the profit or loss in 'Other operating income'. For situations where the hedged item is a forecast transaction, the bank also assesses whether the transaction is highly probable and an exposure to variations in cash flows that could ultimately affect the statement of comprehensive income.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss in other operating income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the profit or loss in other operating income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the Cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3.8 Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the profit or loss for the year. The losses arising from impairment are recognised in the profit or loss for the year in 'Credit loss expense'.

3.9 Determination of fair values

A number of the bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 33.

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

At each reporting date, the bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the bank's accounting policies. For this analysis, the bank verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

The bank also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

3.10 Premises and equipment

Premises and equipment are initially recorded at cost or deemed cost. Revaluations of buildings are carried out every five years on an open market value for existing use basis by an independent valuer. Net surpluses arising on revaluation are credited to a capital reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings.

Land and capital work in progress are stated at cost and tested for impairment, if any. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress.

The rates of depreciation are based upon the following estimated useful lives:

- Buildings on freehold land 25 years
- Buildings on leasehold land 10 years
- Leasehold improvements 3 to 5 years
- Motor vehicles 4 years
- Furniture 10 years
- Equipment 5 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

3.11 Derecognition of financial assets and financial liabilities

Financial assets:

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

Financial liabilities:

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

3.12 Collateral pending sale

The bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the profit or loss for the year.

3.13 Deposits

All money market and customer deposits are carried at amortised cost using EIR.

3.14 Other borrowed funds

Other borrowings including subordinate private placements are recognised initially at their issue proceeds. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the period of the borrowings using EIR.

3.15 Taxation – current and deferred

Taxation is provided for based on the relevant tax laws of the respective countries, in which the bank operates.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss for the year except to the extent that it relates to items recognised directly to other comprehensive income, in which case it is recognised in equity.

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.16 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the bank and accordingly are not included in these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Financial guarantees

In the ordinary course of business, the bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "other liabilities". Subsequent to initial recognition, the bank measures such guarantees at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fee in the profit or loss for the year in "Net fees and commission income" over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the profit or loss for the year. Any financial guarantee liability remaining is recognised in the statement of comprehensive income when the guarantee is discharged, cancelled or expires.

3.18 Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

3.19 Impairment of financial assets

The bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognised in the profit or loss for the year.

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss for the year. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Recoveries from loans and advances written off'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans

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

Held-to-maturity financial investments

For held-to-maturity investments the bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss for the year.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

Available-for-sale financial investments

For available-for-sale financial investments, the bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss for the year. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

3.20 Perpetual Bond

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.22 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'.

Fee and commission income

The bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, sale of insurance products are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised when the bank's right to receive the payment is established.

3.23 Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

3.25 Staff terminal benefits

The terminal benefits for employees in Oman are provided in accordance with the Sultanate of Oman's labour law. The end of service benefits for employees in UAE are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE labour laws. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law.

3.26 Segment reporting

The bank's segmental reporting is based on the following operating segments: retail banking, wholesale banking, commercial banking and Funding Center. Segment results are reported to the Chief Executive Officer of the Bank, (being the chief operating decision maker) and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.27 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

3.28 Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3.29 Impairment of non-financial assets

The carrying amount of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication whether there is any indication of impairment. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.30 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.31 Foreign currency translation

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

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

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

4 CASH AND BALANCES WITH CENTRAL BANKS

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
116,047	**121,005**	Cash	**46,587**	44,678
21,158	**657**	Treasury bills with Central Banks	**253**	8,146
652,374	**1,205,855**	Other balances with Central Banks	**464,254**	251,164
789,579	**1,327,517**	**Cash and cash equivalents**	**511,094**	303,988
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
790,878	**1,328,816**	**Cash and balances with Central Banks**	**511,594**	304,488

The capital deposit above cannot be withdrawn without the approval of the Central Bank of Oman.

5 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
67,751	**65,501**	Loans and advances to banks	**25,218**	26,084
249,558	**145,657**	Placement with banks	**56,078**	96,080
127,146	**88,577**	Demand balances	**34,102**	48,951
444,455	**299,735**	**Due from banks and other money market placement**	**115,398**	171,115
(338)	**(177)**	Less: allowance for credit losses	**(68)**	(130)
444,117	**299,558**	**Net due from banks and other money market placement**	**115,330**	170,985

6 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET)

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
181,784	**227,062**	Overdrafts	**87,419**	69,987
3,091,415	**3,478,474**	Personal loans	**1,339,213**	1,190,195
2,991,280	**2,983,466**	Other loans	**1,148,634**	1,151,643
388,021	**313,782**	Loans against trust receipts	**120,806**	149,388
158,681	**187,595**	Bills discounted	**72,224**	61,092
6,811,181	**7,190,379**	**Gross loans and advances**	**2,768,296**	2,622,305
(199,332)	**(221,745)**	Allowance for credit losses	**(85,372)**	(76,743)
(29,774)	**(32,839)**	Reserved interest	**(12,643)**	(11,463)
6,582,075	**6,935,795**	**Net loans and advances**	**2,670,281**	2,534,099

The movement in the allowance for credit losses

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
		Allowance for credit losses		
179,733	**199,332**	Balance at beginning of the year	**76,743**	69,197
40,187	**51,029**	Provided during the year	**19,646**	15,472
(3,000)	**(5,268)**	Released/recovered during the year	**(2,028)**	(1,155)
(17,244)	**(22,945)**	Written off during the year	**(8,834)**	(6,639)
(344)	**(403)**	Translation difference	**(155)**	(132)
199,332	**221,745**	**Balance at end of the year**	**85,372**	76,743
		Reserved interest		
25,327	**29,774**	Balance at beginning of the year	**11,463**	9,751
7,192	**10,143**	Reserved during the year	**3,905**	2,769
(1,725)	**(1,405)**	Released/recovered during the year	**(541)**	(664)
(1,003)	**(5,545)**	Written off during the year	**(2,135)**	(386)
(17)	**(128)**	Translation difference	**(49)**	(7)
29,774	**32,839**	**Balance at end of the year**	**12,643**	11,463

A further analysis of allowances for credit losses is set out below:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
104,849	**122,151**	Specific impairment	**47,028**	40,367
94,483	**99,594**	Collective impairment	**38,344**	36,376
199,332	**221,745**		**85,372**	76,743

6 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET) (Continued)

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. At 31 December 2016, impaired loans on which interest is not being accrued or where interest has been reserved amounted to RO 74 million – USD 192 million (2015 – RO 62 million – USD 160 million).

During the year, the bank has written-off fully provided loans and advances amounting to RO 11 million – USD 28.5 million (2015: RO 7million – USD 18.2 million) against impairment provisions where the bank believes the possibility of a recovery is low. The bank will continue to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the profit or loss for the year.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location.

The table below analyses the concentration of gross loans and advances by various sectors.

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
3,091,415	**3,478,474**	Personal	**1,339,213**	1,190,195
778,873	**751,488**	Service	**289,323**	299,866
683,335	**631,647**	Construction	**243,184**	263,084
587,519	**583,831**	Manufacturing	**224,775**	226,195
229,444	**405,852**	Financial institutions	**156,253**	88,336
288,078	**396,821**	Wholesale and retail trade	**152,776**	110,910
349,774	**326,936**	Others	**125,870**	134,663
244,275	**217,501**	Import trade	**83,738**	94,046
59,964	**147,797**	Mining and quarrying	**56,902**	23,086
339,068	**120,642**	Transport and communication	**46,447**	130,541
139,114	**108,156**	Electricity, gas and water	**41,640**	53,559
20,288	**18,564**	Agriculture	**7,147**	7,811
34	**2,670**	Government	**1,028**	13
6,811,181	**7,190,379**	**Gross loans and advances**	**2,768,296**	2,622,305

The geographic distribution of loans and advances to customers, based on the location of the borrower is as follows:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
6,132,770	**6,524,971**	Sultanate of Oman	**2,512,114**	2,361,117
595,478	**579,169**	United Arab Emirates	**222,980**	229,259
1,130	**403**	Egypt	**155**	435
81,803	**85,836**	Others	**33,047**	31,494
6,811,181	**7,190,379**		**2,768,296**	2,622,305

7 FINANCIAL INVESTMENTS

The table below analyses the concentration of gross loans and advances by various sectors.

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
		A. Held for trading		
		Quoted investments- Oman		
-	7,792	Government Sukuk	3,000	-
170,048	160,364	Government Development Bonds	61,740	65,468
-	776	Equities	299	-
170,048	168,932		65,039	65,468
		Quoted investments- Foreign		
-	1,582	Equities	609	-
170,048	170,514	**Total held for trading**	65,648	65,468
		B. Available-for-sale		
		Quoted investments- Oman		
1,299	2,260	Banking and investment sector	870	500
413	366	Manufacturing sector	141	159
62,039	35,875	Service sector	13,812	23,885
112,379	-	Government Development Bonds	-	43,266
176,130	38,501		14,823	67,810
		Quoted investments- Foreign		
797	862	Banking and investment sector	332	307
9,610	9,356	Service sector	3,602	3,700
10,407	10,218		3,934	4,007
		Unquoted investments		
22,249	21,701	Banking and investment sector	8,355	8,566
9,047	9,047	Manufacturing sector	3,483	3,483
182	912	Service sector	351	70
31,478	31,660		12,189	12,119
218,015	80,379	**Total available-for-sale**	30,946	83,936
		C. Held-to-maturity		
		Quoted investments- Oman		
-	49,023	Government Development Bonds	18,874	-
-	15,000	Manufacturing sector	5,775	-
-	64,023		24,649	-
		Quoted investments- Overseas		
5,153	5,130	Banking sector	1,975	1,984
13,688	13,416	Government Development Bonds	5,165	5,270
18,841	18,546		7,140	7,254
18,841	82,569	**Total Held-to-maturity**	31,789	7,254
406,904	333,462	**TOTAL FINANCIAL INVESTMENTS**	128,383	156,658

7 FINANCIAL INVESTMENTS (Continued)

Government Development Bonds (GDBs) which were classified on 31 December 2015 as available-for-sale amounting to RO 42.9 million have been reclassified as held to maturity with effect from 1 January 2016. Out of this GDBs amounting to RO 30 million has matured during the year.

Included under unquoted available for sale investments are investments with a value of RO 3.92 million – USD 10.18 million (2015 – RO 3.87 million – USD 10.05 million), which are carried at cost, less any impairment losses, due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. All other available for sale investments are carried at fair value.

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment portfolio are as follows

Bank's portfolio	Carrying value		Bank's portfolio	Carrying value
%	USD'000	**2016**	%	RO'000
62.8	209,387	**Government Development Bonds- Oman**	62.8	80,614
		2015		
69.4	282,426	Government Development Bonds- Oman	69.4	108,734

Details of impairment movement

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
1,912	5,166	Balance at beginning of the year	1,989	736
3,935	545	Provided during the year	210	1,515
(681)	-	Released/recovered during the year	-	(262)
5,166	5,711	**Balance at end of the year**	2,199	1,989

During the year, the bank has recorded RO 0.2 million – USD 0.52 million (2015 RO 1.52 million - USD 3.95 million) as impairment losses against its available for sale investments. The impairment loss on available for sale investments is recognised in view of either a significant or prolonged decline in the fair value of the investment below cost.

8 PREMISES AND EQUIPMENT

	Freehold land and buildings and leasehold improvements	Motor vehicles, furniture and equipment	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000
Reconciliation of carrying amount:				
Balance as on 1 January 2016, net of accumulated depreciation	**11,723**	**5,368**	**17,580**	**34,671**
Additions	**561**	**607**	**13,604**	**14,772**
Disposals	**(1)**	**(18)**	**(67)**	**(86)**
Transfers	**994**	**4,170**	**(5,164)**	**-**
Translation difference	**(144)**	**(4)**	**-**	**(148)**
Depreciation	**(641)**	**(2,223)**	**-**	**(2,864)**
Balance at 31 December 2016, net of accumulated depreciation	**12,492**	**7,900**	**25,953**	**46,345**
At cost	**23,108**	**34,333**	**25,953**	**83,394**
At revaluation	**4,385**	**-**	**-**	**4,385**
Accumulated depreciation	**(15,001)**	**(26,433)**	**-**	**(41,434)**
Net carrying value at 31 December 2016	**12,492**	**7,900**	**25,953**	**46,345**
Net carrying value at 31 December 2016 – USD'000	**32,447**	**20,520**	**67,410**	**120,377**
At cost 1 January 2015	21,758	29,798	17,580	69,136
At revaluation	4,385	-	-	4,385
Accumulated depreciation	(14,420)	(24,430)	-	(38,850)
Net carrying value at 31 December 2015	11,723	5,368	17,580	34,671
Net carrying value at 31 December 2015– USD'000	30,449	13,943	45,663	90,055

Freehold land and buildings and leasehold improvements includes freehold land stated at cost of RO 8.56 million – USD 22.22 million (2015 – RO 8.56 million – USD 22.22 million) which is not depreciated and not re-valued. Three buildings on freehold land were re-valued at their open market value by an independent professional valuer as of 17 December 2015, at RO 4.4 million (USD 11.43 million) from then existing value of RO 3.77 million (USD 9.79 million). Should the buildings on freehold land be carried at cost less depreciation, the net carrying amount would have been RO 0.12 million – USD 0.31 million (2015 – RO 0.27 million – USD 0.69 million).

Capital work in progress mainly relates to ongoing construction of the bank's new head office building.

9 OTHER ASSETS

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
40,264	**47,916**	Interest receivable and others	**18,447**	15,502
21,429	**21,810**	Positive fair value of derivatives (note 34)	**8,397**	8,250
98,779	**85,917**	Customers' indebtedness for acceptances	**33,078**	38,030
1,953	**2,149**	Deferred tax (note 14)	**828**	752
162,425	**157,792**		**60,750**	62,534

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
401,395	**575,953**	Acceptances and borrowings	**221,742**	154,537
20,748	**9,073**	Other balances	**3,493**	7,988
422,143	**585,026**		**225,235**	162,525

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
2,079,808	**2,208,660**	Current accounts	**850,334**	800,726
1,556,797	**1,568,444**	Savings accounts	**603,851**	599,367
2,207,099	**2,455,003**	Term deposits	**945,176**	849,733
5,843,704	**6,232,107**		**2,399,361**	2,249,826

12 EURO MEDIUM TERM NOTES

The Bank in 2014 had issued a 5-year, RO 192.27 million (USD 500 million) Regulation S, bond under its Euro Medium Term Note (EMTN) programme of USD 600 million with regional and international investors. The bonds are listed on the Irish Stock Exchange and are governed by English law. The carrying amount of EMTN is stated after taking into account the amount of MTM value of the fair value hedge entered by the bank to manage its risk relating to interest rate (Refer note 34).

During July 2016, the bank concluded a tap issuance for RO 38.46 million (USD 100 million) under the same Euro Medium Term Note (EMTN) programme.

13 OTHER LIABILITIES

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
89,824	**102,799**	Interest payable and others	**39,578**	34,582
4,681	**4,603**	Staff entitlements	**1,772**	1,802
98,779	**85,917**	Liabilities under acceptances	**33,078**	38,030
14,384	**14,634**	Negative fair value of derivatives (note 34)	**5,634**	5,538
207,668	**207,953**		**80,062**	79,952
		Staff entitlements are as follows:		
4,062	**3,956**	End of service benefits	**1,523**	1,564
619	**647**	Other liabilities	**249**	238
4,681	**4,603**		**1,772**	1,802
		Movement in the end of service benefits liability are as follows:		
3,470	**4,062**	Liability as at 1 January	**1,564**	1,336
1,091	**919**	Expense recognised in the statement of comprehensive income	**354**	420
(499)	**(1,025)**	End of service benefits paid	**(395)**	(192)
4,062	**3,956**	**Liability as at 31 December**	**1,523**	1,564

14 TAXATION

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
		Current tax expense		
24,711	**20,205**	Current year	**7,779**	9,514
(646)	**(371)**	Deferred tax adjustment	**(143)**	(249)
24,065	**19,834**		**7,636**	9,265

The bank is liable to income tax at the following rates:

- Sultanate of Oman: 12% of consolidated taxable income in excess of RO 30,000
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income

The Bank is expecting changes in tax laws and rates including an increase in the Omani income tax rate from 12% to 15% which may affect recorded deferred tax assets and liabilities in the future. Any change in tax law is accounted for in the period of enactment. Impact of any change in tax law cannot be determined as the Royal Decree is not yet published in the official gazette.

14 TAXATION (Continued)

Set out below is reconciliation between income tax calculated on accounting profits with income tax expense for the year:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
180,185	**164,714**	**Accounting profit**	**63,415**	69,371
21,623	**19,766**	Tax at applicable rate	**7,610**	8,325
678	**(41)**	Non-deductible expenses	**(16)**	261
(1,545)	**(2,115)**	Tax exempt revenues	**(814)**	(595)
3,955	**2,595**	Others	**999**	1,523
24,711	**20,205**		**7,779**	9,514

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2011.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2014.

Tax liability

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
24,065	**20,205**	Income tax and other taxes – Current year	**7,779**	9,265
(2,242)	**(969)**	Income tax and other taxes – Prior years	**(373)**	(863)
21,823	**19,236**		**7,406**	8,402

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

1,891	**2,261**	Deductible temporary differences relating to provisions and revaluation of buildings	**871**	728
62	**(112)**	Available-for-sale investments	**(43)**	24
1,953	**2,149**		**828**	752

15 SUBORDINATED DEBT

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
165,195	**135,325**	At 1 January	**52,100**	63,600
(29,870)	**(7,793)**	Paid during the year	**(3,000)**	(11,500)
135,325	**127,532**		**49,100**	52,100

16 SHARE CAPITAL

The Authorised share capital of the bank is 2,000,000,000 shares of RO 0.100 each (2015 – 2,000,000,000 of RO 0.100 each). At 31 December 2016, 1,474,781,280 shares of RO 0.100 each (2015 – 1,340,710,250 of RO 0.100 each) have been issued and fully paid.

As of 31 December 2016, the following shareholders held 10% or more of the bank's capital:

	Number of shares '000	% Holding
2016	**RO'000**	**RO'000**
The Commercial Bank of Qatar	**514,696**	**34.90%**
Suhail Bahwan Group (Holdings) L.L.C	**217,446**	**14.74%**
Civil Service Employee Pension Fund	**167,579**	**11.36%**

The percentage shareholding is calculated based on the total shares of the bank outstanding at the reporting date.

17 SHARE PREMIUM

The share premium of RO 34.5 million (USD 89.5 million) represents the premium collected on issue of 10 million shares by the bank through a private placement for RO 4.45 (USD 11.56) per share. This was approved by the bank's shareholders at the bank's Extraordinary General Meeting held on 25 June 2005 at which time the face value of the bank's share was RO 1.

18 LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of UAE. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in UAE. At 31 December 2016, the legal reserve of Oman has reached one third of the issued capital.

19 OTHER NON-DISTRIBUTABLE RESERVES

	Available for sale reserve	Revaluation reserve	Subordinated debt reserve	Total
	RO'000	**RO'000**	**RO'000**	**RO'000**
At 1 January 2016	**2,331**	**4,385**	**33,880**	**40,596**
Net movement on available-for-sale investments	**(943)**	-	-	**(943)**
Impairment losses on available-for-sale investments	**(210)**			**(210)**
Tax effect of net losses on available-for-sale financial investments	**(67)**	-	-	**(67)**
Transfer to subordinated debt reserve	-	-	**9,820**	**9,820**
Transfer to retained earnings	-	-	**(3,000)**	**(3,000)**
At 31 December 2016	**1,111**	**4,385**	**40,700**	**46,196**
At 31 December 2016 – In USD'000	**2,886**	**11,390**	**105,714**	**119,990**

19 OTHER NON-DISTRIBUTABLE RESERVES (Continued)

(i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.

(ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 15). The reserve is available for transfer back to retained earning upon maturity of the subordinated debt.

20 TIER 1 PERPETUAL BOND

The bank in 2015 issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to RO 115 million (USD 300 million).

The Tier 1 Securities constitute direct, unconditional, subordinated and unsecured obligations of the bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the bank at its sole discretion on 18 November 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the Central Bank of Oman.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the Bank's discretion.

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

21 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.016 per share totalling RO 23.5 million (USD 0.030 per share totalling USD 61 million) and stock dividend of RO 0.005 per share totalling RO 7.4 million (USD 0.013 per share totalling USD 19.2 million) for the year ended 31 December 2016, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2017.

At the Annual General Meeting held in March 2016, a cash dividend of RO 0.011 per share totalling RO 22.8 million (USD 0.044 per share totalling USD 61.12 million) and stock dividend of RO 0.007 per share totalling RO 13.4 million (USD 0.017 per share totalling USD 34.85 million) for the year ended 31 December 2015 was approved and subsequently paid.

