IMPORTANT NOTICE

THIS PROSPECTUS MAY NOT BE DISTRIBUTED DIRECTLY OR INDIRECTLY IN OR INTO THE UNITED STATES.

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached prospectus (the "**Prospectus**") following this notice, whether received by e-mail, accessed from an internet page or otherwise received as a result of electronic communication and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Prospectus. In reading, accessing or making any other use of the Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Prospectus, including any modifications made to them from time to time, each time you receive any information from The National Bank of Oman SAOG (the "**Bank**") as a result of such access.

RESTRICTIONS: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS AND THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE PROSPECTUS IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM (THE "**UK**"). RATHER, THE COMMUNICATION OF THE PROSPECTUS AS A FINANCIAL PROMOTION IS ONLY BEING MADE TO THOSE PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "**ORDER**") OR HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER (EACH SUCH PERSON BEING REFERRED TO AS A "**RELEVANT PERSON**"). THIS COMMUNICATION IS BEING DIRECTED ONLY AT RELEVANT PERSONS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. NO PERSON OTHER THAN A RELEVANT PERSON SHOULD ACT ON OR RELY ON IT.

THE PROSPECTUS AND ANY OFFER OF THE SECURITIES DESCRIBED IN THE PROSPECTUS WHEN MADE ARE ONLY ADDRESSED TO AND DIRECTED AT PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA ("**EEA**") WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE DIRECTIVE 2003/71/EC (WHICH INCLUDES THE AMENDMENTS MADE BY DIRECTIVE 2010/73/EU) AND INCLUDING ANY RELEVANT IMPLEMENTING MEASURE IN A RELEVANT MEMBER STATE (AS DEFINED HEREIN) OF THE EEA (THE "**PROSPECTUS DIRECTIVE**") ("**QUALIFIED INVESTORS**").

FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES, SEE "*SUBSCRIPTION AND SALE*".

The Prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not Relevant Persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which the Prospectus relates is available only to (i) in the United Kingdom, Relevant Persons, and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN

PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the Prospectus or make an investment decision with respect to the Capital Securities described therein, (i) each prospective investor in respect of the Capital Securities being offered outside of the United States in an offshore transaction pursuant to Regulation S must be outside of the United States and (ii) each prospective investor in respect of the Capital Securities being offered in the United Kingdom must be a Relevant Person. By accepting this e-mail and accessing, reading or making any other use of the Prospectus, you shall be deemed to have represented to Merrill Lynch International, Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, National Bank of Abu Dhabi P.J.S.C., The National Bank of Oman SAOG and Standard Chartered Bank as joint lead managers (together, the "**Joint Lead Managers**") and First Gulf Bank P.J.S.C. as co-lead manager (together with the Joint Lead Managers, the "**Managers**") that (1) you have understood and agree to the terms set out herein; (2) the electronic mail (or e-mail) address to which, pursuant to your request, the attached Prospectus has been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, (3) in respect of the Capital Securities being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, (4) you consent to delivery of the Prospectus and any amendments or supplements thereto by electronic transmission; (5) you will not transmit the attached Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Managers; and (6) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Capital Securities.

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

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

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

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

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

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

Restrictions on marketing and sales to retail investors

The Capital Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as, or with features similar to those of, the Capital Securities to retail investors.

By purchasing, or making or accepting an offer to purchase, any Capital Securities from the Bank and/or the Managers, each prospective investor represents, warrants, agrees with and undertakes to the Bank and each of the Managers that:

(a) it is not a retail client in the EEA (as defined in the United Kingdom Financial Conduct Authority's Handbook);

(b) it will not sell or offer the Capital Securities (or any beneficial interest therein) to retail clients in the EEA or do anything (including the distribution of the Prospectus) that would or might result in the buying of the Capital Securities or the holding of a beneficial interest in the Capital Securities by a retail client in the EEA, other than in relation to any sale or offer to sell Capital Securities (or such beneficial interests therein) to a retail client in any EEA member state, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Capital Securities (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Capital Securities (or such beneficial interests therein) and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(c) it has complied and will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Capital Securities (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Capital Securities by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Capital Securities (or any beneficial interests therein) from the Bank and/or the Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