22 CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

22 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Contingent liabilities

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
1,188,494	**1,204,062**	Guarantees	**463,564**	457,570
260,314	**208,140**	Documentary letters of credit	**80,134**	100,221
1,448,808	**1,412,202**		**543,698**	557,791

The table below analyses the concentration of contingent liabilities by economic sector

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
658,208	**713,273**	Construction	**274,610**	253,410
146,642	**184,516**	Wholesale and retail trade	**71,039**	56,457
125,283	**178,146**	Manufacturing	**68,586**	48,234
219,634	**165,379**	Financial institutions	**63,671**	84,559
84,434	**68,729**	Service	**26,461**	32,507
147,519	**61,125**	Others	**23,533**	56,795
47,397	**19,653**	Transport and communication	**7,566**	18,248
15,408	**17,242**	Electricity, gas and water	**6,638**	5,932
2,582	**2,914**	Mining and quarrying	**1,122**	994
1,008	**700**	Personal	**270**	388
693	**525**	Agriculture	**202**	267
1,448,808	**1,412,202**		**543,698**	557,791

Guarantees include RO 0.4 million – USD 1.0 million (2015: RO 0.1 million – USD 0.3 million) relating to non-performing loans.

Commitments

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
363,613	**618,262**	Undrawn commitment	**238,031**	139,991
86,221	**53,865**	Capital expenditure	**20,738**	33,195
5,488	**5,943**	**Operating lease commitments**	**2,288**	2,113
		Future minimum lease payments:		
3,062	**2,899**	Not later than one year	**1,116**	1,179
2,426	**3,044**	Later than one year and not later than five years	**1,172**	934
5,488	**5,943**		**2,288**	2,113

22 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Branches

The bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
54,553	**88,584**	UAE branch	**34,105**	21,003
50,000	**50,000**	Egypt branches	**19,250**	19,250
104,553	**138,584**		**53,355**	40,253

Legal claims

By nature of the Banking sector, litigation whether by or against the Bank is expected. In order to properly manage such litigation, the Bank has in place effective mechanism and controls. The Bank does not have any major/material legal proceedings pending in a court of law in Oman or outside either instituted by or against the Bank, other than normal cases filed by clients in the normal course of business. However, there are certain unresolved legal claims filed against the Bank which are not expected to have any significant implication on The Bank's financial statements. Similarly, there are some ongoing cases filed by the Bank against its borrowers in the course of its normal business practice.

Fiduciary assets

The fair value of securities as of 31 December 2016 held on trust for customers amounts to RO 59.62 million –USD 154.85 million (2015 – RO 64.83 million – USD 168.40 million).

23 INTEREST INCOME

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
312,881	**347,748**	Interest from customers	**133,883**	120,459
4,361	**6,686**	Interest from banks	**2,574**	1,679
317,242	**354,434**		**136,457**	122,138

Interest bearing assets, other than investments earned interest at an overall effective annual rate of 4.90% for the year ended 31 December 2016 (31 December 2015 – 4.68%).

24 INTEREST EXPENSE

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
67,146	**75,483**	Interest to customers	**29,061**	25,851
3,345	**12,174**	Interest to banks	**4,687**	1,288
8,831	**11,956**	Euro medium term notes	**4,603**	3,400
79,322	**99,613**		**38,351**	30,539

For the year ended 31 December 2016, the average overall effective annual cost of bank's funds was 1.43% (2015 – 1.16%).

25 OTHER OPERATING INCOME

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
48,403	**41,587**	Fees and commission income	**16,011**	18,635
(44)	**(16)**	Fees and commission expense	**(6)**	(17)
48,359	**41,571**	Net fees and commissions	**16,005**	18,618
25,317	**16,288**	Service charges	**6,271**	9,747
2,623	**4,447**	Profit on sale of investments	**1,712**	1,010
12,990	**12,808**	Net gains from foreign exchange dealings	**4,931**	5,001
7,938	**9,545**	Income from bonds and others	**3,675**	3,056
4,088	**1,969**	Dividend income	**758**	1,574
5,132	**3,107**	Miscellaneous income	**1,196**	1,976
106,447	**89,735**		**34,548**	40,982

26 OTHER OPERATING EXPENSES

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
15,665	**16,088**	Establishment costs	**6,194**	6,031
37,865	**40,032**	Operating and administration costs	**15,412**	14,578
665	**810**	Directors' remuneration and sitting fees	**312**	256
54,195	**56,930**		**21,918**	20,865

27 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows:

	2016			2015		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
Loans and advances	**-**	**99,039**	**99,039**	-	43,669	43,669
Customers' deposits	**82,292**	**35,304**	**117,596**	91,345	20,869	112,214
Due from banks	**55**	**13,668**	**13,723**	235	15,015	15,250
Due to banks	**28,917**	**-**	**28,917**	38,647	-	38,647
Subordinated debt	**14,500**	**4,000**	**18,500**	14,500	4,000	18,500
Letter of credit, guarantees and acceptance	**118**	**5,348**	**5,466**	118	2,122	2,240
Standby revolving credit facility	**77,000**	**-**	**77,000**	77,000	-	77,000
Risk indemnities received	**422**	**-**	**422**	484	-	484
Investment	**1,918**	**-**	**1,918**	1,801	-	1,801

27 RELATED PARTY TRANSACTIONS (Continued)

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

	2016			2015		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
Interest income	**-**	**3,165**	**3,165**	21	1,999	2,020
Commission income	**74**	**56**	**130**	-	98	98
Interest expense	**3,357**	**387**	**3,744**	3,278	353	3,631
Other expenses	**-**	**1,051**	**1,051**	-	569	569

	2016			2015		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	USD'000	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
Loans and advances	**-**	**257,244**	**257,244**	-	113,426	113,426
Customers' deposits	**213,745**	**91,699**	**305,444**	237,260	54,205	291,465
Due from banks	**143**	**35,501**	**35,644**	610	39,000	39,610
Due to banks	**75,109**	**-**	**75,109**	100,382	-	100,382
Subordinated debt	**37,662**	**10,390**	**48,052**	37,662	10,390	48,052
Letter of credit, guarantees and acceptance	**306**	**13,891**	**14,197**	306	5,512	5,818
Standby revolving credit facility	**200,000**	**-**	**200,000**	200,000	-	200,000
Risk indemnities received	**1,096**	**-**	**1,096**	1,257	-	1,257
Investment	**4,982**	**-**	**4,982**	4,678	-	4,678

The statement of comprehensive income includes following amounts as relation to the transaction with related parties.

	2016			2015		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	USD'000	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
Interest income	**-**	**8,221**	**8,221**	55	5,192	5,247
Commission income	**192**	**145**	**337**	-	255	255
Interest expense	**8,719**	**1,005**	**9,724**	8,514	917	9,431
Other expenses	-	**2,730**	**2,730**	-	1,478	1,478

Details regarding senior management compensation are set out below:

2015	2016		2016	2015
USD'000	**USD'000**		**RO'000**	RO'000
		Salaries and other short term benefits		
6,644	**8,143**	- Fixed	**3,135**	2,558
5,000	**3,766**	- Discretionary	**1,450**	1,925
11,644	**11,909**		**4,585**	4,483

28 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2016	2015
	RO'000	RO'000
Profit after tax (RO'000s)	55,779	60,106
Less: Tier 1 perpetual bond issuance cost	-	(1,151)
Less: Interest on tier 1 perpetual bond	(8,010)	(1,086)
Profit attributable to shareholders	47,769	57,869
Weighted average number of shares outstanding during the year (in '000s)	1,474,781	1,474,781
Earnings per share (RO)	**RO 0.032**	RO 0.039
Profit after tax (USD'000s)	144,880	156,120
Less: Tier 1 perpetual bond issuance cost	-	(2,990)
Less: Interest on tier 1 perpetual bond	(20,805)	(2,821)
Profit attributable to shareholders	124,075	150,308
Weighted average number of shares outstanding during the year (in '000s)	1,474,781	1,474,781
Earnings per share (USD)	**USD 0.08**	USD 0.10

During the year 2016, the bank issued stock dividend amounting to RO 13.4 million at RO 0.010 per share (USD 34.8 million total stock dividend at USD 0.026 per share. As the issue was without any consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

No figure for diluted earnings per share has been presented, as the bank has not issued any instruments, which would have an impact on earnings per share when exercised.

29 CAPITAL ADEQUACY

The bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the bank.

During the past year, the bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the bank's capital management are to ensure that the bank complies with externally imposed capital requirements and that the bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. The Capital Management Policy was revised during the year to incorporate the regulatory changes.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

29 CAPITAL ADEQUACY (Continued)

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
		Capital base		
958,174	1,021,070	Common equity Tier 1 - shareholders' funds	393,112	368,897
300,000	300,000	Additional Tier 1 - capital	115,500	115,500
144,847	122,888	Tier 2 - subordinated debt and collective impairment provisions	47,312	55,766
1,403,021	1,443,958	**Total capital base**	555,924	540,163
		Risk weighted assets		
7,050,119	7,500,257	Credit risk	2,887,599	2,714,296
574,465	626,722	Operational risk	241,288	221,169
106,855	155,584	Market risk	59,900	41,139
7,731,439	8,282,563	**Total risk weighted assets**	3,188,787	2,976,604
12.4%	12.3%	**CET 1 Ratio**	12.3%	12.4%
16.3%	16.0%	**Tier 1 Ratio**	16.0%	16.3%
18.2%	17.4%	**Risk asset ratio (Basel II norms)**	17.4%	18.2%

30 RISK MANAGEMENT

Effective risk management is of primary importance for the bank. The bank's risk management process evaluates, monitors and manages the risks associated with the businesses the bank conducts in line with the defined risk appetite. The bank's key risks are credit risk, market risk, operational risk and strategic risk. The bank operates on the guiding principles of three lines of defense i.e. Business, Independent control functions and internal audit. The risk management function is headed by the CRO with a team of risk professionals to manage specific risk functions.

30.1 CREDIT RISK

Credit risk is the risk of potential loss in the event that the Bank's customers, clients or counterparties fail to honour their financial and contractual obligations to the bank. Credit risk is one of the most significant risks for the Bank. The bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; the risk framework is provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on the delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments. The bank is contemplating an early warning trigger system based on predefined credit parameters and account behaviour. The Bank also undertakes stress testing of its portfolio and potential credit costs in the event of a downgrade or default by its customers.

30.1 CREDIT RISK (Continued)

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking, Financial Institutions as well as Small and Medium enterprise exposures. The credit risk associated with any corporate financing is assessed based on an analysis of the customer and the industry it operates in. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit assessments. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The bank follows a risk adjusted return of capital model for benchmarking risk pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The bank has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. The bank maintains an accurate and consistent corporate credit rating for all its customers. The bank is introducing facility risk rating apart from customer credit rating so as to measure the appropriate loss given default associated with each credit.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers, public companies and large exposures. Further, the bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:-

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

Retail credit

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and, if required revised, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and recommended to the delegated authorities.

A review of the Retail Credit Portfolio is conducted on a quarterly basis and provided to the Management Risk Committee, and a quarterly report is presented to the Board Risk Committee. Monthly management reports are also prepared and submitted to the CRO and to the Business Heads. Salient areas covered in the review include:

- Portfolio review
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)

30.1 CREDIT RISK (Continued)

- Projects undertaken / fulfilled during the month
- Recoveries

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency as well as the recovery methodologies of the retail portfolio. The Bank has reworked its lending strategy through the adoption of pre-defined lending criteria and continuous monitoring of the portfolio, and has implemented a Credit Scoring Module for its salary related loan portfolio to enhance the Retail Credit Risk framework.

Loan review mechanism

The bank has an independent Loan Review Mechanism Division (LRM) with a mandate for constantly evaluating the quality of the loan book, and the balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc. In addition to the above the LRM team reviews the Bank's effectiveness of approved internal controls and procedures to ensure robust and sound practices are being followed by all stake holders. LRM also performs independent ad hoc reviews, investigations and assessments as directed by management on areas of concern relating to the credit approval process and/or the analysis processes within the Bank. Significant findings are reported to the CRO, the MRC and potentially to the BRC where warranted.

Risk mitigation policies

The bank manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

Maximum exposure to credit risk

Gross maximum exposure	**Gross maximum exposure**		**Gross maximum exposure**	Gross maximum exposure
2015	**2016**		**2016**	2015
USD'000	**USD'000**		**RO'000**	RO'000
674,831	**1,207,811**	Balances with Central Banks	**465,007**	259,810
444,117	**299,558**	Due from banks and other money market placements(net)	**115,330**	170,985
6,582,075	**6,935,795**	Loans, advances and financing activities for customers (net)	**2,670,281**	2,534,099
406,904	**333,462**	Financial investments	**128,383**	156,658
139,043	**133,833**	Other assets	**51,525**	53,532
21,429	**21,810**	Derivatives	**8,397**	8,250
8,268,399	**8,932,267**	**Total on balance sheet exposure**	**3,438,923**	3,183,334
1,188,494	**1,204,062**	Guarantees	**463,564**	457,570
260,314	**208,140**	Documentary letters of credit	**80,134**	100,221
363,613	**618,262**	Undrawn commitment	**238,031**	139,991
1,812,421	**2,030,464**	**Total off balance sheet exposure**	**781,729**	697,782

30.1 CREDIT RISK (Continued)

The above table represents the maximum credit risk exposure to the bank at 31 December 2016 and 2015 without taking into account the collateral held or other credit enhancements. Management is confident that the bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

An analysis of the credit quality of the bank's loan and advances is set out below:

	Performing loans (neither past due nor impaired	Loans past due and not impaired	Non performing loans	Gross loans
	RO'000	RO'000	RO'000	RO'000
Balance as at 1 January 2016	**2,474,361**	**86,383**	**61,561**	**2,622,305**
Additions during the year	**789,533**	**122,973**	**38,705**	**951,211**
Attrition during the year	**(789,533)**	**(18,513)**	**(15,385)**	**(794,202)**
Written-off during the year	**-**	-	**(11,018)**	**(11,018)**
Balance as at 31 December 2016	**2,503,590**	**190,843**	**73,863**	**2,768,296**
Balance as at 31 December 2016 – USD'000s	**6,502,831**	**495,696**	**191,852**	**7,190,379**
Balance as at 31 December 2015	2,474,361	86,383	61,561	2,622,305
Balance as at 31 December 2015 – USD'000s	6,426,911	224,371	159,899	6,811,181

An ageing analysis of the bank's loans which are past due but not impaired is set out below:

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers (net) at				
31 December 2016	**42,539**	**53,307**	**94,997**	**190,843**
31 December 2016 – USD'000s	**110,491**	**138,460**	**246,745**	**495,696**
31 December 2015	56,288	19,822	10,273	86,383
31 December 2015 – USD'000s	146,203	51,486	26,683	224,372

Collateral and other credit enhancements

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

- Charges over business assets such as premises, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties
- Pledge of marketable shares and securities

The housing loans are secured by mortgage over the residential property.

30.1 CREDIT RISK (Continued)

The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	Performing loans (neither past due nor impaired)	Loans past due and not impaired	Non performing loans	Total
	RO'000	RO'000	RO'000	RO'000
Collateral available	**1,619,390**	**101,665**	**73,486**	**1,794,541**
Guarantees available	**2,190**	**-**	**-**	**2,190**
Government soft loans*	**4,025**	**-**	**1,253**	**5,278**
Balance as at 31 December 2016	**1,625,605**	**101,665**	**74,739**	**1,802,009**
Balance as at 31 December 2016 – USD'000s	**4,222,351**	**264,065**	**194,127**	**4,680,543**
Balance as at 31 December 2015	1,586,018	93,583	89,262	1,768,863
Balance as at 31 December 2015 – USD'000s	4,119,527	243,073	231,849	4,594,449

* Government Soft Loans are guaranteed by the Government to the extent of the outstanding principal.

The amount of total secured loans and advances is less than the total value of collateral as stated above.

Impairment and provisioning policy

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised in the statement of comprehensive income. In addition the bank creates collective provision.

A further analysis of the bank's non-performing loans in accordance with the classification requirements of Central Bank of Oman is as follows:

	Substandard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000
Balance as at 1 January 2016	**9,810**	**10,024**	**41,727**	**61,561**
Additions during the year	**3,571**	**17,598**	**17,536**	**38,705**
Attrition during the year	**(4,502)**	**(6,106)**	**(4,777)**	**(15,385)**
Written-off during the year	**-**	**-**	**(11,018)**	**(11,018)**
Balance as at 31 December 2016	**8,879**	**21,516**	**43,468**	**73,863**
Balance as at 31 December 2016 – USD'000s	**23,062**	**55,886**	**112,904**	**191,852**
Balance as at 31 December 2015	9,810	10,024	41,727	61,561
Balance as at 31 December 2015 – USD'000s	25,481	26,036	108,382	159,899

30.1 CREDIT RISK (Continued)

Movement of rescheduled loans:

	2016	2015
	RO'000	RO'000
Balance as at 1 January	60,682	36,528
Additions during the year	30,883	32,045
Attrition during the year	(20,889)	(7,891)
Balance as at 31December	70,676	60,682
Balance as at 31December – USD'000s	**183,574**	157,616

30.2 LIQUIDITY RISK

Liquidity risk is the risk that the bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the bank holds certain liquid assets as part of its liquidity risk management strategy.

The bank manages the liquidity risk based on the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly through analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the bank also periodically conducts stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

30.2 LIQUIDITY RISK (Continued)

The residual maturity profile of the assets, liabilities and equity at **31 December 2016** is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	411,741	41,628	453,369	31,522	26,703	58,225	511,594
Due from banks and other money market placements (net)	89,149	16,556	105,705	-	9,625	9,625	115,330
Loans, advances and financing activities for customers (net)	440,592	250,106	690,698	595,852	1,383,731	1,979,583	2,670,281
Financial investments	94,543	13,905	108,448	19,935	-	19,935	128,383
Premises and equipment	-	-	-	-	46,345	46,345	46,345
Other assets	56,309	3,870	60,179	571	-	571	60,750
Total assets	**1,092,334**	**326,065**	**1,418,399**	**647,880**	**1,466,404**	**2,114,284**	**3,532,683**
Due to banks and other money market deposits	114,075	107,281	221,356	3,879	-	3,879	225,235
Customers' deposits and unrestricted investment accounts	606,580	757,964	1,364,544	571,298	463,519	1,034,817	2,399,361
Euro medium term notes	-	-	-	233,105	-	233,105	233,105
Other liabilities	76,279	2,587	78,866	1,196	-	1,196	80,062
Taxation	7,406	-	7,406	-	-	-	7,406
Subordinated debt	-	24,100	24,100	25,000	-	25,000	49,100
Shareholders' equity	-	-	-	-	422,914	422,914	422,914
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	**804,340**	**891,932**	**1,696,272**	**834,478**	**1,001,933**	**1,836,411**	**3,532,683**

30.2 LIQUIDITY RISK (Continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	1,069,458	108,125	1,177,583	81,875	69,358	151,233	1,328,816
Due from banks and other money market placements (net)	231,555	43,003	274,558	-	25,000	25,000	299,558
Loans, advances and financing activities for customers (net)	1,144,395	649,626	1,794,021	1,547,668	3,594,106	5,141,774	6,935,795
Financial investments	245,566	36,117	281,683	51,779	-	51,779	333,462
Premises and equipment	-	-	-	-	120,377	120,377	120,377
Other assets	146,257	10,052	156,309	1,483	-	1,483	157,792
Total assets	**2,837,231**	**846,923**	**3,684,154**	**1,682,805**	**3,808,841**	**5,491,646**	**9,175,800**
Due to banks and other money market deposits	296,299	278,652	574,951	10,075	-	10,075	585,026
Customers' deposits and unrestricted investment accounts	1,575,532	1,968,738	3,544,270	1,483,891	1,203,946	2,687,837	6,232,107
Euro medium term notes	-	-	-	605,468	-	605,468	605,468
Other liabilities	198,128	6,719	204,847	3,106	-	3,106	207,953
Taxation	19,236	-	19,236	-	-	-	19,236
Subordinated debt	-	62,597	62,597	64,935	-	64,935	127,532
Shareholders' equity	-	-	-	-	1,098,478	1,098,478	1,098,478
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	**2,089,195**	**2,316,706**	**4,405,901**	**2,167,475**	**2,602,424**	**4,769,899**	**9,175,800**

30.2 LIQUIDITY RISK (Continued)

The maturity profile of the assets, liabilities and equity at 31 December 2015 is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	213,177	37,691	250,868	28,599	25,021	53,620	304,488
Due from banks and other money market placements (net)	143,168	12,802	155,970	5,390	9,625	15,015	170,985
Loans, advances and financing activities for customers (net)	468,294	200,898	669,192	564,581	1,300,326	1,864,907	2,534,099
Financial investments	99,437	32,687	132,12	24,534	-	24,534	156,658
Premises and equipment	-	-	-	-	34,671	34,671	34,671
Other assets	59,468	2,546	62,014	520	-	520	62,534
Total assets	983,544	286,624	1,270,168	623,624	1,369,643	1,993,267	3,263,435
Due to banks and other money market deposits	105,273	18,752	124,025	38,500	-	38,500	162,525
Customers' deposits and unrestricted investment accounts	649,832	637,842	1,287,674	523,522	438,630	962,152	2,249,826
Euro medium term notes	-	-	-	195,973	-	195,973	195,973
Other liabilities	69,701	8,427	78,128	1,824	-	1,824	79,952
Taxation	8,402	-	8,402	-	-	-	8,402
Subordinated debt	27,100	-	27,100	25,000	-	25,000	52,100
Shareholders' equity	-	-	-	-	399,157	399,157	399,157
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	860,308	665,021	1,525,329	784,819	953,287	1,738,106	3,263,435

30.2 LIQUIDITY RISK (Continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	553,706	97,899	651,605	74,283	64,990	139,273	790,878
Due from banks and other money market placement (net)	371,865	33,252	405,117	14,000	25,000	39,000	444,117
Loans, advances and financing activities for customers (net)	1,216,348	521,813	1,738,161	1,466,444	3,377,470	4,843,914	6,582,075
Financial investments	258,278	84,901	343,179	63,725	-	63,725	406,904
Premises and equipment	-	-	-	-	90,055	90,055	90,055
Other assets	154,461	6,613	161,074	1,351	-	1,351	162,425
Total assets	2,554,658	744,478	3,299,136	1,619,803	3,557,515	5,177,318	8,476,454
Due to banks and other money market deposits	273,437	48,706	322,143	100,000	-	100,000	422,143
Customers' deposits and unrestricted investment accounts	1,687,876	1,656,732	3,344,608	1,359,797	1,139,299	2,499,096	5,843,704
Euro medium term notes	-	-	-	509,021	-	509,021	509,021
Other liabilities	181,042	21,888	202,930	4,738	-	4,738	207,668
Taxation	21,823	-	21,823	-	-	-	21,823
Subordinated debt	70,390	-	70,390	64,935	-	64,935	135,325
Shareholders' equity	-	-	-	-	1,036,770	1,036,770	1,036,770
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	2,234,568	1,727,326	3,961,894	2,038,491	2,476,069	4,514,560	8,476,454

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30.2 LIQUIDITY RISK (Continued)

Liquidity coverage ratio

Total Weighted Value (average)	Total Unweighted Value (average)		Total Unweighted Value (average	Total Weighted Value (average)
USD'000	USD'000		RO'000	RO'000
		HIGH QUALITY LIQUID ASSETS		
1,247,030	-	Total High Quality Liquid Assets (HQLA)	-	480,107
		Cash outflows		
110,669	1,904,501	Retail deposits and deposits from small business customers of which:	733,233	42,604
79,790	1,595,795	Stable deposits	614,381	30,719
30,870	308,706	Less stable deposits	118,852	11,885
916,182	2,457,026	Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative banks	945,955	352,730
15,244	152,452	Additional requirements, of which Credit and liquidity facilities	58,694	5,869
78,496	1,458,639	Other contingent funding obligations	561,576	30,221
1,120,584	-	**TOTAL CASH OUTFLOWS**	-	431,425
		Cash Inflows		
725,244	1,098,673	Inflows from fully performing exposures	422,989	279,219
51,561	51,561	Other cash inflows	19,851	19,851
776,805	1,150,234	TOTAL CASH INFLOWS	442,840	299,070
1,247,031	-	**TOTAL HIGH QUALITY LIQUID ASSETS**	-	480,107
343,779	-	**TOTAL NET CASH OUTFLOWS**	-	132,355
362.7	-	**LIQUIDITY COVERAGE RATIO (%)**	-	362.7

30.3 MARKET RISK

The bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the bank will fluctuate because of changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests incorporating adverse movements in equity value, foreign exchange, etc. are also periodically conducted and reviewed by the Management and Board Risk Committee.

The bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The bank has adopted risk weightings in line with best practices being followed by other banks to capture the credit risk related to these off-balance sheet exposures.

30.3 MARKET RISK (Continued)

Equity risk

The proprietary equity positions are held in the 'Available-for-Sale' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and required actions, if any, are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

Interest rate risk

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2016	200 bps increase	200 bps decrease
Earnings impact - RO'000s	9,086	(9,086)
Earnings impact - USD'000s	23,600	(23,600)

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

There have not been any significant changes in Interest Rate Risk management process in the bank during the year.

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30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2016** is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	N/A	253	-	-	-	511,341	511,594
Due from banks and other money market placements (net)	1.29%	55,047	26,181	-	-	34,102	115,330
Loans, advances and financing activities for customers (net)	5.17%	914,600	571,226	647,679	536,776	-	2,670,281
Financial investments	2.28%	8,766	24,633	57,930	5,200	31,854	128,383
Premises and equipment	N/A	-	-	-	-	46,345	46,345
Other assets	N/A	-	-	-	-	60,750	60,750
Total assets		**978,666**	**622,040**	**705,609**	**541,976**	**684,392**	**3,532,683**
Due to banks and other money market deposits	2.46%	110,582	107,281	3,879	-	3,493	225,235
Customers' deposits and unrestricted investment accounts	1.18%	229,266	1,096,042	298,292	-	775,761	2,399,361
Euro medium term notes	2.20%	-	-	233,105	-	-	233,105
Other liabilities	N/A	-	-	-	-	80,062	80,062
Taxation	N/A	-	-	-	-	7,406	7,406
Tier 1 Perpetual Bonds	7.88%	-	-	115,500	-	-	115,500
Subordinated debt	5.17%	-	24,100	25,000	-	-	49,100
Shareholders' equity	N/A	-	-	-	-	422,914	422,914
Total liabilities and shareholders' equity		**339,848**	**1,227,423**	**675,776**	**-**	**1,289,636**	**3,532,683**
Total interest rate sensitivity gap		**638,818**	**(605,383)**	**29,833**	**541,976**	**(605,244)**	**-**
Cumulative interest rate sensitivity gap		**638,818**	**33,435**	**63,268**	**605,244**	**-**	

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2016** is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	N/A	657	-	-	-	1,328,159	1,328,816
Due from banks and other money market placements (net)	1.29%	142,978	68,003	-	-	88,577	299,558
Loans, advances and financing activities for customers (net)	5.17%	2,375,585	1,483,704	1,682,283	1,394,223	-	6,935,795
Financial investments	2.28%	22,768	63,982	150,468	13,506	82,738	333,462
Premises and equipment	N/A	-	-	-	-	120,377	120,377
Other assets	N/A	-	-	-	-	157,792	157,792
Total assets		**2,541,988**	**1,615,689**	**1,832,751**	**1,407,729**	**1,777,643**	**9,175,800**
Due to banks and other money market deposits	2.46%	287,226	278,652	10,075	-	9,073	585,026
Customers' deposits and unrestricted investment accounts	1.18%	595,497	2,846,862	774,784	-	2,014,964	6,232,107
Euro medium term notes	2.20%	-	-	605,468	-	-	605,468
Other liabilities	N/A	-	-	-	-	207,953	207,953
Taxation	N/A	-	-	-	-	19,236	19,236
Tier 1 Perpetual Bonds	7.88%	-	-	300,000	-	-	300,000
Subordinated debt	5.17%	-	62,597	64,935	-	-	127,532
Shareholders' equity	N/A	-	-	-	-	1,098,478	1,098,478
Total liabilities and shareholders' equity		**882,723**	**3,188,111**	**1,755,262**	**-**	**3,349,704**	**9,175,800**
Total interest rate sensitivity gap		**1,659,265**	**(1,572,422)**	**77,489**	**1,407,729**	**(1,572,061)**	**-**
Cumulative interest rate sensitivity gap		**1,659,265**	**86,843**	**164,332**	**1,572,061**	**-**	

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2015 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	0.11%	8,146	-	-	-	296,342	304,488
Due from banks and other money market placements (net)	1.02%	154,237	16,748	-	-	-	170,985
Loans, advances and financing activities for customers (net)	5.06%	1,021,900	507,178	762,602	242,419	-	2,534,099
Financial investments	2.29%	12,119	1,985	102,500	3,206	36,848	156,658
Premises and equipment	N/A	-	-	-	-	34,671	34,671
Other assets	N/A	-	-	-	-	62,534	62,534
Total assets		1,196,402	525,911	865,102	245,625	430,395	3,263,435
Due to banks and other money market deposits	1.55%	105,273	5,719	51,533	-	-	162,525
Customers' deposits and unrestricted investment accounts	0.97%	290,697	1,037,409	249,735	-	671,985	2,249,826
Euro medium term notes	1.76%	-	-	195,973	-	-	195,973
Other liabilities	N/A	-	-	-	-	79,952	79,952
Taxation	N/A	-	-	-	-	8,402	8,402
Subordinated debt	5.73%	3,000	-	49,100	-	-	52,100
Shareholders' equity	N/A	-	-	-	-	399,157	399,157
Tier 1 Perpetual Bonds	7.88%	-	-	115,500	-	-	115,500
Total liabilities and shareholders' equity		398,970	1,043,128	661,841	-	1,159,496	3,263,435
Total interest rate sensitivity gap		797,432	(517,217)	203,261	245,625	(729,101)	-
Cumulative interest rate sensitivity gap		797,432	280,215	483,476	729,101	-	

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2015 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	0.11%	21,158	-	-	-	769,720	790,878
Due from banks and other money market placements (net)	1.02%	400,616	43,501	-	-	-	444,117
Loans, advances and financing activities for customers (net)	5.06%	2,654,286	1,317,345	1,980,784	629,660	-	6,582,075
Financial investments	2.29%	31,478	5,156	266,234	8,327	95,709	406,904
Premises and equipment	N/A	-	-	-	-	90,055	90,055
Other assets	N/A	-	-	-	-	162,425	162,425
Total assets		3,107,538		2,247,018	637,987	1,117,909	8,476,454
Due to banks and other money market deposits	1.55%	273,436	14,855	133,852	-		422,143
Customers' deposits and unrestricted investment accounts	0.97%	755,057	2,694,569	648,662	-	1,745,416	5,843,704
Euro medium term notes	1.76%	-	-	509,021	-		509,021
Other liabilities	N/A	-	-	-	-	207,668	207,668
Taxation	N/A	-	-	-	-	21,823	21,823
Subordinated debt	5.73%	7,793	-	127,532	-	-	135,325
Shareholders' equity	N/A	-	-	-	-	1,036,770	1,036,770
Tier 1 Perpetual Bonds	7.88%	-	-	300,000	-	-	300,000
Total liabilities and shareholders' equity		1,036,286	2,709,424	1,719,067	-	3,011,677	8,476,454
Total interest rate sensitivity gap		2,071,252	(1,343,422)	527,951	637,987	(1,893,768)	-
Cumulative interest rate sensitivity gap		2,071,252	727,830	1,255,781	1,893,768	-	

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the bank are generally small residual positions resulting from market coverings for customer transactions.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

30.3 MARKET RISK (Continued)

The bank had the following significant net exposures denominated in foreign currencies:

2015	2016		2016	2015
USD'000	USD'000		RO'000	RO'000
175,291	238,221	US Dollar	91,715	67,487
54,265	61,031	UAE Dirham	23,497	20,892
9,099	3,229	Others	1,243	3,503

30.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank now has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus soft wares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

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

Fraud Risk

NBO has adopted a 'zero tolerance' policy towards fraud and corruption and as such will seek to take disciplinary and/or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management (FRM) unit manages the fraud risk for the Bank at an enterprise level. The unit monitors transactions originating from Cards, POS and other Digital channels. Besides, the unit conducts Fraud Risk Assessments to assess fraud risks on a pro-active basis, verifies the existing controls and proposes new controls, if required.

The unit is also responsible for managing Incidents across the bank and maintenance of Operational Loss Database.

30.5 STRATEGIC RISKS

The bank monitors strategic risks through regular quarterly assessment and reporting at the Board Risk Committee level. This includes reviews of human resource, economic (both at the macro and micro levels), regulatory/compliance, information technology and information security, legal and reputational related risks and the monitoring of strategic project risk arising from initiatives undertaken by the bank. Furthermore, the bank is currently augmenting its Internal Capital Adequacy Assessment Process (ICAAP) to align the business strategy and the capital management processes.. In the course of 2016 the bank had engaged an internationally renowned consultant to review the current ICAAP process and to recommend enhancements that will, once implemented, escalate the ICAAP process and documentation to international best practices. This initiative was proposed and sponsored at the highest level by the Board Risk Committee. The benefits of this reprocessing project will be reaped in 2017.

31 CONCENTRATIONS

The bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The distribution of assets, liabilities and contingent items by geographical regions as of **31 December 2016** is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	483,349	25,716	2,529	-	511,594
Due from banks and other money market placements (net)	15,400	10,816	116	88,998	115,330
Loans, advances and financing activities for customers (net)	2,433,983	203,248	3	33,047	2,670,281
Financial investments	114,508	11,100	-	2,775	128,383
Premises and equipment	45,720	486	139	-	46,345
Other assets	48,987	11,323	440	-	60,750
Total assets	**3,141,947**	**262,689**	**3,227**	**124,820**	**3,532,683**
Due to banks and other money market deposits	756	36,583	2,695	185,201	225,235
Customers' deposits and unrestricted investment accounts	2,303,115	95,080	1,166	-	2,399,361
Euro medium term notes	233,105	-	-	-	233,105
Other liabilities	68,358	11,413	291	-	80,062
Taxation	7,113	189	104	-	7,406
Subordinated funds	49,100	-	-	-	49,100
Shareholders' equity	415,113	6,033	1,768	-	422,914
Tier 1 perpetual bond	115,500	-	-	-	115,500
Liabilities and shareholders' equity	**3,192,160**	**149,298**	**6,024**	**185,201**	**3,532,683**
Contingent liabilities	**446,421**	**35,208**	**2,890**	**59,179**	**543,698**

31 CONCENTRATIONS (Continued)

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	1,255,452	66,795	6,569	-	1,328,816
Due from banks and other money market placements (net)	40,000	28,094	301	231,163	299,558
Loans, advances and financing activities for customers (net)	6,322,034	527,917	8	85,836	6,935,795
Financial investments	297,423	28,831	-	7,208	333,462
Premises and equipment	118,754	1,262	361	-	120,377
Other assets	127,239	29,410	1,143	-	157,792
Total assets	**8,160,902**	**682,309**	**8,382**	**324,207**	**9,175,800**
Due to banks and other money market deposits	1,964	95,021	7,000	481,041	585,026
Customers' deposits and unrestricted investment accounts	5,982,117	246,961	3,029	-	6,232,107
Euro medium term notes	605,468	-	-	-	605,468
Other liabilities	177,553	29,644	756	-	207,953
Taxation	18,475	491	270	-	19,236
Subordinated funds	127,532	-	-	-	127,532
Shareholders' equity	1,078,216	15,670	4,592	-	1,098,478
Tier 1 perpetual bond	300,000	-	-	-	300,000
Liabilities and shareholders' equity	**8,291,325**	**387,787**	**15,647**	**481,041**	**9,175,800**
Contingent liabilities	**1,159,536**	**91,449**	**7,506**	**153,712**	**1,412,203**

31 CONCENTRATIONS (Continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2015 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	283,064	19,591	1,833	-	304,488
Due from banks and other money market placements (net)	52,575	2,486	1,983	113,941	170,985
Loans, advances and financing activities for customers (net)	2,283,660	219,988	3	30,448	2,534,099
Financial investments	143,085	10,953	-	2,620	156,658
Premises and equipment	34,072	312	287	-	34,671
Other assets	43,649	17,918	967	-	62,534
Total assets	2,840,105	271,248	5,073	147,009	3,263,435
Due to banks and other money market deposits	1,117	32,878	14,630	113,900	162,525
Customers' deposits and unrestricted investment accounts	2,118,009	129,723	2,094	-	2,249,826
Euro medium term notes	195,973	-	-	-	195,973
Other liabilities	60,584	18,659	709	-	79,952
Taxation	7,334	737	331	-	8,402
Subordinated debt	52,100	-	-	-	52,100
Tier 1 perpetual bond	115,500	-	-		115,500
Shareholders' equity	388,270	9,075	1,812	-	399,157
Liabilities and shareholders' equity	2,938,887	191,072	19,576	113,900	3,263,435
Contingent Liability	434,370	55,567	17	67,837	557,791

31 CONCENTRATIONS (Continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2015 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	735,231	50,886	4,761	-	790,878
Due from banks and other money market placements (net)	136,558	6,457	5,151	295,951	444,117
Loans, advances and financing activities forcustomers (net)	5,931,584	571,397	8	79,086	6,582,075
Financial investments	371,650	28,449	-	6,805	406,904
Premises and equipment	88,500	810	745	-	90,055
Other assets	113,373	46,540	2,512	-	162,425
Total assets	7,376,896	704,539	13,177	381,842	8,476,454
Due to banks and other money market deposits	2,901	85,397	38,000	295,845	422,143
Customers' deposits and unrestricted investment accounts	5,501,322	336,943	5,439	-	5,843,704
Euro medium term notes	509,021	-	-	-	509,021
Other liabilities	157,361	48,465	1,842	-	207,668
Taxation	19,049	1,914	860	-	21,823
Subordinated debt	135,325	-	-	-	135,325
Tier 1 perpetual bond	300,000	-	-		300,000
Shareholders' equity	1,008,493	23,571	4,706	-	1,036,770
Liabilities and shareholders' equity	7,633,472	496,290	50,847	295,845	8,476,454
Contingent Liability	1,128,234	144,330	44	176,200	1,448,808

32 SEGMENTAL INFORMATION

For management purposes, the bank is organized into four operating segments based on business units and are as follows:

- Retail banking offers various products and facilities to individual retail and high networth customers to meet everyday banking needs. This includes asset products like Personal Loans, Housing Loan, Credit Cards and Term Loans and liability products like Savings account, Current account & Term Deposits.
- Wholesale banking delivers a variety of products and services to Corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes Investment banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- Commercial banking covers the mid-tier corporate and SME customers offering the entire spectrum of products to suit their business needs. It also includes international operations of UAE and Egypt and Islamic banking offers products as per Sharia principles.
- Funding center - The Funding center is responsible for balancing and managing the liquidity of funds within the bank. It acts as repository of funds by allocating funds transfer pricing to various business units for the performance management purposes. The department also handles the bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

32 SEGMENTAL INFORMATION (Continued)

Segment information by business line is as follows:

Year ended 31 December 2016	Retail banking	Wholesale banking	Commercial banking	Funding Center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net income	40,814	28,188	18,098	14,465	101,565
Other income	13,405	14,516	4,575	2,052	34,548
Operating profit	17,809	30,898	8,503	16,240	73,449
Impairment provisions (net) and taxation	(3,038)	3,443	(10,816)	(7,259)	(17,670)
Net Profit	**14,771**	**34,341**	**(2,313)**	**8,980**	**55,779**
Total assets	**1,236,289**	**1,093,872**	**558,233**	**644,288**	**3,532,683**
Total liabilities and equity	**817,441**	**1,275,681**	**527,563**	**911,998**	**3,532,683**

Year ended 31 December 2016	Retail banking	Wholesale banking	Commercial banking	Funding Center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Net income	106,010	73,216	47,008	37,571	263,805
Other income	34,818	37,704	11,883	5,330	89,735
Operating profit	46,257	80,253	22,085	42,181	190,776
Impairment provisions (net) and taxation	(7,891)	8,944	(28,093)	(18,856)	(45,896)
Net Profit	**38,366**	**89,197**	**(6,008)**	**23,325**	**144,880**
Total assets	**3,211,142**	**2,841,226**	**1,449,956**	**1,673,476**	**9,175,800**
Total liabilities and equity	**2,123,223**	**3,313,457**	**1,370,294**	**2,368,826**	**9,175,800**

For management purposes the bank also reports the segment information of its operations by the following geographical locations:

i) Oman

ii) United Arab Emirates (UAE)

iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis.