THE NATIONAL BANK OF OMAN SAOG

(incorporated with limited liability in the Sultanate of Oman)

U.S.$300,000,000 Perpetual Tier 1 Capital Securities

The U.S.$300,000,000 Perpetual Tier 1 Capital Securities (the "**Capital Securities**") shall be issued by The National Bank of Oman SAOG (the "**Issuer**", "**NBO**" or the "**Bank**") on 18 November 2015 (the "**Issue Date**").

If a Non-Viability Event occurs, a Write-down shall occur on the relevant Non-Viability Event Write-down Date (each as defined in the Conditions), as more particularly described in Condition 10 (*Write-down at the Point of Non-Viability*). In such circumstances, the rights of the holders of the Capital Securities to payment of any amounts under or in respect of the Capital Securities shall, as the case may be, be cancelled or written-down *pro rata* among the holders of the Capital Securities and in each case, not restored under any circumstances. See "*Risk Factors – The rights of the holders of the Capital Securities to receive repayment of the principal amount of the Capital Securities and the rights of the holders of the Capital Securities for any further interest may be written-down permanently upon the occurrence of a Non-Viability Event*".

Interest Payment Amounts (as defined herein) shall be payable subject to and in accordance with "*Terms and Conditions of the Capital Securities*" (the "**Conditions**") on the outstanding principal amount of the Capital Securities from (and including) the Issue Date to (but excluding) 18 November 2020 (the "**First Call Date**") at a rate of 7.875 per cent. per annum. If the Capital Securities are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Interest Payment Amounts shall be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant 5 Year Reset Rate (as defined in the Conditions) plus a margin of 6.193 per cent. per annum. Interest Payment Amounts will (subject to the occurrence of a Non-Payment Event (as defined in, and as more particularly provided in, Condition 6.1 (*Non-Payment Event*)) be payable semi-annually in arrear on 18 November and 18 May in each year, commencing on 18 May 2016 (each, an "**Interest Payment Date**"). Payments on the Capital Securities will be made without deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (as defined herein) (the "**Taxes**") to the extent described under Condition 12 (*Taxation*).

The Bank may elect, and in certain circumstances shall be required, not to pay interest falling due on the Capital Securities. Any Interest Payment Amounts not paid as aforesaid will not accumulate and the holder of the Capital Security shall not have any claim in respect thereof.

The Capital Securities are undated and have no final maturity. Unless the Capital Securities have previously been redeemed or purchased and cancelled as provided in the Conditions, the Capital Securities may, at the option of the Bank, subject to the prior approval of the Central Bank of Oman (the "**Central Bank**"), be redeemed at par (in whole but not in part) on the First Call Date or any Interest Payment Date thereafter. In addition, the Capital Securities may, in the event of a Tax Event or Capital Event (each as defined in the Conditions), be redeemed (in whole but not in part) at other times, subject to the prior approval of the Central Bank.

An investment in the Capital Securities involves certain risks. See "*Risk Factors*".

The Capital Securities may only be offered, sold or transferred in registered form in minimum principal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Delivery of the Capital Securities in book-entry form will be made on the Issue Date. The Capital Securities will be represented by interests in a global certificate in registered form (the "**Global Certificate**") deposited on or about the Issue Date with, and registered in the name of a nominee for, a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Individual Certificates (as defined in "*Form of the Capital Securities*") evidencing holdings of interests in the Capital Securities will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

This Prospectus has been approved by the Central Bank of Ireland (the "**CBI**") as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The CBI only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Capital Securities to be admitted to the official list (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). Such approval relates only to the Capital Securities which are to be admitted to trading on the Main Securities Market or any other regulated markets for the purposes of Directive 2004/39/EC (each such regulated market being a "**MiFID Regulated Market**") or which are to be offered to the public in any member state of the European Economic Area (each a "**Member State**").