32 SEGMENTAL INFORMATION (Continued)

Segment information by geography is as follows:

For the year ended 31 December 2016	Oman	UAE	Egypt	Total
	RO'000	RO'000	RO'000	RO'000
Interest income and income from Islamic financing and investment activities	130,683	10,400	369	141,452
Other operating income	31,827	2,731	(10)	34,548
Total income	**162,510**	**13,131**	**359**	**176,000**
Interest costs and Unrestricted investment account holders' share of profit	37,246	2,576	65	39,887
Other operating expenses	55,495	3,946	359	59,800
Depreciation	2,748	116	-	2,864
Credit loss expense - customer loan	9,594	10,051	1	19,646
Recoveries	(9,035)	(685)	(40)	(9,760)
Impairment losses on available-for-sale investments	210	-	-	210
Credit loss write back – bank loans	(62)	-	-	(62)
Taxation	7,431	187	18	7,636
Total	**103,627**	**16,191**	**403**	**120,221**
Segment profit for the year	**58,883**	**(3,060)**	**(44)**	**55,779**
Other information				
Segment assets	**3,250,952**	**261,964**	**19,767**	**3,532,683**
Segment capital expenses	**14,469**	**303**	**-**	**14,772**

32 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2016	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Interest income and Income from Islamic financing and Investment activities	339,436	27,013	95	367,408
Other operating income	82,668	7,094	(26)	89,735
Total Income	**422,104**	**34,107**	**932**	**457,143**
Interest costs and Unrestricted investment account holders' share of profit	96,743	6,691	169	103,603
Other operating expenses	144,143	10,250	932	155,325
Depreciation	7,138	301	-	7,439
Credit loss expense - customer loan	24,919	26,106	4	51,029
Recoveries	(23,468)	(1,779)	(104)	(25,351)
Impairment losses on available for sale investments	545	-	-	545
Credit loss write back – bank loans	(161)	-	-	(161)
Taxation	19,301	486	47	19,834
Total	**269,160**	**42,055**	**1,048**	**312,263**
Segment profit for the year	**152,944**	**(7,948)**	**(116)**	**144,880**
Other information				
Segment assets	**8,444,031**	**680,426**	**51,343**	**9,175,800**
Segment capital expenses	**37,582**	**787**	**-**	**38,369**

Segment information by business line is as follows:

Year ended 31 December 2015	Retail banking	Wholesale banking	Commercial banking	Funding Center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net income	34,419	32,824	14,548	12,945	94,736
Other income	16,431	17,672	4,436	2,443	40,982
Operating profit	16,777	38,606	4,944	15,382	75,710
Impairment provisions (net) and taxation	(712)	(3,688)	(2,992)	(8,212)	(15,604)
Net Profit	16,065	34,919	1,952	7,171	60,106
Total assets	1,093,580	1,118,308	534,343	517,203	3,263,435
Total liabilities and equity	774,220	1,170,971	504,532	813,712	3,263,435

32 SEGMENTAL INFORMATION (Continued)

Year ended 31 December 2015	Retail banking	Wholesale banking	Commercial banking	Funding Center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Net income	89,400	85,257	37,787	33,624	246,068
Other income	42,678	45,902	11,523	6,344	106,447
Operating profit	43,578	100,275	12,842	39,954	196,649
Impairment provisions (net) and taxation	(1,851)	(9,578)	(7,772)	(21,328)	(40,529)
Net Profit	41,727	90,697	5,070	18,626	156,120
Total assets	2,840,468	2,904,697	1,387,905	1,343,384	8,476,454
Total liabilities and equity	2,010,961	3,041,483	1,310,474	2,113,536	8,476,454

Segment information by geography is as follows:

For the year ended 31 December 2015	Oman	UAE	Egypt	Total
	RO'000	RO'000	RO'000	RO'000
Interest income and Income from Islamic financing and Investment activities	118,160	7,505	201	125,866
Other operating income	37,984	2,529	469	40,982
Total Income	156,144	10,034	670	166,848
Interest costs and Unrestricted investment account holders' share of profit	29,291	1,770	69	31,130
Other operating expenses	53,081	3,456	457	56,994
Depreciation	2,927	87	-	3,014
Credit loss expense - customer loan	13,789	1,682	1	15,472
Recoveries	(8,940)	(643)	(1,072)	(10,655)
Impairment losses on available for sale investments	1,515	-	-	1,515
Credit loss expense – bank loans	7	-	-	7
Taxation	8,454	735	76	9,265
Total	100,124	7,087	(469)	106,742
Segment profit for the year	56,020	2,947	1,139	60,106
Other information				
Segment assets	2,966,017	276,081	21,337	3,263,435
Segment capital expenses	15,222	47	-	15,269

32 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2015	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Interest income and Income from Islamic financing and Investment activities	306,909	19,494	522	326,925
Other operating income	98,660	6,569	1,218	106,447
Total Income	405,569	26,063	1,740	433,372
Interest costs and Unrestricted investment account holders' share of profit	76,081	4,597	179	80,857
Other operating expenses	137,873	8,976	1,187	148,036
Depreciation	7,603	226	-	7,829
Credit loss expense - customer loan	35,815	4,369	3	40,187
Recoveries	(23,221)	(1,670)	(2,784)	(27,675)
Impairment losses on available for sale investments	3,935	-	-	3,935
Credit loss expense – bank loans	18	-	-	18
Taxation	21,958	1,910	197	24,065
Total	260,062	18,408	(1,218)	277,252
Segment profit for the year	145,507	7,655	2,958	156,120
Other information				
Segment assets	7,703,939	717,094	55,421	8,476,454
Segment capital expenses	39,538	122	-	39,660

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2016 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

Current account balances due to and due from banks

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

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments other than derivatives instruments recorded at fair value by level of the fair value hierarchy:

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	**USD'000**	**USD'000**	**31 December 2016**	**RO'000**	**RO'000**	**RO'000**
			Investments – held for trading:			
160,364	-	**160,364**	Government development bonds	**61,740**	-	**61,740**
7,792	-	**7,792**	Government Sukuk	**3,000**	-	**3,000**
2,358	-	**2,358**	Quoted equities	**908**	-	**908**
170,514	-	**170,514**	**Total**	**65,648**	-	**65,648**
			Investments - available for sale:			
48,719	-	**48,719**	Quoted equities	**18,757**	-	**18,757**
31,660	**31,660**	-	Other unquoted equities	-	**12,189**	**12,189**
80,379	**31,660**	**48,719**	Total	**18,757**	**12,189**	**30,946**
250,893	**31,660**	**219,233**	**Total financial assets**	**84,405**	**12,189**	**96,594**

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	USD'000	USD'000	31 December 2015	RO'000	RO'000	RO'000
			Investments – held for trading:			
170,048	-	170,048	Government development bonds	65,468	-	65,468
170,048	-	170,048	Total	65,468	-	65,468
			Investments - available for sale:			
112,379	-	112,379	Government development bonds	43,266	-	43,266
74,158	-	74,158	Quoted equities	28,551	-	28,551
31,478	31,478	-	Other unquoted equities	-	12,119	12,119
218,015	31,478	186,537	Total	71,817	12,119	83,936
388,063	31,478	356,585	Total financial assets	137,285	12,119	149,404

The bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 34).

34 DERIVATIVES

In the ordinary course of business the bank enters into various types of transactions with customers and for own account for hedging purpose that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The bank uses the following derivative financial instruments:

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure.

The Bank has entered into an interest rate swap, which is designated as a fair value hedge, for hedging the interest rate risk on Euro medium term notes. The cumulative change in the fair value of the Euro medium term notes (hedged item) attributable to the risk hedged is recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position.

The table below shows the positive and negative fair values of derivative financial instruments entered with and on behalf of customers, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

34 DERIVATIVES (Continued)

31 December 2016	Positive fair value (note 9)	Negative fair value (note 13)	Notional amount	Notional amounts by term to maturity: Within 3 months	3 - 12 months	1 - 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Fair value hedge	2,105	-	192,500	-	-	192,500
Interest rate swaps	2,981	(2,981)	112,152	2,660	14,484	95,008
Forward purchase contracts	821	(2)	187,531	173,133	14,398	-
Forward sales contracts	2,432	(2,593)	187,531	174,155	13,376	-
Currency options	58	(58)	2,835	2,159	676	-
Total	**8,397**	**(5,634)**	**682,549**	**352,107**	**42,934**	**287,508**
Total – USD'000	**21,810**	**(14,634)**	**1,772,855**	**914,564**	**111,517**	**746,774**

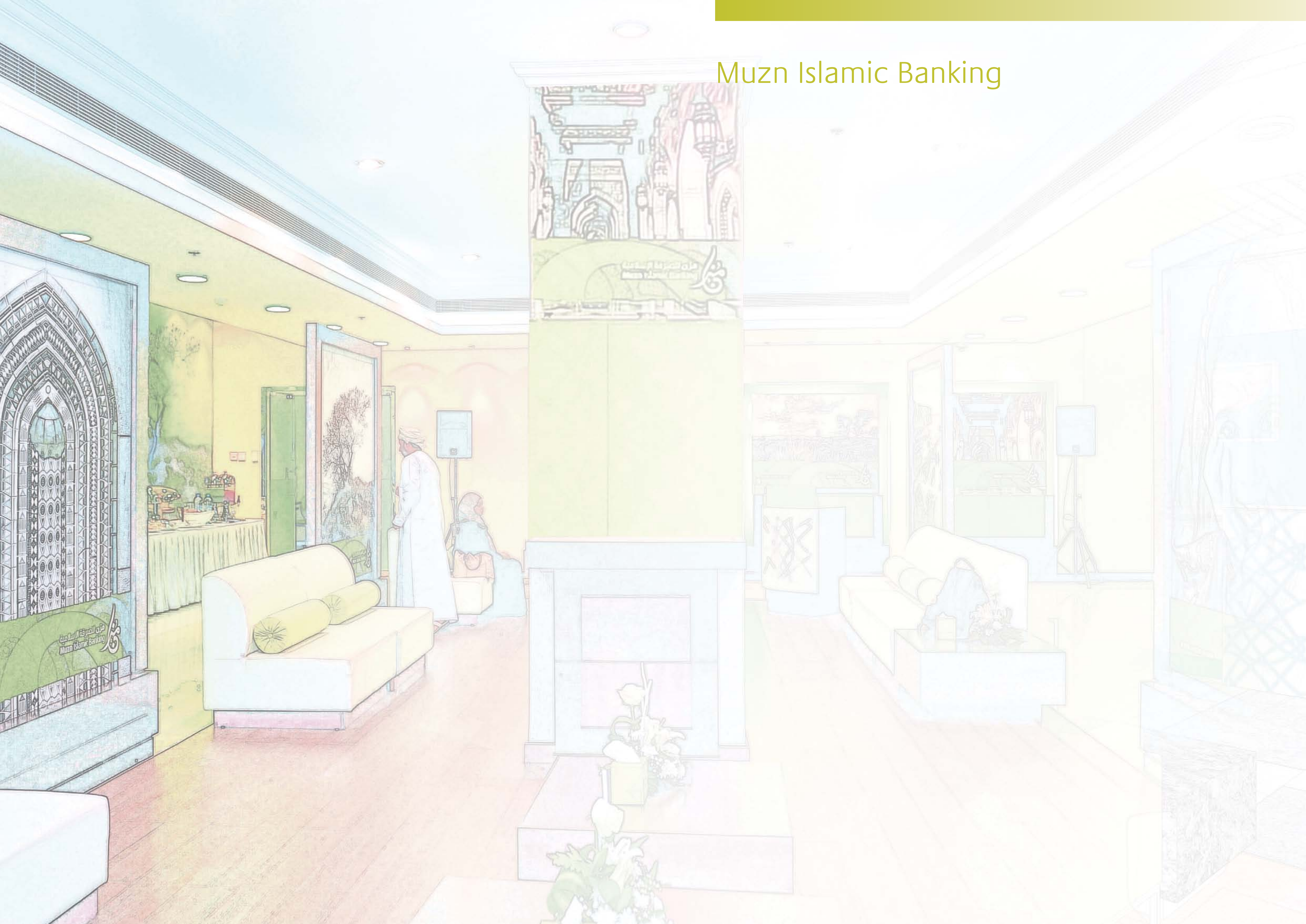
31 December 2015	Positive fair value (note 9)	Negative fair value (note 13)	Notional amount	Notional amounts by term to maturity: Within 3 months	3 - 12 months	1 - 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Fair value hedge	3,473	-	192,500	-	-	192,500
Interest rate swaps	4,373	(4,373)	117,067	2,125	11,691	103,251
Forward purchase contracts	265	(324)	135,681	105,634	30,047	-
Forward sales contracts	138	(840)	135,681	105,807	29,874	-
Currency options	1	(1)	765	294	-	471
Total	8,250	(5,538)	581,694	213,860	71,612	296,222
Total – USD'000	21,429	(14,384)	1,510,894	555,481	186,005	769,408

35 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2015 have been reclassified in order to conform with the presentation for the current year. Such reclassifications were made within the same notes to the financial statements and do not affect previously reported profit or equity.

These reclassifications have been done as a result of adoption of new standards and interpretations and to improve the quality of information presented. The reclassifications do not affect the reported profit for the year 2015.

Muzn Islamic Banking



December 31, 2016

Report of Shari'a Supervisory Board
Muzn Islamic Banking Services
National Bank of Oman,
Oman.

مزن للصيرفة الإسلامية
Muzn Islamic Banking

In the name of Allah, the Beneficent, The Merciful

To the Shareholders of Muzn Islamic Banking Services

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the Letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Muzn Islamic Banking Services during the period ended. We have also conducted our review to form an opinion as to whether the Muzn Islamic Banking Services complied with Shari principles and also with the specific Fatawa, rulings and guidelines issued by us.

We conducted our review which included examining, on a test basis, of each type of transactions, the relevant documentation and procedures adopted by the Muzn Islamic Banking Services.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Muzn Islamic Banking Services has not violated Shari'a principles. In our opinion:

a) The Contracts, transactions, and dealings entered into by the Muzn Islamic Banking Services during the year ended 31st December 2016 that we have reviewed are in compliance with Shari'a principles.

b) The allocation of profit & charging of losses relating to investment account conform to the basis that had been approved by us in accordance with Shari'a principles.

c) Earnings that have been realized from sources or by means prohibited by Shari'a principle have been identified and segregated for disposal to charity.

We beg Allah the Almighty to grant us all the success and straight forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr. Mohamed Bin Ali Elgari
Chairman Shari'a Supervisory Board

Sheikh Dr. Mohammed Daud Bakar
Muzn Shari'a Supervisory Board Member

Sheikh Saleh Bin Nasser Al Kharusi
Muzn Shari'a Supervisory Board Member

HH Dr. Adham Bin Turki Al Said
Muzn Non-Voting SSB Member

Dr. Khalid Bin Said Al Aamri
Muzn Non-voting SSB Member

National Bank of Oman

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As per requirement of IBRF Title2, Clause No. 2.2.2.14

Shari'a rulings along with their bases:

Reference No.	Fatwa Title	Detail
01/2016	Diminishing Musharakah	The religious base of this Product is on the concept of Musharaka Mutanaqisa and it has been approved by Muzn Shari'a Supervisory Board in the year 2016. Diminishing Musharaka is a form of co-ownership in which two or more parties' shares the ownership of a tangible asset in an agreed proportion and one of the co-owners undertake to buy in periodic installments the proportionate share of the other co-owner until the ownership to such tangible asset is completely transferred to the purchasing co-owner. Diminishing Musharaka concept is also approved by AAOIFI Shari'a Standard no 12.
02/2016	Kids Wakalah Account	The religious base of this Product is on the concept of "Agency". It has been approved by Muzn Shari'a Supervisory Board in the year 2016. Under this concept, customer becomes the Principal (Muwakkil) and Muzn becomes the Wakeel (Agent) of funds. These funds are invested in Shari'a compliant businesses. The profit earned from the businesses is distributed to the customers on a monthly basis as per the terms of the Wakalah agreement. The concept of Agency is already approved by AAOIFI Shari'a Standard no 46.
03/2016	Wakalah Premium/ Elite Wakalah/ Advanced Wakalah Account	These products are also based on the concept of "Agency" duly approved by Muzn Shari'a Supervisory Board in the year 2016. Under this concept, customer become the Principal (Muwakkil) and Muzn becomes the Wakeel (Agent) of funds. These funds are invested in Shari'a compliant businesses. The profit earned from the businesses is distributed to the customers on a monthly basis as per the terms of the Wakalah agreement. The concept of Agency is already approved by AAOIFI Shari'a Standard no 46.

Sheikh Dr. Mohamed Bin Ali Elgari
Chairman Shari'a Supervisory Board

Sheikh Dr. Mohammed Daud Bakar
Muzn Shari'a Supervisory Board Member

Sheikh Saleh Bin Nasser Al Kharusi
Muzn Shari'a Supervisory Board Member

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

Building a better working world

REPORT ON FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF OMAN SAOG (THE "BANK") IN RESPECT OF BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES OF MUZN ISLAMIC BANKING

We have performed the procedures agreed with you and as prescribed in Title 5 of the Islamic Banking Regulatory Framework and Central Bank of Oman's (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III Disclosures (the disclosures) of Muzn Islamic Banking (Islamic Window) of the Bank as at and for the year ended 31 December 2016. The disclosures were prepared by the Islamic Window's management in accordance with the related requirements set out in Title 5 of the Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Title 5 of Islamic Banking Regulatory Framework and Circular number BM 1027 dated 4 December 2007 were performed solely to assist you in evaluating the Islamic Window's compliance with the related disclosure requirements as set out in Title 5 of Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006 and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the Bank's annual report for the year ended 31 December 2016 and does not extend to any financial statements of the Bank or its Islamic Window, taken as a whole or to any other reports of the Bank or its Islamic Window.

Ernst & Young LLC

5 March 2017
Muscat

A member firm of Ernst & Young Global Limited

INTRODUCTION

MUZN ISLAMIC BANKING– WINDOW OF NATIONAL BANK OF OMAN SAOG, was established in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Muzn operates under an Islamic Banking license granted by the Central Bank of Oman on 17 January 2013. Muzn's Shari'a Supervisory Board is entrusted to ensure adherence to Shari'a rules and principles in its transactions and activities. A complete set of financial statements of Muzn is included in the consolidated financial statements of the bank. This document presents Basel II, Pillar III disclosure pertaining to Muzn on a standalone basis. There is no restriction on the transfer of the funds from the bank towards Muzn. However under the Islamic Banking regulatory framework (IBRF), Muzn cannot place funds with the bank. Muzn does not hold controlling interest in any other entity.

CAPITAL STRUCTURE

The assigned capital of the MUZN ISLAMIC BANKING as at 31 December 2016 is RO 13,500,000. Muzn's capital structure as at close of 31 December 2016, based on Central Bank of Oman's (CBO) guidelines is as follows:

Elements of Capital	Amount in RO 000's
Tier I Capital	
Local Banks	
Paid-up capital	13,500
Share premium	-
Legal reserve	-
General reserve	-
Subordinated debt reserve	-
Stock dividend (Proposed)	-
Retained earnings/loss*	(2,352)
Common equity Tier I before regulatory adjustments	**11,148**
Deduction	
Deferred tax asset	-
Common equity Tier I	**11,148**
Tier I capital after all deductions	**11,148**
Tier II Capital	
Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	-
General loan loss provision/General loan loss reserve	906
Subordinated debt (After amortization)	-
Total Tier II Capital	**906**
Total regulatory capital	**12,055**
Amount of investment account holders funds	118,117
Profit equalization reserve	198
Investment risk reserve	68
Total investment account holders	**118,383**

CAPITAL ADEQUACY

Qualitative Disclosures:

The ultimate objectives of capital management are three fold:

- Ensure stability of the Islamic window by holding enough capital to cover unexpected loss
- Enhance the efficiency of the Bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that "excess" capital is not held unnecessarily)
- Incentivise informed decision making and proactive risk management through an efficient and effective allocation of capital across the business

The capital management plan envisaged for Muzn is based on the regulatory risk capital framework of Basel II and uses the standardised approach for calculating the credit as well market risk, and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy is aligned to the policy of the Bank, and aims to ensure that on a risk adjusted return on capital basis (RAROC) Muzn is allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on profit rates, which are followed.

The Asset Liability Committee (ALCO) currently reviews and monitors capital adequacy and requirement for capital on an ongoing basis both for the Muzn window and its divisions that require capital to be assigned separately. Risk weights are assigned to assets as per regulatory requirements from CBO. Assets funded by investment accounts are also assigned same risk weights as assets funded by own equity.

Qualitative Disclosures:

A set of triggers is followed as part of the capital management so as to provide the bank with an early warning system in terms of its level of capital, and to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits. For this purpose it has been decided by ALCO that the triggers set for the Bank will become applicable for Muzn as well.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP comprehensively for the whole bank is carried out and submitted to the Central Bank of Oman in accordance with the prescribed guidelines. The bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment. Currently, a separate ICAAP is not prepared for Muzn.

Quantitative Disclosures:

Position as at 31.12.2016 (RO'000)

Details	Amount
Tier I capital (after supervisory deductions)	**11,148**
Tier II capital (after supervisory deductions & upto eligible limits)	**906**
Tier III capital (up to a limit where Tier II & Tier III does not exceed Tier I)	-
Of which, total eligible Tier III capital	-
Risk Weighted Assets (RWAs) – Banking Book	**72,505**
Risk Weighted Assets (RWAs) – Operational Risk	**3,583**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**76,088**
Minimum required capital to support RWAs of banking book and operational risk	9,606
Minimum required capital comprises of;	
i) Tier I capital	8,700
ii) Tier II capital	906

CAPITAL ADEQUACY (Continued)

Position as at 31.12.2016 (RO'000)

Details	Amount
Balance Tier I capital available for supporting Trading Book	2,449
Balance Tier II capital available for supporting Trading book	-
Risk Weighted Assets (RWAs) – Trading Book	**1**
Total capital required to support Trading Book	-
Minimum Tier I capital required for supporting Trading Book	-
Total Regulatory Capital	**12,055**
Total Risk Weighted Assets – Whole bank	**76,089**
BIS Capital Adequacy Ratio	**15.8**

Basel III Disclosures:

In compliance with CBO circular BM 1114 dated 17 November 2013; mandatory disclosures are made in this report.