References in this Prospectus to Capital Securities being "**listed**" (and all related references) shall mean that the Capital Securities have been admitted to listing on the Official List and admitted to trading on the Main Securities Market which is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

The Bank has been assigned a long term credit rating of A3 by Moody's Investors Service Cyprus Ltd ("**Moody's**"), which has been endorsed by Moody's in accordance with Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). The Capital Securities will not be rated by any rating organisation.

Moody's is established in the European Union and is registered under the CRA Regulation. Moody's appears on the latest update of the list of registered credit rating agencies on the European Securities and Markets Authority ("**ESMA**") website at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on pages ii and iii of this Prospectus for information regarding certain restrictions and marketing sales to retail investors.

The Capital Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Capital Securities may be offered or sold solely to persons who are outside the United States in reliance on Regulation S. Each purchaser of the Capital Securities is hereby notified that the offer and sale of Capital Securities to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Global Coordinators

National Bank of Abu Dhabi PJSC | **Standard Chartered Bank**

Joint Lead Managers

BofA Merrill Lynch | **Citigroup** | **Crédit Agricole CIB**

National Bank of Abu Dhabi PJSC | **The National Bank of Oman SAOG** | **Standard Chartered Bank**

Co-Lead Manager

First Gulf Bank

The date of this Prospectus is 16 November 2015

IMPORTANT NOTICE

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC as amended (which includes the amendment made by Directive 2010/73/EU) (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Bank and the Capital Securities which, according to the particular nature of the Bank is necessary to enable investors to make an informed assessment of the assets, liabilities, financial position, profit, loss and prospects of the Bank.

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

The Managers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Bank in connection with the issuance of the Capital Securities. No Joint Lead Manager accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Bank in connection with the issuance of the Capital Securities.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the issuance of the Capital Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank or any of the Managers.

Neither this Prospectus nor any other information supplied in connection with the issuance of the Capital Securities: (i) is intended to provide the basis of any credit or other evaluation; or (ii) should be considered as a recommendation by the Bank or any of the Managers that any recipient of this Prospectus or any other information supplied in connection with the issuance of the Capital Securities should purchase any Capital Securities. Each investor contemplating purchasing any Capital Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. Neither this Prospectus nor any other information supplied in connection with the issuance of the Capital Securities constitutes an offer or invitation by or on behalf of the Bank or any of the Managers to any person to subscribe for or to purchase any Capital Securities.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Capital Securities shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issuance of the Capital Securities is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of any of the Bank during the life of the issuance or to advise any investor in the Capital Securities of any information coming to their attention. Investors should review, *inter alia*, the information contained in this Prospectus when deciding whether or not to purchase any Capital Securities.

The Capital Securities have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Capital Securities may not be offered, sold or delivered within the United States (see "*Subscription and Sale*").

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Capital Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Capital Securities may be restricted by law in certain jurisdictions. The Bank and the Managers do not represent that this Prospectus may be lawfully distributed, or that any Capital Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank or the Managers which is intended to permit a public offering of any Capital Securities or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Capital Securities may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Capital Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Capital Securities. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Capital Securities in the United States, the United Kingdom, Hong Kong, Japan, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar and the Sultanate of Oman (see "*Subscription and Sale*").

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

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Capital Securities are legal investments for it; (b) the Capital Securities can be used as collateral for various types of borrowing; and (c) other restrictions apply to its purchase or pledge of any Capital Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Capital Securities under any applicable risk based capital or similar rules.

Restrictions on marketing and sales to retail investors

The Capital Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as, or with features similar to those of, the Capital Securities to retail investors.

By purchasing, or making or accepting an offer to purchase, any Capital Securities from the Bank and/or the Managers, each prospective investor represents, warrants, agrees with and undertakes to the Bank and each of the Managers that:

(a) it is not a retail client in the EEA (as defined in the United Kingdom Financial Conduct Authority's Handbook);

(b) it will not sell or offer the Capital Securities (or any beneficial interest therein) to retail clients in the EEA or do anything (including the distribution of the Prospectus) that would or might result in the buying of the Capital Securities or the holding of a beneficial interest in the Capital Securities by a retail client in the EEA, other than in relation to any sale or offer to sell Capital Securities (or such beneficial interests therein) to a retail client in any EEA member state, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Capital Securities (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Capital Securities (or such beneficial interests therein) and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(c) it has complied and will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Capital Securities (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Capital Securities by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Capital Securities (or any beneficial interests therein) from the Bank and/or the Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Prospectus may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the Bank believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

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

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

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

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

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

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

CERTAIN PUBLICLY AVAILABLE INFORMATION

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

PRESENTATION OF FINANCIAL INFORMATION

This Prospectus contains the audited results of operations of the Bank as at and for the financial years ended 31 December 2014 and 31 December 2013 and the unaudited results of operations of the Bank as at and for the six month periods ended 30 June 2015 and 30 June 2014 and as at and for the nine month periods ended 30 September 2015 and 30 September 2014. The financial information presented in this Prospectus as at 30 June 2015 and 30 June 2014 is derived from the Bank's unaudited interim condensed financial statements as at and for the six month period ended 30 June 2015 (the "**June 2015 Financial Statements**") and the financial information presented in this Prospectus as at 30 September 2015 and 30 September 2014 is derived from the Bank's unaudited interim condensed financial statements as at and for the nine month period ended 30 September 2015 (the "**September 2015 Financial Statements**" and together with the June 2015 Financial Statements, the "**Interim Financial Statements**"). The financial information presented in this Prospectus as at and for the financial years ended 31 December 2014 and 31

December 2013 is derived from the Bank's audited financial statements as at and for the financial years ended 31 December 2014 and 31 December 2013 (together, the "**Annual Financial Statements**", together with the Interim Financial Statements, the "**Financial Statements**"). The financial information presented in this Prospectus should be read in conjunction with the Financial Statements and the related notes thereto. Unless otherwise specified, the financial information presented in this Prospectus has been extracted without material adjustment from the Financial Statements and the related notes thereto, as included elsewhere in this Prospectus.

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

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

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

PRESENTATION OF OTHER INFORMATION

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

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

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

Capitalised terms which are used but not defined in any section of this Prospectus will have the meaning attributed thereto in the Conditions or any other section of this Prospectus.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Information contained in any website referred to herein does not form part of this Prospectus.

PRESENTATION OF OMAN STATISTICAL INFORMATION

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

STABILISATION

In connection with the issue of the Capital Securities, Standard Chartered Bank (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager) may over-allot Capital Securities or effect transactions with a view to supporting the market price of the Capital Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the Capital Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of thirty (30) days after the issue date of the Capital Securities and sixty (60) days after the date of the allotment of the Capital Securities. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the Capital Securities should conduct their own due diligence on the accuracy of the information relating to the Capital Securities. If a prospective purchaser does not understand the contents of this Prospectus they should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

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

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

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

NOTICE TO RESIDENTS OF THE STATE OF QATAR

This Prospectus does not and is not intended to constitute an offer, sale or delivery of the Capital Securities under the laws of the State of Qatar and has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Central Bank or the Qatar Exchange. The Capital Securities are not and will not be traded on the Qatar Exchange.

NOTICE TO RESIDENTS OF THE SULTANATE OF OMAN

The information contained in this Prospectus neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute a prospectus or an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations of the Capital Market Law (CMA Decision 1/2009).