Certain additional capital adequacy disclosures are as follows:

Position as at 31.12.2016 (RO'000)

Details	Gross balance (Book value)	Net balance (Book value)	Risk Weighted Assets
On balance sheet items	137,912	136,578	71,665
Off balance sheet items	946	946	840
Derivatives	-	-	-
Operational risk	-	-	3,583
Market risk	-	-	1
Total	**138,857**	**137,524**	**76,089**
Common equity Tier I capital	-	-	11,148
Additional Tier 1 capital	-	-	-
Tier 2 capital	-	-	906
Total Regulatory Capital	**-**	**-**	**12,055**
Total required capital @12.625%	-	-	9,606
Capital requirement for credit risk	-	-	9,154
Capital requirement for market risk	-	-	-
Capital requirement for operational risk	-	-	452
Common equity Tier 1 ratio	**-**	**-**	**14.65**
Tier I ratio			**14.65**
Total capital ratio	**-**	**-**	**15.84**

Disclosures for Investment Account Holders (IAH)

Muzn accepts funds from investment account holders (IAH) under Shari'a compliant Mudaraba contracts and Wakala agreements. These funds are unrestricted in nature i.e. it is at the discretion of Muzn to invest in any Shari'a compliant assets. There are no limits on the investment of IAH fund in any particular type of asset.

CAPITAL ADEQUACY (Continued)

Currently, Muzn offers three types of Investment accounts:

- Savings accounts,
- Term deposits of various maturities from 1 month to five years and
- Flex Wakala

Investment from investment account holders (IAH) is pooled with Muzn's funds. Mudarib (Manager of assets) expenses are charged to a pool which includes all direct expenses incurred, including impairment provisions. Fee based income is not allocated to the joint pool. From the distributable profits earned by the pool assets, and after charging Mudarib expenses, allocation is made between shareholder funds and funds of IAH.

Muzn appropriates an amount in excess of the profit to be distributed to investment account holders before taking into consideration the Mudarib (Manager of assets) share of income. This reserve is called Profit Equalisation Reserve (PER). Further, Investment Risk Reserve (IRR) is also maintained out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders.

Ratios and returns

Profit Equalisation Reserve (PER) to Profit Sharing Investment Account(PSIA)

Particulars (RO'000)	2016	2015
Amount of Total PER	**198**	150
Amount of PSIA by IAH	**118,117**	89,741
PER to PSIA Ratio	**0.17%**	0.17%

Investment Risk Reserves Reserve (PER) to Profit Sharing Investment Account(PSIA)

Particulars (RO'000)	2016	2015
Amount of Total IRR	**68**	58
Amount of PSIA by IAH	**118,117**	89,741
IRR to PSIA Ratio	**0.06%**	0.06%

Return on Assets (ROA)

Particulars (RO'000)	2016	2015
Amount of total net income (before distribution of profit to unrestricted IAH)	**4,070**	2,736
Amount of assets	**136,578**	115,370
Return on assets (ROA)	**2.98%**	2.37%

Return on Equity (ROE)

Particulars (RO'000)	2016	2015
Amount of total net income (after distribution of profit to unrestricted IAH)	**2,498**	1,941
Amount of equity	**11,148**	10,893
Return on equity (ROE)	**22.40%**	17.82%

CAPITAL ADEQUACY (Continued)

Rate of profit distributed to PSIA by type of IAH

As at reporting date, Muzn has only unrestricted IAH and has distributed profit amounting RO 1,536,000 during the year.

Latest Profit rates paid to investment account holders for quarter ended 31 December 2016

	Weightages	Declared Profit Rate
Savings Account (Mudarabah)	20	0.73%
Flexi Wakala	40	0.10%
Flexi Wakala - Elite	50	2.25%
Wakala- Upto 6 months	30	0.10% - 0.25%
Wakala -> 6 months to 1 year	50	0.40% - 0.75%
Wakala - > 1 year to 3 years	80	1.75% - 2.50%
Wakala - > 3 years	100	3.00% - 3.50%
Government Flexi Wakala	30	0.50%

Details of Investment accounts (IAH)

	31 December 2016	31 December 2015
Assets		
Deferred sale receivable	1,730	2,136
Ijara Muntahia Bittamleek	84,061	75,458
Diminishing Musharaka	12,082	11,784
Forward Ijara	7,226	7,409
Total amount invested as of 31 Dec 2016	**105,099**	**96,787**
Share of profit of IAH before PER and IRR for the year	1,572	795
Transfers to:		
PER	(25)	(150)
IRR	(11)	(54)
Share of profit of IAH after PER and IRR for the year	**1,536**	**591**

RISK EXPOSURE AND ASSESSMENT:

Risk Management

The primary objective of risk management is to appropriately safeguard the Bank's resources from the various risks which the Bank faces. Muzn's risk management incorporates the same essential principles and practices that govern the Bank's risk management which are detailed in the Bank's Basel II disclosures.

Bank's risk management processes have proven effective for Muzn throughout the current year. The bank's Board of Directors has remained closely involved with key risk management initiatives, and ensured that Muzn's risks are effectively managed and adequate capital is held in line with the requirements. Detailed risk governance structure of the bank, which is also applicable to Muzn is disclosed in the main Pillar III document of the bank. In addition, a dedicated Shari'a Supervisory Board (SSB) has been established which reports to the Board of Directors of the bank and ensures Shari'a compliance in the operations of Muzn.

RISK EXPOSURE AND ASSESSMENT: (Continued)

Specifically, Muzn has exposure to the following risks.

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Rate of return risk, and
- Displaced commercial risk

Credit Risk

Credit risk is the risk of financial loss to Muzn if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Muzn's financings and advances to customers and other banks.

Corporate Credit

Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Muzn has a conservative provisioning policy for its financings and provisions are made taking into account both the Central Bank's norms and international financial standards.

For risk management reporting purposes for the corporate portfolio, Muzn considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Retail Credit

Retail Credit Division manages the credit risk in the Muzn retail portfolio. The small retail credit portfolio is focused on Ijara, Murabaha and Diminishing Musharaka product programs approved by the Board Risk Committee. Both corporate and retail credit portfolios are monitored by the management through periodic performance reports which are presented to the Board Risk Committee.

Impairment Policy

All financing contracts of Muzn are regularly monitored to ensure compliance with the stipulated repayment terms. These financings are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. Muzn creates provision for non-performing debts promptly, as and when required in line with the conservative provisioning norms it has set for itself and arrives at the provisioning requirement both under financial reporting framework and CBO guidelines and maintains whichever provision is higher. In addition to the above, Muzn also makes a general loan loss provision on the standard portfolio equivalent to 2% of retail lending portfolio and 1% of corporate portfolio.

(i) Total gross credit exposures over the period broken down by major types of credit exposure

(RO'000)

Sl No	Type of Credit Exposure	Total Gross Exposure as at	
		31-December-16	31-December-15
1	Deferred sale receivable	1,773	2,179
2	Ijara Muntahia Bittamleek	85,155	76,351
3	Diminishing Musharaka	12,204	11,903
4	Forward Ijara	7,299	7,530
	Total	**106,431**	**97,963**

RISK EXPOSURE AND ASSESSMENT: (Continued)

(ii) Geographic distribution of exposures by major types of credit exposure as at 31 December 2016

As at 31 December 2016, all the credit exposures are within Oman only (2015: all exposures within Oman).

(iii) Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2016

S. No	Economic Sector	Deferred sales receivables	Ijara Muntahiah Bittamleek	Diminishing Musharaka	Forward Ijara	Total	Percentage composition	Off Balance sheet exposure**
1	Personal	1,585	59,848	-	5,932	67,365	64%	1,323
2	Construction	-	19,667	12,082	1,294	33,042	31%	573
3	Manufacturing	-	2,547	-	-	2,547	2%	-
4	Trade	145	-	-	-	145	0%	-
5	Services	-	2,000	-	-	2,000	2%	-
6	Others	-	-	-	-	-	-	170
	Total	**1,730**	**84,062**	**12,082**	**7,226**	**105,099**	**100%**	**2,066**

** Off balance sheet exposure relates to commitments under standard business norms, letter of credits & guarantees.

As at 31 December 2016, the assets were funded by IAH and shareholders in the following ratio:

IAH	87%
Shareholders	13%

(iv) Residual contractual maturity as at 31 December 2016 of the whole financing portfolio, broken down by major types of credit exposure

S. No	Time Band	Deferred sales receivables	Ijara Muntahiah Bittamleek	Diminishing Musharaka	Forward Ijara	Total
1	Up to 1 month	48	1,270	172	109	1,599
2	1-6 months	321	2,718	652	208	3,899
3	6-12 months	243	4,332	1,114	2,765	8,454
4	1-5 years	1,009	32,138	7,600	4,144	44,891
5	Over 5 years	109	43,603	2,544	0	46,256
	Total	**1,730**	**84,061**	**12,082**	**7,226**	**105,099**

RISK EXPOSURE AND ASSESSMENT: (Continued)

(v) Movement of gross finance

Movement of Gross Finances during the year ended 31 December 2016							
S. No	Details	Performing Finances		Non-performing Finances			
		Standard	Special Mention	Sub-Standard	Doubtful	Loss	Total
1	Opening balance	97,963	-	-	-	-	97,963
2	Migration / changes (+/ -)	(2,516)	1,736	-	780	-	-
3	New finances	8,469	-	-	-	-	8,469
4	**Closing balance**	**103,916**	**1,736**	**-**	**780**	**-**	**106,432**
5	Provisions held	1,094	-	-	200	-	1,294
6	Reserve interest	-	-	-	39	-	39

(vi) Movement of provisions and reserve profit

Particulars	2016	2015
Provision at beginning of the period	**1,176**	700
Charge for the period	**118**	476
Reserve Profit for the period	**39**	-
Provision at end of the period	**1,333**	1,176

Credit Risk –Disclosures for portfolios subject to the standardised approach

Qualitative Disclosures:

- The bank is following Moody's rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk.
- With the approval of the CBO, the bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.
- Similarly, with the approval of CBO, the bank uses the discretion of the simple approach for recognising collaterals.

RISK EXPOSURE AND ASSESSMENT: (Continued)

Quantitative Disclosures

Gross exposure amount as at 31 December 2016, subject to the standardized approach is as below:

Sr No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
	Rated							
1	Sovereign	17,110	-	-	-	-	-	**17,110**
2	Banks	-	11,805	-	-	-	-	**11,805**
	Unrated							
1	Corporate	-	-	-	-	-	-	**-**
2	Retail	-	-	-	-	1,607	-	**1,607**
3	Claims secured by residential property	-	68	59,572	101	7,543	-	**67,285**
4	Claims secured by commercial property	-	-	-	-	37,706	-	**37,706**
5	Past due financing	-	-	-	-	780	-	**780**
6	Other assets	953	-	-	-	1,612	-	**2,565**
7	Venture Capital & Private Equity Investments	-	-	-	-	-	-	**-**
8	Off-balance sheet items	-	-	-	-	-	-	**-**
	Total Banking Book	**18,063**	**11,873**	**59,572**	**101**	**49,248**	**-**	**138,857**

Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate credit risks that the Muzn is exposed to. Credit risk mitigates reduce the credit risk by allowing Muzn to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Qualitative Disclosure

The Bank only considers Shari'a approved collaterals and guarantees to mitigate credit risk. Assets offered by the customer must meet the following criteria to be acceptable as collateral:

- Assets must be maintaining their value at the level prevalent at inception, until maturity of the facility approved;
- Such assets should be easily convertible into cash, if required;
- There should be a reasonable market for the assets; and
- Muzn should be able to enforce its right over the assets if necessary

Currently Muzn undertakes ownership/joint ownership of assets provided by customers.

Collateral Management

Muzn employs a range of policies and procedures to mitigate credit risk. The credit risk mitigates include collaterals like:

• Real estate

• Joint ownership

RISK EXPOSURE AND ASSESSMENT: (Continued)

Collateral management is exercised for Muzn at the centralised level. A robust collateral management system is in place to mitigate any credit risk. The Bank has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collaterals.

Securities obtained by way of legal mortgage over real estate to be valued at least once in 3 years or more frequently if situation warrants.

LIQUIDITY RISK

Qualitative Disclosures:

Liquidity may be defined as a Muzn's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a Muzn's potential inability to meet its liabilities when they become due.

Besides its funding sources, Muzn enjoys the support of its Parent Bank in meeting some of its liquidity needs.

The liquidity risk in Muzn is monitored through a regular reporting mechanism to the ALCO. In order to ensure that Muzn meets its financial obligations as and when they fall due, cash flow positions are closely monitored.

Liquidity ratios of Muzn (i.e. Liquid assets to total assets) are regularly monitored. The average ratio of liquid assets to total assets during the year for Muzn was 19.7% (see below).

Muzn monitors its liquidity risk of funding related to current accounts and other equity with investment account holders on an individual basis as well as on an aggregate basis through cash flow and stock approach.

Treasury department of the Muzn window and the Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds through Shari'a compliant financing and investment activities.

Indicators of exposure to liquidity risk - short-term assets to short-term liabilities

Particulars	RO
Short-term assets	**43,278**
Short-term liabilities	**99,751**
Short-term assets to liabilities	**43.39%**

Indicators of exposure to liquidity risk - liquid assets ratio

Particulars	RO
Liquid assets	26,868
Total assets	136,578
Short-term liabilities	99,751
Total liabilities	125,430
Liquid Assets to Total Assets	**19.67%**
Liquid Assets to Short-term Liabilities	**26.94%**
Liquid Assets to Total Liabilities	**21.42%**

LIQUIDITY RISK (Continued)

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2016 was as follows:

31 December 2016	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	11,916	1,504	841	309	493	**15,063**
Financial institutions	11,804	-	-	-	-	**11,804**
Financial assets:						
- Held to maturity	-	-	-	963	-	**963**
- Held for trade	3,000	-	-	-	-	**3,000**
Deferred sales receivables	48	321	243	1,009	109	**1,730**
Ijarah Muntahiah Bittamleek – net	1,270	2,718	4,332	32,138	43,603	**84,061**
Diminishing Musharaka	172	652	1,114	7,600	2,544	**12,082**
Forward Ijarah	109	208	2,765	4,144	-	**7,226**
Property and equipment (net)	-	-	-	-	388	**388**
Other assets	261	-	-	-	-	**261**
Total assets	**28,580**	**5,403**	**9,295**	**46,163**	**47,137**	**136,578**
Current accounts	4,870	-	-	-	-	**4,870**
Other liabilities	2,177	-	-	-	-	**2,177**
Unrestricted investment account holders	17,542	48,240	26,922	10,228	15,451	**118,383**
Owner's equity	-	-	-	-	11,148	**11,148**
Total liabilities and unrestricted investment accountholders and owners' equity	**24,589**	**48,240**	**26,922**	**10,228**	**26,599**	**136,578**

MARKET RISK

Qualitative Disclosures

Market risk is the risk of a change in the actual or effective market value and earnings of a portfolio due to the adverse movements in market variables. The market variables inter-alia includes equity prices, bond price, commodity price and Foreign Exchange rates. The objective of Market Risk management is to facilitate business growth but operating at the optimal risk levels.

As at 31 December 2016, Muzn has minimal exposure to market risk as:

- Muzn does not have material exposure in currencies other than Omani Riyal;

- Muzn does not hold trading positions in equity;

- Muzn has no position in commodities

Market Risk arises from fluctuations in profit rates. There are no trading positions in equities or derivatives. The Muzn ALCO regularly monitors the portfolio of assets and liabilities in the banking book for any interest rate risks.

OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses. Muzn cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Muzn is able to manage risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

The bank follows basic indicator approach for determining operational risk.

The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net profit income (+) other income (+) Provisions for unpaid profit (-) realized profit on sale of Available for Sale (AFS) investments (-) extraordinary / irregular items of income.

Capital requirement for operational risk as per Basel II is RO (000s) 3,583.

Insurance is another tool used by the bank as an operational risk mitigant. Insurance such as Bankers' Blanket Bond, Electronic and Computer Crimes, Professional Indemnity, incomplete transactions, etc as obtained by the bank aim at protecting the bank from high severity risks by reducing the financial impact of the same.

In addition to the above and in order to keep control of operational incidences / losses the bank has set in place a special operational risk framework against which incidents / losses are being monitored regularly for possible breaches and appropriate mitigates are put in place.

RATE OF RETURN RISK

Qualitative Disclosures

Rate of return risk refers to the possible impact on the net income of Muzn arising from the impact of changes in market rates and relevant benchmark rates on the return on assets and on the returns payable on funding. An increase in benchmark rates may result in IAH having expectation of a higher rate of return, while the returns on assets may be adjusting more slowly due to longer maturities, thereby affecting the net income of Muzn.

The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Muzn is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Muzn' s results do not allow distribution of profits in line with market rates. To cater against DCR, Muzn creates a Profit Equalisation Reserve.

RATE OF RETURN RISK (Continued)

Quantitative Disclosures

31 December 2016	Effective average profit rate	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman ("CBO")	N/A	-	-	-	-	15,063	15,063
Due from banks and financial Institutions	0.7%	11,778	-	-	-	26	11,804
Financial assets:		-	-	-	-	-	-
- Held to Maturity	8.5%	-	-	963	-	-	963
- Held for Trade	3.5%	3,000	-	-	-	-	3,000
Deferred sales receivables	4.8%	369	243	1,009	109	-	1,730
Ijarah Muntahia Bittamleek - net	5.1%	3,988	4,332	32,138	43,603	-	84,061
Diminishing Musharaka	5.4%	824	1,114	7,600	2,544	-	12,082
Forward Ijarah	N/A	-	-	-	-	7,226	7,226
Property and equipment - net	N/A	-	-	-	-	388	388
Other assets	N/A	-	-	-	-	261	261
Total assets		**19,959**	**5,689**	**41,710**	**46,256**	**22,964**	**136,578**
Current accounts	N/A	-	-	-	-	4,870	4,870
Other liabilities	N/A	-	-	-	-	2,177	2,177
Unrestricted investment							
accountholders	1.1%	65,782	26,922	10,228	15,185	266	118,383
Owners' equity	N/A	-	-	-	-	11,148	11,148
Total liabilities and owners' equity		**65,782**	**26,922**	**10,228**	**15,185**	**18,461**	**136,578**
On-balance sheet gap		**(45,823)**	**(21,233)**	**31,482**	**31,071**	**4,503**	
Cumulative profit sensitivity gap		**(45,823)**	**(67,056)**	**(35,574)**	**(4,503)**	**-**	

DISPLACED COMMERCIAL RISK

Displaced commercial risk refers to the magnitude of risks that are transferred to the shareholders of Muzn in order to cushion the Investment Account Holders (IAH) from bearing some or all of the risks to which they are contractually exposed to in Mudaraba funding contracts. Muzn creates and manages both PER and Investment risk reserve to smoothen IAH returns. Further, Muzn also adjusts its Mudarib share in order to smoothen returns of IAH.

Qualitative Disclosure

- The Bank has set up prudential reserve account to minimise the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:
- Profit Equalisation Reserve (PER)

  PER comprises amounts appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;
- Investment Risk Reserve (IRR)

DISPLACED COMMERCIAL RISK (Continued)

IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

An analysis of distribution during the year to IAH by Muzn is as follows:

Particulars	Amount RO'000
Total profits available for distribution	**3,674**
Profit sharing	
- Muzn 's share as fund provider	**2,102**
- IAH	**1,572**
Profits for IAH before smoothening	**1,572**
Smoothening:	
- PER	**(25)**
- IRR	**(11)**
Profits paid out to IAH after smoothening	**1,536**

- During the period the Bank utilised RO Nil (FY2015: Nil) from PER for the purpose of enhancing the returns to depositors
- The Bank is taking all the Risk Weighted Assets funded by IAH for the purpose of arriving at Total Risk Weighted Assets and capital requirement is calculated accordingly.

Quantitative Disclosures

Historical Rate of Return of IAH:

Historical Rate of Return of unrestricted Investment Accountholder:	2016	2015
	RO '000	RO '000
Profits available for distribution	**3,674**	1,349
Profit distributed	**1,536**	591
Funds invested	**105,099**	96,787
Rate as %age of fund invested	**1.46%**	0.61%

Four years comparison of historical profit rates for unrestricted IAH.