Additionally, this Prospectus is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

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

CONTENTS

Page

RISK FACTORS 1
OVERVIEW OF THE ISSUANCE 20
FORM OF THE CAPITAL SECURITIES 25
TERMS AND CONDITIONS OF THE CAPITAL SECURITIES 28
USE OF PROCEEDS 49
SELECTED FINANCIAL INFORMATION 50
FINANCIAL REVIEW 57
DESCRIPTION OF THE NATIONAL BANK OF OMAN SAOG 78
OVERVIEW OF THE SULTANATE OF OMAN 111
THE SULTANATE OF OMAN BANKING SYSTEM AND PRUDENTIAL REGULATIONS 113
TAXATION 120
SUBSCRIPTION AND SALE 123
GENERAL INFORMATION 127
INDEX TO FINANCIAL STATEMENTS 129

RISK FACTORS

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

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

Words and expressions defined in "Form of the Capital Securities" and "Terms and Conditions of the Capital Securities" shall have the same meanings in this section.

Risks Relating to the Bank

Commercial and market risks

Credit risk

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

The Bank establishes an allowance for identified and collective impairment losses as prescribed by International Financial Reporting Standards ("**IFRS**") and Central Bank guidelines that represent its estimate of incurred and collective losses in its loan portfolio. As at 30 June 2015, the Bank had impaired loans amounting to RO 59.6 million and carried total impairment allowances of RO 83.4 million to cover potential identified and unidentified loan losses (compared with impaired loans amounting to RO 58.5 million and impairment allowances of RO 78.9 million as at 31 December 2014). In accordance with IFRS, the Bank is required to reflect the impairment calculated as a charge to the income statement. However, the actual loan losses could be materially different from the loan impairment allowances. The Bank's management believes that the levels of impairment allowances for impaired loans and loans under stress as at 30 June 2015 are sufficient to cover the Bank's estimated loan losses as at that date. As at 30 June 2015, the total (identified and collective) provisions (net of reserve interest) covered 148.7 per cent. of the Bank's impaired assets (compared to 142 per cent. as at 31 December 2014). Collateral held as security against impaired loans primarily relates to commercial and residential property and pledged deposits. In addition, the Central Bank may, at any time, amend or supplement its guidelines and require additional provisions to be made in respect to the Bank's loan portfolio if it determines (acting in its role as the prudential regulator for the Omani banking sector) that it is appropriate to do so. If any additional provisions were required to be made, then depending on the exact quantum and timing, such provisions could have an adverse impact on the Bank's financial performance.

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

Whilst the Bank's non-performing loan levels have shown stability during 2013, 2014 and the first half of 2015, with a non-performing loan ratio of 1.9 per cent. as at 31 December 2013, 2.0 per cent. as at 31 December 2014 and 1.9 per cent. as at 30 June 2015, the Bank may suffer a deterioration in its portfolio, principally manifested in the form of increasing non-performing loan levels, if it is unable to adequately control credit risk.

Legal and operational risk

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

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

Liquidity risk

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

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

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

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

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

Dependence on short-term funding and liquidity

As with most banks, a substantial portion of the Bank's funding requirements is met through low-cost short-term funding sources, primarily in the form of customer deposits. As of 30 June 2015, approximately 60 per cent. of the Bank's low-cost deposits and unrestricted investment accounts had remaining maturities of one year or less or were payable on demand.

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

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

Deposit and borrower concentrations

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

A substantial portion of the Bank's funding requirements are met through short term and long term deposits by Government-related entities. As at 30 June 2015, Government-related entities and pension funds accounted for approximately 40 per cent. of the Bank's customers' deposits and unrestricted investment accounts. Furthermore, the Bank's twenty largest depositors represented approximately 43 per cent. of the Bank's total customers' deposits and unrestricted investment accounts as at 30 June 2015.

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

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

As at 30 June 2015, the Bank's funded exposure to its ten largest corporate borrowers accounted for 13.5 per cent. of its gross loans and advances. A significant default by one or more of these borrowers could have an adverse effect on the Bank's business, financial condition, results of operations or prospects. Retail customer portfolios will remain strongly linked to the economic conditions in Oman, with changes in employment levels and interest rates among the factors that may impact retail credit exposures.

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

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

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

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

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

The Bank may not be able to manage its expansion strategy effectively

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

- finance investments;
- integrate newly established entities in line with its expansion strategy;
- manage efficiently the operations and employees of expanding businesses;
- hire and retain enough qualified personnel to staff new or expanded operations; and
- maintain its existing customer base.

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

Off-balance sheet credit-related commitments

As part of the Bank's lending and trade-related activities, the Bank provide guarantees, letters of credit and acceptances, which are commitments to make payments on behalf of customers contingent upon the failure of the customer to satisfy its obligations supported by the commitment. Although these commitments are contingent and therefore off-balance sheet, they nonetheless subject the Bank to credit risk. Credit-related commitments are subject to the same credit approval and compliance procedures as loans and advances, and commitments to extend credit are contingent on customers maintaining specific credit standards. As at 30 June 2015, the Bank had RO 637 million of credit-related off-balance sheet commitments outstanding, constituting 19.6 per cent. of its total assets. Although the Bank anticipates that only a portion of its obligations in respect of these commitments will be triggered, it may become obligated to make payments in respect of a greater portion of such commitments, which could have a material adverse effect on its business, results of operations, financial condition and ability to make payments in respect of the Capital Securities.

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

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

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

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

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

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

As at 30 June 2015, the Bank had a loan portfolio amounting to RO 2,517 million most of which was unsecured, with only 20 per cent. secured by residential property and commercial real estate, vehicles and investment securities.

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

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

The Bank is exposed to fluctuations in foreign exchange rates

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

Majority of business in Oman

The majority of the Bank's operations and assets are located in Oman and accordingly its business, results of operations and financial condition may be affected by the financial, political and general economic conditions prevailing from time to time in Oman and/or the Middle East generally (see " - *Economic, political and related considerations*").

The Bank may become subject to increasingly intense competition

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

Impact of competitors' consolidations or mergers

The Oman banking industry is currently dominated by three banks which account for approximately two-thirds of the total credit in the banking system as at 30 June 2015 (Source: Central Bank Monthly Report June 2015). As at 30 June 2015, the Bank was the third largest bank in Oman by total assets, representing approximately 11.3 per cent. of total assets, 12.8 per cent. of total loans and 12.3 per cent of total deposits (source: Central Bank's Consolidated Balance Sheet June 2015). Given the overlap in services offered and the customer base in Oman, it is possible that one or more of the Bank's competitors may choose to merge or consolidate their operations. The benefits which may result from such a merger or consolidation may enable the Bank's competitors to significantly enhance their financial resources, access to funding and product offerings. Bank Dhofar SAOG and Bank Sohar SAOG announced in July 2015 that they intended to proceed with due diligence in respect of a potential merger of the two banks.

The Bank's future growth, revenue, cash flows and ability to make payments in respect of Capital Securities could therefore be adversely affected if any of its competitors were to merge or consolidate.

The Bank depends on complex information technology systems

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

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

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

Principal shareholder

The Bank's principal shareholder is the Commercial Bank of Qatar (Q.S.C.) ("**Commercial Bank**" or "**CB**"), holding approximately 34.9 per cent. of the Bank's share capital as at 30 June 2015. By virtue of such shareholding, CB has the ability to influence the Bank's business significantly through its ability to control and/or block actions that require shareholder approval. If circumstances were to arise where the interests of CB conflict with the interests of holders of Capital Securities, holders of Capital Securities could be disadvantaged by any such conflict.