	2016	2015	2014	2013
Savings Account (Mudarabah)	**0.73%**	0.79%	0.90%	0.50%
Flexi Wakala	**0.10%**	0.10%	0.10%	0.10%
Flexi Wakala - Elite	**2.25%**	2.25%	-	-
Wakala- Upto 6 months	**0.10% - 0.25%**	0.10% - 0.25%	0.10% - 0.25%	0.10% - 0.35%
Wakala - > 6 months to 1 year	**0.40% - 0.75%**	0.40% - 0.55%	0.35% - 0.50%	0.70% - 0.90%
Wakala - > 1 year to 3 years	**1.75% - 2.50%**	0.75% - 1.75%	0.70% - 1.60%	1.20% - 2.20%
Wakala - > 3 years	**3.00% - 3.50%**	2.00% - 2.25%	1.80% - 2.00%	2.40% - 2.70%
Government Flexi Wakala	**0.50%**	0.50%	0.50%	-

CONTRACT SPECIFIC RISKS

The Credit Risk Appetite document of Muzn has provided limits for the purpose of financing, it is defined within the purpose of financing are the various Shari'a compliant financing contracts that can be used. The risk weighting requirement for each of the Shari'a compliant financing contracts, based on the risk profile of the customer as provided in the IBRF is taken into account for the purposes of computing the Capital Adequacy Ratio of Muzn.

Quantitative Disclosures:

Credit risk weighted assets by type of financing contracts is as follows:

Financing Contracts	Risk Weighted Assets Amount '000
Deferred sales receivable	1,773
Ijarah Muntahia Bittamleek	51,223
Diminishing Musharaka	12,204
Forward Ijarah	3,704
Letter of Guarantee	51
Letter of Credit	14
Total RWA of Financing Contracts	**68,968**

General Governance Disclosures

The CMA code of Corporate Governance for Public Listed Companies and the CBO guidelines as per IBRF Corporate Governance and Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Muzn complies with all their provisions.

The following disclosure summarises the disclosures of related party:

Deposits and other accounts	2016	2015
Directors, Shari'a Supervisors and shareholders holding less than 10% interest in Muzn	**7,574**	4,734
Financings		
Directors, Shari'a supervisors and shareholders holding less than 10% interest in Muzn	**6**	18

(RO'000)

Remuneration paid to Directors & Shari'a Supervisors	2016	2015
Chairman		
– remuneration proposed	**8**	8
– sitting fees paid	**3**	3
– other expenses paid	**3**	3
Other Directors		
– remuneration proposed	**16**	8
– sitting fees paid	**16**	4
– other expenses paid	**5**	6
Management fee payable to conventional banking	**53**	39

CONTRACT SPECIFIC RISKS (Continued)

Muzn maintains a formal procedure on handling of customer complaints. Complaints related to Muzn are dealt with by the conventional banking call center equipped with the required resources to respond to customer calls in a professional manner. The complaint management team of the Conventional Bank takes active part in resolution of customers' complaint and considers customers feedback on products and services. All complaints are logged and investigated by persons not directly related to the subject matter of the complaint.

SHARI'A GOVERNANCE DISCLOSURES

Shari'a Supervisory Board (SSB)

Muzn's independent Shari'a Supervisory Board is an external Shari'a Committee comprising of independent and well renowned Shari'a Scholars who guide and ensure that the operations, services and products offered by Muzn comply with the principles of Shari'a.

In case SSB rules any earnings Shari'a non-compliant, such income is diverted to a charity account and disbursed to a charitable organization. Income generated from late payment charges (whereby a client undertakes to donate to charity a certain amount in case of delay in installment payments) and whenever a transaction which is treated as Shari'a non-Compliant by the Shari'a Audit Unit and endorsed by SSB, the income from such Shari'a non-compliant account becomes part of the charity Account.

The Internal Shari'a reviewer performs functions based on the shari'a guidelines provided by CBO in the IBRF, Shari'a rulings and resolutions issued by SSB. Shari'a audit includes continuous audit for transactions of all departments. Its observations and findings are reported in the Shari'a audit report to SSB which is also conveyed and discussed with management, with documentation of management responses in addition to recommending action plans for each observation.

As per IBRF, Islamic banks are required to apply Accounting standards (Only and not the Shari'a Standards) issued by AAOIFI and abide by the comprehensive IBRF regulatory framework and guidelines.

Muzn's Shari'a Supervisory Board consists of the following members namely:

Sheikh Dr. Mohamed Bin Ali Elgari, is a Professor of Islamic Economics at King Abdulaziz University, Saudi Arabia. He is an Expert at the Islamic Jurisprudence Academy of the Organization of Islamic Cooperation (OIC) and the Islamic Jurisprudence Academy of the Islamic World League. Sheikh Elgari is also a member of the Shari'a Council of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOFI), Chairman Shari'a Supervisory Board of Muzn Islamic Banking Services and Shari'a Board Member of several reputable Islamic Banks and Takaful Companies across the globe.

Sheikh Datuk Dr. Mohamed Daud Bakar, is a Malaysian Shari'a Scholar and Chairman of the Central Shari'a Advisory Council of the Central Bank of Malaysia and Securities Commission of Malaysia. Sheikh Datuk Dr. Bakar's area of specialisation includes Islamic Legal Theory, Islamic Banking and Finance and Islamic Law of Zakah. Datuk Dr. Bakar has published more than 30 articles in academic journals while also being a member of several Shari'a Boards for Banks and Islamic financial institutions worldwide.

Sheikh Saleh Al Kharusi, is a Director of the Notary Public Office Ministry of Justice and a part-time lecturer of Shari'a sciences. Sheikh Saleh has bachelor's degree in Shari'a from the Institute of Shari'a Sciences in the Sultanate of Oman and a Master's Degree in Financial Transaction from Sultan Qaboos University.

Dr. Khalid Said Al Amri, an Assistant Professor at Sultan Qaboos University. Dr. Al-Amri serves as an advisor to the board of director at Al Madina Takaful and a member in the Audit Committee. He has done extensive research in the area of finance, Takaful insurance, and financial risk management. His research interests focus on finance, corporate governance, Takaful insurance, and, Risk Management. He also serves as an ad hoc referee for international academic journals. He has published in a number of internationally refereed journals and delivered presentations at international renowned conferences. He has been awarded a best paper award in Western Risk and Insurance in USA. Dr. Al-Amri is a member of American Risk and Insurance Association (ARIA). He is also a Certified Shari'a Advisor and Auditor from AAOIFI - Accounting and Auditing Organisation for Islamic Financial Institutions.

H.H Sayyid Dr. Adham Turki Al Said, is an Assistant Professor of Economics at Sultan Qaboos University in Oman. Dr. Adham is a Chairman of Board of Trustees, Scientific College of Design. He is also a member in several government and private organisations such as Partner, The Firm for Business and Economic Consulting and he provided a proposal on SME to Shura Council in 2014. Dr. Adham has a Ph.D. in Economics from University of Western Australia, Australia — 2011.

SHARI'A GOVERNANCE DISCLOSURES (Continued)

There were a total of four SSB meetings held in 2016. Date of the meetings and attendance of each SSB Member is follows:

Name of the Board Member	Date of Meeting and Attendance			
	28/03/2016	22/05/2016	04/10/2016	14/12/2016
Sheikh Dr. Mohamed Bin Ali Elgari	√	√	√	√
Sheikh Datuk Dr. Mohammed Daud Bakar	√	√	√	√
Sheikh Saleh Al Kharusi	-	-	√	√
Dr. Khalid Said Al Amri Non-voting member	√	√	√	√
H.H Sayyid Dr. Adham Al Said Non-voting member	√	√	√	√

Remuneration for Shari'a Supervisory Board Members in 2016:

Total Remuneration paid to the five Scholars for the year 2016 was RO 37,922.500. The breakup is as follows:-

Name of the Board Member	Total Fees (RO)
Sheikh Dr. Mohamed Bin Ali Elgari	**10,780.000**
Sheikh Datuk Dr. Mohammed Daud Bakar	**8,855.000**
Sheikh Saleh Al Kharusi	**4,427.500**
Dr. Khalid Said Al Amri Non-voting member	**6,930.000**
H.H Sayyid Dr. Adham Al Said Non-voting member	**6,930.000**

Shari'a compliance key controls

Shari'a compliance is ensured in the day to day business of Muzn through the following key controls:

- All the products being offered by Muzn are approved by the SSB;
- All investments made by Muzn are approved by SSB;
- The Fatawa approving such products are available on Muzn's website;
- The responsibility of payment of zakat is on individual shareholders and investment account holders;
- There has been no non-compliance with Shari'a rules and regulations during the year;
- Muzn has in place a Shari'a Compliance Unit (SCU) which facilitates the management in ensuring compliance with Shari'a (as manifested by the guidelines and Fatawa issued by the SSB) and Islamic banking stipulations of the Central Bank on a day to day basis in all its business activities, operations and transactions. This is achieved through review and approval of the contracts, agreements, policies, procedures, products, process flows, transactions, reports (profit distribution calculations), etc;
- Templates of agreements used by Muzn are approved by SSB;
- Islamic banking knowledge and experience is considered to be a compulsory requirement for hiring of staff handling core Muzn functions; staff has been provided training throughout the year on Shari'a matters;

Disclosure of the nature, size and number of violations of Shari'a compliance during the year:

There is no violation to SSB's Shari'a ruling and AAOIFI Shari'a standard have been found during the year.

Disclosure of annual Zakah contributions of the Licensee, where relevant, according to constitution, general assembly or national requirements or as required by the respective SSB

SSB issues its Shari'a compliance certificate where it identifies that Shari'a compliance has been observed in the bank's transactions and contracts, and in case of any violation, the observation is listed in the report. In addition, and as per Management decision, SSB certificate also stipulates that Zakat calculation and payment is the responsibility of the shareholders.

SHARI'A GOVERNANCE DISCLOSURES (Continued)

Social service and customer education

Muzn held a forum in May 2016 in Sur to explain the key principles underpinning Shari'a-compliant financial services for customers and the wider community.

The event which was held under the auspices of His Excellency Sheikh Amer bin Said bin Ali Al Mashrafe, Member of Shura Council and Wilayat Sur Representative, brought together over 70 attendees to hear talks from Muzn's Shari'a Board Members on topics such as key differences between Islamic Banking & Conventional Banking, Principles of Islamic Banking, Islamic modes of Finance like Ijarah, Murabaha, Wakalah, Mudaraba etc.

The Forum is the latest in a succession of initiatives organised by the Muzn team to promote awareness in the community about Islamic banking.

In June 2016 as part our commitment to give back to the community, Muzn launched the annual Iftar Sa'im initiative to support families with essential provisions ahead of the Holy Month of Ramadan.

A team of volunteers including the senior management team delivered more than 40 food hampers to low income families across the Muscat Governorate to inaugurate this initiative.

BASEL III – Transition Disclosure

Further to the Guidelines on composition of capital disclosure requirements (CP1 & CP2) issued by Central Bank of Oman, the following are the mandatory disclosures for the year ended 31 December 2016.

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 1 January 2018) (RO '000)

	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Common Equity Tier I capital: instruments and reserves	
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	13,500
Retained earnings	(2,352)
Accumulated other comprehensive income (and other reserves)	
Public sector capital injections grandfathered until 1 January 2018	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory adjustments	**11,148**
Common Equity Tier I capital: regulatory adjustments	
Deferred tax assets arising from temporary differences (net of related tax liability)	-
National specific regulatory adjustments of which: Shortfall in MCR of Islamic Banking window and foreign branches of the bank	
Total regulatory adjustments to Common equity Tier I	
Common Equity Tier I capital (CET1)	
Additional Tier I capital: instruments - NIL	
Additional Tier I capital: regulatory adjustments	
Total regulatory adjustments to Additional Tier I capital	-
Additional Tier I capital (AT1)	
Tier I capital (T1 = CET1 + AT1)	11,148

Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase out from Tier 2	-
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)	
of which: instruments issued by subsidiaries subject to phase out	-
General Provisions	906
Tier 2 capital before regulatory adjustments	**906**
Tier 2 capital: regulatory adjustments	
National specific regulatory adjustments	-
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
OF WHICH: Cumulative fair value gains or losses on available for sale instruments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital (T2)	**906**
Total capital (TC = T1 + T2)	**12,055**
Total risk weighted assets	**76,089**
Of which: Credit risk weighted assets	72,505
Of which: Market risk weighted assets	1
Of which: Operational risk weighted assets	3,583
Capital Ratios	
Common Equity Tier 1 (as a percentage of risk weighted assets)	**14.65**
Tier 1 (as a percentage of risk weighted assets)	**14.65**
Total capital (as a percentage of risk weighted assets)	**15.84**
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)	
of which: capital conservation buffer requirement	
of which: bank specific countercyclical buffer requirement	
of which: D-SIB/G-SIB buffer requirement	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	7.0
National minima (if different from Basel III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.625
National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.625
National total capital minimum ratio (if different from Basel 3 minimum)	12.625
Total Investment account holders	
Amount of investment account holders funds	118,117
Profit equalisation reserve	198
Investment risk reserve	68
Total Investment account holders	**118,383**

Disclosure template for main features of all regulatory capital instruments

1. Common Equity

Common equity comprises of assigned capital amounting to RO 13,500,000 transferred from National Bank of Oman SAOG.

2. All other regulatory capital instruments - Nil

This report on Basel II & III disclosures set out from pages no 1 to 21 was authorised for issue on 25th January 2017.

Mohammed Mahfoodh Al Ardhi
Chairman

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG (the "Bank")

Report on the financial statements

We have audited the accompanying statement of financial position of Muzn Islamic banking - Window of National Bank of Oman (the "Islamic Window) as of 31 December 2016, and the related statements of income, changes in owners' equity, cash flows and sources and uses of charity fund for the year then ended, and a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate its Islamic Window in accordance with Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Islamic Window as of 31 December 2016, the results of its operations, changes in owners' equity, cash flows and sources and uses of charity fund for the year then ended in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window of the Bank and the Financial Accounting Standards issued by AAOIFI.

Other matter

The financial statements of the Islamic Window for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 25 January 2016.

Ernst & Young LLC

5 March 2017
Muscat

Muzn Islamic Banking is the licensed Islamic Banking window of National Bank of Oman operating in the Sultanate of Oman. National Bank of Oman has the unique distinction of being the first local conventional bank to be established in 1973.

Our aim is to create ethical value for our customer though Shari'a complaint Islamic product and services.

Our mission is to provide innovative, competitive and quality Islamic Banking products and services; ensuring these are accessible and understood by all.

Our vision is to be the leading provider of Islamic financial service in the country.

Muzn's independent Shari'a Supervisory Board is an external Shari'a Committee comprising of independent and well renowned Shari'a Scholars who guide and ensure that the operations, services and products offered by Muzn comply with the principles of Shari'a.

Muzn's Shari'a Supervisory Board consists of following members namely:

Sheikh Dr. Mohamed Bin Ali Elgari, is a Professor of Islamic Economics at King Abdulaziz University, Saudi Arabia. He is an Expert at the Islamic Jurisprudence Academy of the Organization of Islamic Cooperation (OIC) and the Islamic Jurisprudence Academy of the Islamic World League. Sheikh Elgari is also a member of the Shari'a Council of Accounting and Auditing Organization for Islamic Financial Institutions (AAOFI), Chairman Shari'a Supervisory Board of Muzn Islamic Banking Services and Shari'a Board Member of several reputable Islamic Banks and Takaful Companies across the globe.

Sheikh Datuk Dr. Mohamed Daud Bakar, is a Malaysian Shari'a Scholar and Chairman of the Central Shari'a Advisory Council of the Central Bank of Malaysia and Securities Commission of Malaysia. Sheikh Bakar's area of specialization includes Islamic Legal Theory, Islamic Banking and Finance and Islamic Law of Zakah. Datuk Dr. Bakar has published more than 30 articles in academic journals while also being a member of several Shari'a Boards for Banks and Islamic financial institutions worldwide.

Sheikh Saleh Al Kharusi, is a Director of the Notary Public Office Ministry of Justice and a part-time lecturer of Shari'a sciences. Sheikh Saleh has bachelor's degree in Shari'a from the Institute of Shari'a Sciences in the Sultanate of Oman and a Master's Degree in Financial Transaction from Sultan Qaboos University.

Dr. Khalid Said Al Amri, an Assistant professor at Sultan Qaboos University. Dr. Al-Amri serves as an advisor to the board of director at Al Madina Takaful and a member in the Audit Committee. He has done extensive research in the area of finance, Takaful insurance, and financial risk management. His research interests focus on finance, corporate governance, Takaful insurance, and, Risk Management. He also serves as an ad hoc referee for international academic journals. He has published in a number of internationally refereed journals and delivered presentations at international renowned conferences. He has been awarded a best paper award in Western Risk and Insurance in USA. Dr. Al-Amri is a member of American Risk and Insurance Association (ARIA). He is also a Certified Shari'a Advisor and Auditor from AAOIFI - Accounting and Auditing Organisation for Islamic Financial Institutions.

H.H Sayyid Dr. Adham Turki Al Said, is an Assistant Professor of Economics at Sultan Qaboos University in Oman. Dr. Adham is a Chairman of Board of Trustees, Scientific College of Design. He is also a member in several government and private organisations such as Partner, The Firm for Business and Economic Consulting and he provided a proposal on SME to Shura Council in 2014. Dr. Adham has a Ph.D. in Economics from University of Western Australia, Australia — 2011.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

2015	2016		Note	2016	2015
USD'000	**USD'000**			**RO'000**	RO'000
		ASSETS			
20,122	**39,125**	Cash and balances with Central Bank of Oman ("CBO")	5	**15,063**	7,747
18,577	**30,660**	Due from banks and financial institutions	6	**11,804**	7,152
		Financial assets:			
-	**2,501**	Held to maturity	7	**963**	-
7,792	**7,793**	Held for trade		**3,000**	3,000
5,548	**4,494**	Deferred sales receivable	8	**1,730**	2,136
195,995	**218,340**	Ijarah Muntahia Bittamleek-Net	9	**84,061**	75,458
30,608	**31,382**	Diminishing Musharaka	10	**12,082**	11,784
19,244	**18,769**	Forward Ijarah	11	**7,226**	7,409
1,169	**1,008**	Property and equipment-Net	12	**388**	450
607	**678**	Other assets	13	**261**	234
299,662	**354,750**	**TOTAL ASSETS**		**136,578**	115,370
		LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
		LIABILITIES			
33,343	**12,649**	Current accounts		**4,870**	12,837
4,332	**5,657**	Other liabilities	14	**2,177**	1,668
37,675	**18,306**	**TOTAL LIABILITIES**		**7,047**	14,505
233,693	**307,488**	Unrestricted Investment Accountholders	16	**118,383**	89,972
		OWNERS' EQUITY			
35,065	**35,065**	Assigned capital	17	**13,500**	13,500
(6,771)	**(6,109)**	Accumulated losses		**(2,352)**	(2,607)
28,294	**28,956**	TOTAL OWNERS' EQUITY		**11,148**	10,893
299,662	**354,750**	**TOTAL LIABILITIES, UNRESTRICTED INVESTMENTACCOUNT HOLDERS AND OWNERS' EQUITY**		**136,578**	115,370

The financial statements were approved by the Board of Directors on 25th January 2017.

……………………………………
Chairman

……………………………………
Chief Executive Officer

The notes 1 to 28 form an integral part of these financial statements.

The independent auditors' report is set forth on page 2.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

Year ended 31 December 2015	Year ended 31 December 2016		Note	Year ended 31 December 2016	Year ended 31 December 2015
USD'000	**USD'000**			**RO'000**	RO'000
		INCOME			
208	**252**	Deferred sales	18	**97**	80
6,551	**8,851**	Ijarah Muntahia Bittamleek	19	**3,408**	2,522
345	**1,431**	Diminishing Musharaka	20	**551**	133
3	**36**	Inter-Bank Wakala		**14**	1
7,107	**10,570**	**Total**		**4,070**	2,736
		Less			
(1,535)	**(3,990)**	Return on unrestricted investment accountholders	21	**(1,536)**	(591)
(390)	**(66)**	Profit equalisation reserve		**(25)**	(150)
(140)	**(28)**	Investment risk reserve		**(11)**	(54)
(2,065)	**(4,084)**	**Total**		**(1,572)**	(795)
5,042	**6,486**	**MUZN'S SHARE IN INCOME FROM INVESTMENT AS MUDARIB AND RABUL MAAL**		**2,498**	1,941
44	**382**	Investment income		**147**	17
410	**314**	Revenue from banking services		**121**	158
68	**42**	Foreign exchange gains–Net		**1 5**	26
5,564	**7,224**	**TOTAL OPERATING REVENUE**		**2,781**	2,142
(5,057)	**(5,610)**	General and administrative expenses	22	**(2,160)**	(1,947)
(1,236)	**(306)**	Provisions	15	**(118)**	(476)
(701)	**(644)**	Depreciation	12	**(248)**	(270)
(6,994)	**(6,560)**	**TOTAL OPERATING EXPENSES**		**(2,526)**	(2,693)
(1,430)	**664**	**NET PROFIT FOR THE YEAR**		**255**	(551)

The notes 1 to 28 form an integral part of these financial statements.

The independent auditors' report is set forth on page 2.

Muzn Islamic Banking
Notes to the Financial Statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(RO'000)	Share capital	Accumulated losses	Total
Balance at 1 January 2016	**13,500**	**(2,607)**	**10,893**
Net Profit for the year	**-**	**255**	**255**
Balance at 31 December 2016	**13,500**	**(2,352)**	**11,148**
Balance at 31 December 2016 (USD'000s)	**35,065**	**(6,108)**	**28,956**
Balance at 1 January 2015	13,500	(2,056)	11,444
Net loss for the year	-	(551)	(551)
Balance at 31 December 2015	13,500	(2,607)	10,893
Balance at 31 December 2015 (USD'000s)	35,065	(6,771)	28,294

The notes 1 to 28 form an integral part of these financial statements.

The independent auditors' report is set forth on page 2.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

Year ended 31 December 2015	Year ended 31 December 2016		Year ended 31 December 2016	Year ended 31 December 2015
USD'000	**USD'000**		**RO '000**	RO '000
		OPERATING ACTIVITIES		
(1,430)	**664**	Net loss for the year	**255**	(551)
		Adjustments for:		
701	**644**	Depreciation	**248**	270
1,236	**306**	General provision	**118**	476
390	**66**	Profit equalisation reserve	**25**	150
140	**28**	Investment risk reserve	**11**	54
1,037	**1,708**	**Operating cash flow before changes in operating assets & liabilities**	**657**	399
(3,086)	**1,055**	Decrease in deferred sales receivable	**406**	(1,188)
(40,623)	**(22,868)**	Increase in Ijarah Muntahia Bittamleek assets	**(8,804)**	(15,640)
(30,917)	**(782)**	Increase in diminishing Musharaka assets	**(301)**	(11,903)
(2,569)	**600**	Decrease in forward Ijarah assets	**231**	(989)
1,662	**(70)**	Increase in other assets	**(27)**	640
24,249	**(20,694)**	Decrease in customer 's current accounts	**(7,967)**	9,336
1,873	**1,322**	Increase in other liabilities	**509**	721
(48,374)	**(39,728)**	**Net cash used in operating activities**	**(15,296)**	(18,624)
		INVESTING ACTIVITIES		
(7,792)	**(2,501)**	Investment in financial asset held for trading	**(963)**	(3,000)
(517)	**(481)**	Purchase of property and equipment	**(185)**	(199)
(8,309)	**(2,982)**	**Net cash used in investing activities**	**(1,148)**	(3,199)
		FINANCING ACTIVITIES		
42,024	**73,797**	Increase in unrestricted investment accountholders	**28,412**	16,179
-	**-**	Assigned capital	**-**	-
42,024	**73,797**	Net cash from financing activities	**28,412**	16,179
(14,659)	**31,085**	Increase in cash and cash equivalents	**11,968**	(5,644)
53,358	**38,699**	Cash and cash equivalents at the beginning of the year	**14,899**	20,543
38,699	**69,785**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**	**26,867**	14,899
		REPRESENTING:		
20,122	**39,125**	Cash and balances with Central Banks	**15,063**	7,747
18,577	**30,660**	Due from banks and financial institutions	**11,804**	7,152
38,699	**69,785**		**26,867**	14,899

The notes 1 to 28 form an integral part of these financial statements.

The independent auditors' report is set forth on page 2.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2016

Year ended 31 December 2015	Year ended 31 December 2016		Year ended 31 December 2016	Year ended 31 December 2015
USD'000	**USD'000**		**RO '000**	RO '000
-	**-**	Balance as at 1 January	**-**	-
2,728	**4,199**	Non-Islamic income for the year	**1,617**	1,050
2,728	**4,199**	**Total source**	**1,617**	1,050
		Use of charity fund:		
(1,364)	**(2,099)**	Oman Association for Disabled	**(808)**	(525)
(1,364)	**(2,099)**	Oman Society for the hearing impaired	**(808)**	(525)
-	**-**	**Undistributed charity fund**	**-**	-

The notes 1 to 28 form an integral part of these financial statements.

The independent auditors' report is set forth on page 2.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Muzn Islamic Banking – Window of National Bank of Oman SAOG ('Muzn') was registered in the Sultanate of Oman as a window of National Bank of Oman SAOG. Muzn's principle place of business is in Muscat, Sultanate of Oman.

Muzn's operations commenced on 17 January 2013 and it currently operates through six branches in the Sultanate under the license issued by the Central Bank of Oman on 15 January 2013.

The principle activities of Muzn are taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing, Musharaka financing and other Shari'a compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Muzn's activities are regulated by the Central Bank of Oman ('CBO') and supervised by Shari'a Supervisory Board ('SSB') comprising of four members.

Muzn's address is PO Box 751 and PC 112, Muscat, Sultanate of Oman.

Muzn employed 70 employees as at 31 December 2016 (2015: 60).

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of Muzn Islamic Banking have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of Muzn and the applicable laws and regulations issued by the CBO. In accordance with the requirements of AAOIFI, for accounting matters which are not covered by the AAOIFI standards, Muzn uses the relevant International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board (IASB).

These financial statements relate to the Islamic Window operation only and do not include the financial results of the Bank. The complete set of Bank's financial statements are presented separately.

Statement of restricted investment accountholders and statement of Qard fund and Zakat are not presented as these are not applicable/relevant to Muzn's operations.

2.2 Basis of measurement

The financial statements are prepared on historical cost basis.

2.3 Functional and presentation currency

The financial statements have been presented in Rial Omani (RO) which is the functional currency of Muzn. Except as otherwise indicated, financial information presented has been rounded off to the nearest thousand Rial Omani (RO).

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with AAOIFI requires management to make judgments estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Muzn's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

Figures are also presented in United States Dollar (USD) for statement of financial position, income statement, statement of changes in equity, statement of cash flows and statement of sources and uses of charity fund, which have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar.

3.2 Financial instruments

3.2.1 Recognition

Muzn recognises Islamic financial assets and liabilities on the date at which they originated. Regular way purchases and sales of financial assets are recognised on the trade date at which Muzn commits to purchase and sell the asset. All other financial assets and liabilities (including assets and liabilities at fair value through profit or loss) are initially recognised on the trade date at which Muzn becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value, plus for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.2.2 Derecognition

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

(i) the right to receive cash flows from the asset has expired;

(ii) Muzn has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.2.3 Measurement

Financial assets are measured initially at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to initial recognition all financial assets are measured at fair value, except equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

3.3 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman and, amounts due from other Banks.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Further, this should also be as per the Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transaction.

3.5 Deferred sales receivables

Deferred sales receivables are stated net of deferred profits and provisions for impairment. Muzn considers the promise made in the deferred sales to the purchase orderer as obligatory.

3.6 Ijarah Muntahia Bittamleek assets and Forward Ijarah

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah installments are settled.

Depreciation is calculated using the straight-line method on all Ijarah Muntahia Bittamleek assets, at rates calculated to write off the cost of each asset over its useful life.

Forward Ijarah assets are recognised as assets at cost during the period of construction.

3.7 Diminishing Musharaka

Musharaka contract represents a partnership between Muzn and a customer whereby each party contributes to the capital in equal or varying proportions to develop a new asset or share an existing one, and whereby each of the party becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses.

These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Muzn enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house or land) with its customers and enters into periodic profit payment agreement on Ijara basis for the utilisation of Muzn's Musharaka share by the customer.

Over the tenor, one partner's investment in the partnership declines on account of the other partner's increase in the partnership investment through repayment of the former partner's share.

3.8 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

Nature of sssets	Useful life in years
Furniture and fixtures	10
Equipment	5
Motor vehicles	4
Leasehold improvements	3

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to income statement when the expense is incurred. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in income statement as an expense when incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Unrestricted investment accountholders

All unrestricted investment accounts will be carried at cost plus profit attributable to unrestricted investment account holders and related reserves, less amounts settled.

Unrestricted investment account holders' share of income will be calculated based on the income generated from investment accounts after deducting Mudarib share. Operating expenses will be charged to shareholders' funds and not included in the calculation.

The basis applied by Muzn in arriving at the unrestricted investment account holders' share of income will be (total income from jointly financed Islamic finances less shareholders' income). Pre agreed profit share generated from unrestricted investment account holders will be deducted as Mudarib share and the remaining will be distributed to the unrestricted investment account holders.

3.10 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib share, in order to cater against future losses for unrestricted investment account holders.

3.11 Profit equalisation reserve

Muzn appropriates a certain amount in excess of the profit to be distributed to unrestricted investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for unrestricted investment account holders.

3.12 Provisions

Provisions are recognized when Muzn has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be measured reliably.

According to the regulations of the Central Bank of Oman; Banks are required to have general credit loss provisions, at least equivalent to 1% of the total financing and interbank 0.5% categorised as Standard and Special Mention. However, for personal finance a minimum general loss provision of 2% of the Standard and Special Mention is required to address the heightened inherent risk.

3.13 Dividends

Dividends are recognised as a liability in the year in which they are declared.

3.14 Earnings prohibited by Shari'a

Muzn is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where Muzn disburses these funds according to the Shari'a Supervisory Board's supervision and instructions.

3.15 Zakah

The responsibility of payment of zakah is on individual shareholders and investment account holders.

3.16 Joint and self-financed

Financing and receivables that are jointly owned by Muzn and the unrestricted investment accounts holders will be classified under the caption "jointly-financed" in the financial statements. Financing and receivables that are financed solely by Muzn will be classified under "self-financed".

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Funds for Muzn

Muzn functions with funds specifically available for its Islamic banking activities and there is no commingling of funds with conventional banking business.

3.18 Revenue recognition

3.18.1 Deferred sales receivables

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognized on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognised when realized. Income related to non performing accounts will be excluded from the income statement.

3.18.2 Diminishing Musharaka

Income from Musharaka is recognised when the right to receive payment is established or when distribution is made.

3.18.3 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek will be recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non performing Ijarah Muntahia Bittamleek assets will be excluded from the income statement.

3.18.4 Dividends

Dividends will be recognised when the right to receive payment is established.

3.18.5 Fee and Commission Income

Fee and commission income will be recognised when earned.

3.18.6 Muzn's Share as a Mudarib

Muzn's share as a Mudarib for managing unrestricted investment accounts will be accrued based on the terms and conditions of the related Mudaraba agreements.

3.18.7 Income allocation

Income from jointly financed activities will be allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

3.19 Taxation

Muzn is not taxable on a stand-alone basis as per the prevailing tax laws.

National Bank of Oman SAOG is taxable on a consolidated basis i.e including Muzn's financial results, accounted for as per the International Financial Reporting Standards. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Muzn's employees at the statement of financial position date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the statement of financial position date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in income statement as incurred.

3.21 Segment reporting

An operating segment is a component of Muzn that engages in business activities from which it may earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Muzn's other components whose operating results are reviewed regularly by the management to make decisions about the resources allocated to each segment and asses its performance and for which discrete financial information is available. Muzn's primary format for reporting segmental information is business segment, based upon management internal reporting structure. Muzn's main business segments comprise of retail, corporate and treasury operations.

3.22 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Muzn, which meets four times a year and consists of two prominent Shari'a scholars as voting members and two non-voting members who are expert in the field. The SSB members appointed for a period of three years are:

- Sh. Dr. Mohamed Bin Ali Elgari - Chairman
- Dr. Mohammed Daud Bakar - Member
- H.H. Sh. Dr. Adham Al Said - Member
- Sh. Dr. Khalid Al Amri - Member
- Sh. Saleh Al Kharusi - Member

3.23 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date Muzn commits to purchase the assets. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.24 New standards, amendments and interpretations effective from 1 January 2016

Amendments to FAS 27 "Investment Accounts" became effective as of 1 January 2016; the application of these amendments had no material impact on the disclosures in Muzn's financial statements.

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Impairment

Impairment losses on financing

Management reviews its financing portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, management makes judgment's as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of finances before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

4.2 Useful life of property and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN ("CBO")

	2016	2015
	RO'000	RO'000
Cash in hand	**953**	871
Balances with Central Bank of Oman ("CBO")	**14,110**	6,876
Cash and balances with Central Bank of Oman ("CBO")	**15,063**	7,747

6 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	Self-financed	**Jointly financed**	**Total 2016**
			RO'000
Due from Foreign Banks	**4,687**	**7,030**	**11,717**
Due from Local Banks	**35**	**52**	**87**
Due from banks and financial institutions	**4,722**	**7,082**	**11,804**

	Self-financed	**Jointly financed**	Total 2015
			RO'000
Due from Foreign Banks	17	26	43
Due from Local Banks	2,844	4,265	7,109
Due from banks and financial institutions	2,861	4,291	7,152

7 FINANCIAL ASSETS

Financial assets held to maurity

	Self-financed	**Total 2016**
		RO'000
Corporate Sukuk	**963**	**963**
Financial asset held for maturity	**963**	**963**

Financial assets held for trade

	Self-financed	**Total 2016**
		RO'000
Sovereign Sukuk	**3,000**	**3,000**
Financial asset held for trading	**3,000**	**3,000**

	Self-financed	**Total 2015**
		RO'000
Sovereign Sukuk	3,000	3,000
Financial asset held for trading	3,000	3,000

8 DEFERRED SALES RECEIVABLES

	Self-financed	**Jointly Financed**	**Total 2016**
			RO'000
Gross deferred sales receivables	**768**	**1,153**	**1,921**
Less: Unearned income	**(59)**	**(89)**	**(148)**
	709	**1,064**	**1,773**
Less: Provision for doubtful receivables	**(17)**	**(26)**	**(43)**
Deferred sales receivables	**692**	**1,038**	**1,730**

	Self-financed	**Jointly Financed**	**Total 2015**
			RO'000
Gross deferred sales receivables	961	1,442	2,403
Less: Unearned income	(90)	(134)	(224)
	871	1,308	2,179
Less: Provision for doubtful receivables	(17)	(26)	(43)
Deferred sales receivables	854	1,282	2,136

The deferred sales receivables pertain to finance provided to retail customers. The credit quality of the deferred sales receivables that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

8 DEFERRED SALES RECEIVABLES (Continued)

Deferred sales receivables past due but not impaired

	2016	2015
	RO'000	RO'000
Past due up to 30 days	62	325
Past due 30 – 60 days	7	37
Past due 60 – 89 days	11	11
Total	**80**	373

At 31 December 2016, impared deffered sales receivables on which profit is being accrued or where profit has been reserved amounted to RO 9K (2015 – Nil).

9 IJARAH MUNTAHIA BITTAMLEEK – NET

	Self-financed	Jointly Financed	Total 2016
			RO'000
Cost			
At 1 January 2016	34,942	52,413	87,355
Additions - net	6,418	9,627	16,045
At 31 December 2016	**41,360**	**62,040**	**103,400**
Depreciation			
At 1 January 2016	(4,401)	(6,603)	(11,004)
Charge for the year	(2,896)	(4,345)	(7,241)
At 31 December 2016	**(7,297)**	**(10,948)**	**(18,245)**
Net book value at 31 December 2016	34,062	51,093	85,155
Less: provision for doubtful debts	(438)	(656)	(1,094)
Ijarah Muntahiah Bittamleek – net	33,624	50,437	84,061

9 IJARAH MUNTAHIA BITTAMLEEK – NET (Continued)

	Self-financed	Jointly Financed	Total 2015
			RO'000
Cost			
At 1 January 2015	25,973	38,959	64,932
Additions – net	8,969	13,454	22,423
At 31 December 2015	34,942	52,413	87,355
Depreciation			
At 1 January 2015	(1,688)	(2,533)	(4,221)
Charge for the year	(2,713)	(4,070)	(6,783)
At 31 December 2015	(4,401)	(6,603)	(11,004)
Net book value at 31 December 2015	30,541	45,810	76,351
Less: provision for doubtful debts	(357)	(536)	(893)
Ijarah Muntahiah Bittamleek – net	30,184	45,274	75,458

The Ijarah Muntahia Bittamleek pertains to finance provided to retail and corporate customers. The credit quality of the Ijarah Muntahia Bittamleek that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

Ijarah Muntahia Bittamleek past due but not impaired

	2016	2015
	RO'000	RO'000
Past due up to 30 days	6,072	6,752
Past due 30 – 60 days	751	3,623
Past due 60 – 89 days	1,706	128
Total	**8,529**	10,503

At 31 December 2016, impared Ijarah Muntahia Bittamleek on which profit is being accrued or where profit has been reserved amounted to RO 493K (2015 – Nil).

10 DIMINISHING MUSHARAKA

	Self-financed	Jointly Financed	Total 2016
			RO'000
Diminishing Musharaka receivables	4,882	7,322	12,204
Less: Provision for doubtful receivables	(49)	(73)	(122)
Total	**4,833**	**7,249**	**12,082**

	Self-financed	Jointly Financed	Total 2015
			RO'000
Diminishing Musharaka receivables	4,761	7,142	11,903
Less: Provision for doubtful receivables	(48)	(71)	(119)
Total	4,713	7,071	11,784

Diminishing Musharaka pertains to finance provided to retail and corporate customers. The credit quality of the Diminishing Musharaka that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

Diminishing Musharaka past due but not impaired

	2016	2015
	RO'000	RO'000
Past due up to 30 days	**1,981**	1,820
Past due 30 – 60 days	**779**	168
Past due 60 – 89 days	**-**	1,238
Total	**2,760**	**3,226**

11 FORWARD IJARAH

	Self-financed	Jointly Financed	Total 2016
			RO'000
Forward Ijarah receivables	2,920	4,379	7,299
Less: Provision for doubtful receivables	(29)	(44)	(73)
Total	**2,891**	**4,335**	**7,226**

	Self-financed	Jointly Financed	Total 2015
			RO'000
Forward Ijarah receivables	3,012	4,518	7,530
Less: Provision for doubtful receivables	(48)	(73)	(121)
Total	2,964	4,445	7,409

12 PROPERTY AND EQUIPMENT – NET

	Motor vehicles, furniture and equipment	Leasehold improvements	Total
			RO'000
Cost			
1 January 2016	742	614	1,356
Additions	185	-	185
31 December 2016	**927**	**614**	**1,541**
Depreciation			
1 January 2016	444	462	906
Charge for the period	134	113	247
31 December 2016	**578**	**575**	**1,153**
Net book value at 31 December 2016	**349**	**39**	**388**

	Motor vehicles, furniture and equipment	Leasehold improvements	Total
			RO'000
Cost			
1 January 2015	659	498	1,157
Additions	83	116	199
31 December 2015	742	614	1,356
Depreciation			
1 January 2015	316	320	636
Charge for the period	128	142	270
31 December 2015	444	462	906
Net book value at 31 December 2015	298	152	450

13 OTHER ASSETS

	2016	2015
	RO'000	RO'000
Profit receivable	**120**	75
Advanced rent	**101**	94
Miscellaneous assets	**40**	65
Total	**261**	**234**

14 OTHER LIABILITIES

	2016	2015
	RO'000	RO'000
Sundry creditors	**135**	466
Profits payable	**863**	387
Forward Ijarah advances	**1,031**	591
Deferred profit	**148**	224
	2,177	1,668

15 PROVISIONS

15.1 General provision

	2016	2015
	RO'000	RO'000
At 1 January	**1,014**	700
Provided during the year	**80**	314
At 31 December	**1,094**	1,014

15.2 Specific provision

	2016	2015
	RO'000	RO'000
At 1 January	**162**	-
Provided during the year	**38**	162
At 31 December	**200**	162

16 UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	2016	2015
	RO'000	RO'000
Wakala deposit	**60,882**	49,729
Savings account	**3,999**	6,523
Flex Wakala	**53,236**	33,489
Profit equalization reserve	**198**	173
Investment risk reserve	**68**	58
	118,383	89,972

There is NIL restricted investment as at 31 December 2016 (31 December 2015: none).

Basis of distribution of the profit between owners' equity and unrestricted investment accountholders

The investment profits are distributed between owners' equity and unrestricted investment accountholders for the year ended 31 December 2016 and period ended December 2015 as follows:

	2016	2015
	Percentage	Percentage
Unrestricted investment accountholders share	**40%**	40%
Mudarib share	**60%**	60%

The investment risk reserve at 0.5 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalisation reserve at 1 percent is the amount Muzn appropriates in excess of the profit to be distributed to unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner equity and unrestricted investment accountholders.

17 ASSIGNED CAPITAL

The assigned capital consists of RO 13,500,000 transferred from National Bank of Oman SAOG. (31 December 2015: RO 13,500,000)

18 DEFERRED SALES INCOME

	Self-financed	Jointly Financed	2016
			RO'000
Deferred sales income	**39**	**58**	**97**

	Self-financed	Jointly Financed	2015
			RO'000
Deferred sales income	32	48	80

19 IJARAH MUNTAHIAH BITTAMLEEK INCOME

	Self-financed	Jointly Financed	2016
			RO'000
Income from Ijarah Muntahiah Bittamleek	4,260	6,389	10,649
Less : depreciation	(2,897)	(4,344)	(7,241)
	1,363	**2,045**	**3,408**

	Self-financed	Jointly Financed	2015
			RO'000
Income from Ijarah Muntahiah Bittamleek	3,722	5,583	9,305
Less : depreciation	(2,713)	(4,070)	(6,783)
	1,009	1,513	2,522

20 DIMINISHING MUSHARAKA INCOME

	Self-financed	Jointly Financed	2016
			RO'000
Income from Diminishing Musharaka	**220**	**331**	**551**

	Self-financed	Jointly Financed	2015
			RO'000
Income from Diminishing Musharaka	53	80	133

21 RETURN ON UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	2016	2015
	RO'000	RO'000
Wakala	**1,213**	412
Savings account	**51**	2
Flex Wakala	**272**	177
	1,536	591

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
	RO'000	RO'000
Salaries and allowances	**1,333**	1,154
Rent, rates and taxes	**225**	242
Publicity	**134**	166
Management fee to Head Office	**53**	39
Repair and maintenance	**77**	82
Legal and professional fees	**53**	64
Stationery	**28**	27
Directors' fees	**51**	32
Travel expenses	**15**	30
Miscellaneous expenses	**191**	111
	2,160	1,947

23 RELATED PARTY TRANSACTIONS

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

	2016	2015
	RO'000	RO'000
Deposits and other accounts		
Directors, Shari'a Supervisors and shareholders holding less than 10% interest in Muzn	**7,574**	4,734
Financings		
Directors, Shari'a Supervisors and shareholders holding less than 10% interest in Muzn	**6**	18

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

Remuneration paid to Directors & Shari'a Supervisors

Chairman		
– remuneration proposed	**8**	8
– sitting fees paid	**3**	3
– other expenses paid	**3**	3
Other Directors		
– remuneration proposed	**16**	8
– sitting fees paid	**16**	4
– other expenses paid	**5**	6
Management fee payable to conventional banking	**53**	39

24 CONTINGENT LIABILITIES AND COMMITMENTS

24.1 Credit related contingent items

	2016	2015
	RO'000	RO'000
Letters of credit	**68**	82
Letters of guarantee	**101**	466
	170	**548**

24.2 Capital and investment commitments

	2016	2015
	RO'000	RO'000
Contractual commitments for Forward Ijarah	**1,896**	5,499

25 FINANCIAL RISK MANAGEMENT

The primary objective of risk management is to safeguard the Muzn's resources from the various risks which Muzn faces. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk and Operational Risk. All risk management functions report to Chief Risk Officer and are independent from Business Units. Muzn has exposure to credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that Muzn will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to Muzn. Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Credit risk management

To manage the level of credit risk, Muzn deals with counter-parties of good credit. Corporate Credit Committee of the Board is the final credit approving authority of Muzn which is mainly responsible for approving all credit proposals beyond the authority level of the management. The Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk mitigation policies

Muzn manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. Muzn structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

To facilitate risk mitigation Moody's, S&P and Fitch ratings have also been set up and are also being used as guidelines to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines.

The analysis of financing portfolio is provided below. It is pertinent to mention that the financing portfolio consists of all standard accounts and there is no impairment in the portfolio.

(a) Geographical concentrations

All the financial asset and financial liabilities reported in the balance sheet and all the items reported in off balance are based in Sultanate of Oman.

25 FINANCIAL RISK MANAGEMENT (Continued)

(b) Customer concentrations

On Assets	Due from banks and financial institutions	Financial assets held for trading	Deferred sales receivables	Ijarah Muntahia Bittamleek
31 December 2016	RO'000	RO'000	RO'000	RO'000
Retail	-	-	145	24,180
Corporate	11,804	3,963	1,585	59,881
	11,804	**3,963**	**1,730**	**84,061**

On Assets	Diminishing Musharaka	Forward Ijarah
31 December 2016	RO'000	RO'000
Retail	-	1,294
Corporate	12,082	5,932
	12,082	**7,226**

On Liabilities	Current accounts	Unrestricted Investment Accountholders
31 December 2016	RO'000	RO'000
Retail	1,191	14,473
Corporate	3,679	103,910
	4,870	**118,383**

On Assets	Due from banks and financial institutions	Deferred sales receivables	Ijarah Muntahia Bittamleek	Forward Ijarah
31 December 2015	RO'000	RO'000	RO'000	RO'000
Retail	-	-	63	54,482
Corporate	7,152	3,000	2,073	20,976
	7,152	3,000	2,136	75,458

On Assets	Diminishing Musharaka	Forward Ijarah
31 December 2015	RO'00	RO'000
Retail	-	6,106
Corporate	11,784	1,303
	11,784	7,409

On Liabilities	Current accounts	Unrestricted investment accountholders
31 December 2015	RO'000	RO'000
Retail	57	6,589
Corporate	12,780	83,383
	12,837	89,972

25 FINANCIAL RISK MANAGEMENT (Continued)

	Assets				Liabilities	
	Deferred sales receivables	Ijarah Muntahiah Bittamleek	Diminishing Musharaka	Forward Ijarah	Current accounts	Wakala and savings deposit
31 December 2016	RO'000	RO'000	RO'000		RO'000	RO'000
Personal	1,585	59,881	-	5,932	4,870	118,383
Construction	-	19,720	12,082	1,294	-	-
Manufacturing	-	2,547	-	-	-	-
Trade	145	-	-	-	-	-
Services	-	1,913	-	-	-	-
	1,730	**84,061**	**12,082**	**7,226**	**4,870**	**118,383**

	Assets				Liabilities	
	Deferred sales receivables	Ijarah Muntahiah Bittamleek	Diminishing Musharaka	Forward Ijarah	Current accounts	Wakala and savings deposit
31 December 2015	RO'000	RO'000	RO'000		RO'000	RO'000
Personal	2,073	54,521	-	6,106	12,837	89,972
Construction	-	15,301	11,784	1,303	-	-
Manufacturing	-	3,396	-	-	-	-
Trade	63	-	-	-	-	-
Services	-	2,240	-	-	-	-
	2,136	75,458	11,784	7,409	12,837	89,972

The movement of restructured loans is set out as below:

	2016	2015
	RO'000	RO'000
At 1 January	**1,021**	-
Additions during the year	**(1,021)**	1,021
Balance at 31 December	**-**	1,021

LIQUIDITY RISK

Liquidity risk is the potential inability to meet Muzn's liabilities as they become due. It arises when Muzn is unable to generate cash to cope with a decline in deposits or increase in assets.

Muzn's liquidity risk management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of the relevant CBO guidelines on liquidity risk management through cash flow approach.

LIQUIDITY RISK (Continued)

Muzn monitors its liquidity risk through cash flow approach and stock approach. Under the cash flow approach, Muzn generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to over five years. The mismatches in various time buckets indicate liquidity gap and Muzn strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Muzn has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Muzn controls and monitors the liquidity risk and ensures that Muzn is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. The middle office in Credit risk division also monitors the liquidity position of Muzn and provides the liquidity gap to Treasury Department to meet liquidity gaps.

	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2016	**RO'000**	**RO'000**	**RO'000**	**RO'000**		
Cash and balances with Central Bank of Oman	11,916	1,504	841	309	493	**15,063**
financial institutions	11,804	-	-	-	-	**11,804**
Financial assets:						
- Held to Maturity	-	-	-	963	-	**963**
- Held for Trade	3,000	-	-	-	-	**3,000**
Deferred sales receivables	48	321	243	1,009	109	**1,730**
Ijarah Muntahiah Bittamleek – net	1,270	2,718	4,332	32,138	43,603	**84,061**
Diminishing Musharaka	172	652	1,114	7,600	2,544	**12,082**
Forward Ijarah	109	208	2,765	4,144	-	**7,226**
Property and equipment (net)	-	-	-	-	388	**388**
Other assets	261	-	-	-	-	**261**
Total assets	**28,580**	**5,403**	**9,295**	**46,163**	**47,137**	**136,578**
Current accounts	4,870	-	-	-	-	**4,870**
Other liabilities	2,177	-	-	-	-	**2,177**
Unrestricted investment account holders	17,542	48,240	26,922	10,228	15,451	**118,383**
Owner's equity	-	-	-	-	11,148	**11,148**
Total liabilities and unrestricted investment accountholders and owners' equity	**24,589**	**48,240**	**26,922**	**10,228**	**26,599**	**136,578**

LIQUIDITY RISK (Continued)

	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2015	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	3,925	2,273	496	391	662	7,747
Due from banks and financial institutions	7,152	-	-	-	-	7,152
Financial assets held for trading	3,000	-	-	-	-	3,000
Deferred sales receivables	140	206	280	1,279	231	2,136
Ijarah Muntahiah Bittamleek – net	1,420	2,953	3,833	9,359	57,893	75,458
Diminishing Musharaka	97	693	895	565	9,534	11,784
Forward Ijarah	-	-	-	212	7,197	7,409
Property and equipment (net)	-	-	-	-	450	450
Other assets	234	-	-	-	-	234
Total assets	15,968	6,125	5,504	11,806	75,967	115,370
Current accounts	12,837	-	-	-	-	12,837
Other liabilities	1,668	-	-	-	-	1,668
Unrestricted investment account holders	14,171	43,486	10,253	8,091	13,971	89,972
Owner's equity	-	-	-	-	10,893	10,893
Total liabilities and Unrestricted investment accountholders and owners' equity	28,676	43,486	10,253	8,091	24,864	115,370

MARKET RISK

Market risk includes currency risk, profit rate risk and equity price risk.

(a) Currency risk

Muzn is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Muzn is exposed is the US Dollar which is effectively pegged to Rial Omani. Muzn finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Muzn will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders in based on Profit Sharing Agreements. Therefore, Muzn is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Muzn's results do not allow it to distribute profits in line with the market rates.

Muzn has a detailed Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with Muzn's Asset and Liability Management Committee (ALCO).

MARKET RISK (Continued)

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to re-pricing of assets and that of the corresponding liability. Muzn manages these mismatches by following policy guidelines and reduces risk by matching the re-pricing of assets and liabilities.

	Effective average profit rate %	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
31 December 2016	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	**RO'000**
Cash and balances with Central Bank of Oman ("CBO")	N/A	-	-	-	-	15,063	**15,063**
Due from banks and financial Institutions	0.7%	11,778	-	-	-	26	**11,804**
Financial assets:		-	-	-	-	-	**-**
- Held to Maturity	8.5%	-	-	963	-	-	**963**
- Held for Trade	3.5%	3,000	-	-	-	-	**3,000**
Deferred sales receivables	4.8%	369	243	1,009	109	-	**1,730**
Ijarah Muntahia Bittamleek – net	5.1%	3,988	4,332	32,138	43,603	-	**84,061**
Diminishing Musharaka	5.4%	824	1,114	7,600	2,544	-	**12,082**
Forward Ijarah	N/A	-	-	-	-	7,226	**7,226**
Property and equipment – net	N/A	-	-	-	-	388	**388**
Other assets	N/A	-	-	-	-	261	**261**
Total assets		**19,959**	**5,689**	**41,710**	**46,256**	**22,964**	**136,578**

	Effective average profit rate %	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
31 December 2016	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	**RO'000**
Current accounts	N/A	-	-	-	-	4,870	**4,870**
Other liabilities	N/A	-	-	-	-	2,177	**2,177**
Unrestricted investment accountholders	1.1%	65,782	26,922	10,228	15,185	266	**118,383**
Owners' equity	N/A	-	-	-	-	11,148	**11,148**
Total liabilities and owners' equity		**65,782**	**26,922**	**10,228**	**15,185**	**18,461**	**136,578**
On-balance sheet gap		**(45,823)**	**(21,233)**	**31,482**	**31,071**	**4,503**	
Cumulative profit sensitivity gap		**(45,823)**	**(67,056)**	**(35,574)**	**(4,503)**	**-**	

MARKET RISK (Continued)

	Effective average profit rate %	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
31 December 2015	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman ("CBO")	N/A	-	-	-	-	7,747	7,747
Due from banks and financial Institutions	0.2	6,968	-	-	-	184	7,152
Financial assets held for trading	3.5	3,000	-	-		-	3,000
Deferred sales receivables	4.8	346	280	1,279	231	-	2,136
Ijarah Muntahia Bittamleek – net	4.9	4,373	3,833	9,359	57,893	-	75,458
Diminishing Musharaka	4.8	790	895	565	9,534	-	11,784
Forward Ijarah	N/A	-	-	-	-	7,409	7,409
Property and equipment – net	N/A	-	-	-	-	450	874
Other asset	N/A	-	-	-	-	234	234
Total assets		15,477	5,008	11,203	67,658	16,024	115,370
Current accounts	N/A	-	-	-	-	12,837	12,837
Other liabilities	N/A	-	-	-	-	1,668	1,668
Unrestricted investment accountholders	0.8	44,171	40,396	5,174	-	231	89,972
Owners' equity	N/A	-	-	-	-	10,893	10,893
Total liabilities and owners' equity		44,171	40,396	5,174	-	25,629	115,370
On-balance sheet gap		(28,694)	(35,388)	6,029	67,658	(9,605)	-
Cumulative profit sensitivity gap		(28,694)	(64,082)	(58,053)	9,605	-	-

(c) Equity risk

Currently, Muzn is not exposed to any equity risk.

OPERATIONAL RISK

Muzn has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for operational risk. The approach requires Muzn to provide 15% of the average three years gross annual income as capital charge for operational risk.

26 Capital risk management

Muzn manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. Muzn's overall strategy remains the same as applicable for Head Office.

The capital adequacy for Muzn is set out as below:

	2016	2015
	RO'000	RO'000
Assigned capital	**13,500**	13,500
Accumulated losses	**(2,352)**	(2,607)
Tier I capital	**11,148**	10,893
General loan loss impairment	**906**	815
Tier II capital	**906**	815
Total capital available	**12,055**	**11,708**
Risk weighted assets (RWA)		
Credit risk	**72,505**	63,325
Market risk	**1**	3
Operational risk	**3,583**	1,868
Total RWA	**76,089**	**65,196**
Capital ratios		
Total capital ratio	**15.8%**	**18.0%**
Total Tier I ratio	**14.7%**	**16.7%**

27 Segmental information

Muzn is organised into three main business segments:

1) Retail banking – incorporating private customer current accounts, savings, deposits, deferred sales, Ijarah Muntahia Bittamleek and Forward Ijarah.

2) Corporate banking – incorporating corporate customer current accounts, savings, deposits, deferred sales, Diminishing Musharaka, Ijarah Muntahia Bittamleek and Forward Ijarah.

3) Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and deposits.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

27 Segmental information (Continued)

At 31 December 2016	Retail banking	Corporate banking	Treasury and investments	Other	Total
	RO'000	RO'000	RO'000	RO'000	
Segment operating revenues	2,472	1,584	14	-	**4,070**
Other revenues	70	26	164	23	**284**
Segment operating revenues	**2,542**	**1,610**	**178**	**23**	**4,354**
Profit expenses	**(1,420)**	**(93)**	**(23)**	**(36)**	**(1,572)**
Net operating income	**1,122**	**1,517**	**155**	**(13)**	**2,781**
Segment cost					
Operating expenses including depreciation	(952)	(209)	(51)	(1,196)	**(2,408)**
Impairment for finances net of allowance for provision	(53)	(65)	-	-	**(118)**
Net profit for the year	**117**	**1,243**	**104**	**(1,209)**	**255**
Gross segment assets	**69,033**	**38,352**	**29,877**	**649**	**137,911**
Less: Impairment allowance	(715)	(618)	-	-	**(1,333)**
Segment assets	**68,318**	**37,734**	**29,877**	**649**	**136,578**
Segment liabilities	**15,398**	**107,589**	**11,148**	**2,443**	**136,578**

27 Segmental information (Continued)

At 31 December 2015	Retail banking	Corporate banking	Treasury and investments	Other	Total
	RO'000	RO'000	RO'000	RO'000	
Segment operating revenues	1,317	1,418	19	-	2,754
Other revenues	58	90	26	9	183
Segment operating revenues	1,375	1,508	45	9	2,937
Profit expenses	(3)	(582)	(6)	(204)	(795)
Net operating income	1,372	926	39	(195)	2,142
Segment cost					
Operating expenses including depreciation	(954)	(133)	(48)	(1,082)	(2,217)
Impairment for finances net of allowance for provision	(422)	(54)	-	-	(476)
Net loss for the year	(4)	739	(9)	(1,277)	(551)
Gross segment assets	64,238	34,596	17,028	684	116,546
Less: Impairment allowance	(667)	(509)	-	-	(1,176)
Segment assets	63,571	34,087	17,028	684	115,370
Segment liabilities	6,647	95,932	10,893	1,898	115,370

28 Corresponding figures

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and for better presentation, the effect of which is not material.

NBO's Branch Network

61 Branches in Oman
14 Sadara Centers
6 Muzn Islamic Banking Branches
2 Branches in the UAE

MUSCAT SOUTH REGION BRANCHES		
Branch	**Telephone No**	**Fax No**
CBD	24778350/24778352	24778391
Bait Al Falaj	24700166 /24702130	24708980
Corniche	24715103 /24714245	24713131
Hamriya	24833792 /24831520	24833147
Mina Al- Fahal	24677020/24565561	24563647
Qurum	24560050/24562615	24562616
Al Amerat	24877379/24875766	24875366
Wattaya	24563830/24560585 24568244	24561334
Quriyat	24846100/24846415	24845899
Shatti Al Qurum	24607161	24607023

MUSCAT NORTH REGION BRANCHES		
Branch	**Telephone No**	**Fax No**
Al Khuwair	24486441/24486481	24486480
Airport	24510007/24519626	24521483
Seeb Town	24423511/24423512	24423513
Ghoubra	24491062/24497229	24491583
Ma'abella	24455957/24453314	24450120
Azaiba	24591341/24597855	24591340
Ministry of Health -MOH	24602763/24692309	24697076
Al - Khoudh	24537951/24537950	24537952
Bousher	24587291/24587294 24587293	24587295
Al Mawaleh	24511164/24511167 24511165	24511173
SQU Al Khoudh	24446768/24446556 24446889	24446686
Khasab	26731442/26730467	26730266
Bukha	26828014	26828466

DAKHILYA & DHAHIRA REGION BRANCHES		
Branch	**Telephone No**	**Fax No**
Nizwa	25410072/25410043	25410048
Buraimi	25653037/25655226	25650346
Ibri	25691161/25690782	25689391
Bahla	25363613/25363859	25363543
Sumail	25350355/25351483	25350234
Fanja	25360444/25361190	25360011
Al-Hamra	25422008/25423121	25422766
Firq-Nizwa	25432149/25431140	25432008
Dhank	25676603	25676191
Al Araqi- Ibri	25694342/25694141	25694340

DHOFAR REGION BRANCHES		
Branch	**Telephone No**	**Fax No**
Salalah	23291601/23291346	23295695
Hafa	23291952/23291940	23290066
Sultan Qaboos Hospital (S.Q.H)	23211042/23211092	23211040
Mirbat	23268345/23268346	23268010
Al Saada	23226031/23225283	23225374
New Salalah	23298027/23298037 23219024	23297135

BATINAH REGION BRANCHES		
Branch	**Telephone No**	**Fax No**
Afi	26780972/26781562	26780967
Sohar	26840234/26843780	26845322
Suwaiq	26860518 /26862764	26860517
Sohar Indus.Area	26755875/26755878	26755889
Sohar- Al Hambar	26859106/26859104	26859109
Musn'a	26871118/26870182	26869635
Barka	26882368/26882007	26884332
Shinas	26747663/26748394	26747134
Khaboura	26805155/26802970	26805204
Rustaq	26878332/26878334 26875241/26875254	26875156
Saham	26855146/26855299 26857979	26854006
Bidaya	26709240/26709340	26709350
Liwa	26762075/26762073	26762021

SHARQIYA REGION BRANCHES		
Branch	**Telephone No**	**Fax No**
Mudhaibi	25578014/25578484	25578015
Sur	25540246/25545158	25542046
Masirah	25504026/25504516	25504494
Ja'alan	25550110/25550950	25550020
B.B.Ali	25554015/25554138	25553211
Ibra	25570144/25570015	25570155
Al-Kamil	25557524/25557770	25557020
Sinaw	25524223/25524212 25524101	25524227
Duqm	25427130/ 25427172 25427101	25427120

SADARA CENTERS		
Branch	**Telephone No**	**Fax No**
CBD - Head Office	24778151	24778500
Al Mawaleh	24348118	24511173
Al Khuwair	24487356	24487355
Mina Al- Fahal	24567223	24567033
Shatti Al Qurum	24607679	24693620
Sur	25545414	25540246
Nizwa	25431122	25432008
Sohar Industrial	26755886	26755889
Sohar	26859103	26859110
Salalah	23289951	23297135
Barka	26882007	26884332
Rustaq	26875241	26875156
Saham	26855146	26854006
Al Khoudh	24271367	24537952

UAE	
Branch	**Telephone No**
Abu Dhabi	009712-6974000
Dubai	009714-3049400

MUZN ISLAMIC BANKING		
Branch	**Telephone No**	
Sur	25540642/25540726	25540536
Sohar	26846692	26846698
Nizwa	25411241/25411681	25412737
Salalah	23289230/ 23291310	23290211
Ma'abella	24452387/24458304	24452351
Azaiba	24617013/014 24527272 24527198 24527262	24527247

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