Dependence on key personnel

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

Employee misconduct or errors could harm the Bank

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

The Bank is a highly regulated entity

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

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

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

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

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

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

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

A downgrade in the Bank's credit ratings

The Bank's credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining the Bank's cost of borrowing funds. The interest rates of the Bank's borrowings are partly dependent on its credit ratings. As at the date of this Prospectus, the Bank had been assigned a Long-term Issuer Default Rating of 'BBB' (stable outlook), a Short-term Issuer Default Rating of 'F2', a Viability Rating of 'bbb-', a Support Rating of '2' and a Support Rating Floor of 'BBB' by Fitch Ratings Limited, and a Bank Deposits rating of 'A3', a Baseline Credit Assessment of 'ba1', an Adjusted Baseline Credit Assessment of 'baa3' and a Senior Unsecured Rating of 'A3' with a 'negative' outlook by Moody's Investors Service Cyprus Ltd. A downgrade of the Bank's credit ratings, or being placed on a negative ratings watch, may increase its cost of borrowing and have a material adverse effect on its business, results of operations and financial condition.

A downgrade of the Bank's credit ratings (or announcement of a negative ratings watch) may also limit its ability to raise capital. Moreover, actual or anticipated changes in the Bank's credit ratings or the credit ratings of the Capital Securities (if applicable) generally may affect the market value of the Capital Securities. In addition, ratings assigned to the Capital Securities (if applicable) may not reflect the potential impact of all risks related to the transaction, the market or any additional factors discussed in this Prospectus and other factors may affect the value of the Capital Securities.

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

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

Risks Relating to Investments in Oman and the GCC

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

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

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

- political and economic instability and geopolitical regional conflicts;
- overall market liquidity;
- government interventions and protectionism;
- potential adverse changes in laws and regulatory practices, including legal structures and tax laws;
- difficulties in staffing and managing operations;
- legal systems which could make it difficult for the Bank to enforce its intellectual property and contractual rights;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles;
- logistical and communications challenges; and
- changes in labour conditions.

Economic and political considerations

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

The Bank's business, results of operations and financial condition depend on the condition of the economy in Oman. Customers' ability to pay their obligations on time is significantly affected by gross domestic product ("**GDP**") growth, which in turn is substantially dependent on the success of key sectors of the Omani economy. As oil and gas revenues account for approximately 37.8 per cent. of Omani GDP in the year ended 31 December 2014 (Source: Central Bank of Oman Annual Report for 2014) the Omani economy is particularly sensitive to the price of oil and gas on the world markets, and a decline in the prices of oil and gas could substantially slow or disrupt the Omani economy. Oil prices fluctuated considerably from the lows of around U.S.$40 per barrel witnessed in February 2009, to above U.S.$108 per barrel in December 2012, only to drop sharply again in the fourth quarter of 2014. The fluctuations have continued since then, and in July 2015, the average price of the Organisation of Petroleum Exporting Countries ("**OPEC**") Reference Basket averaged U.S.$54.19 per barrel. Oil prices remain volatile and have the potential to adversely affect the economy of the GCC countries in the future which could in turn adversely affect the economy of Oman. Any significant drop in international oil prices may also have a negative impact on the Government's spending, which may consequently affect the Bank's financial condition indirectly through its impact on the oil and gas, banking, trade, construction, real estate and tourism sectors in particular. The Bank expects that lower oil prices will contribute to an increase in the Government's fiscal deficit. This may weaken the Government's ability to support the Omani banking system which, in turn, may have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of the Capital Securities. Additionally, military conflicts, international terrorist activity, market forces affecting the supply of and demand for oil and gas, such as the lifting of Iranian oil sanctions or a significant downturn in the Chinese economy, may also significantly impact oil and gas prices.

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

The Bank's results of operations and financial condition also depend on the conditions of the economy in UAE where the Bank has two branches. As at the date of this Prospectus, the Bank also has operations in Egypt, although these operations are insignificant, accounting for 0.6 per cent. of the Bank's total assets as at 30 June 2015. As at 30 June 2015, the international assets constitute 6.8 per cent. of the Bank's total assets.

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

The Bank's business may also be adversely affected if there are geo-political events in or affecting Oman that prevent the Bank from delivering its services. Since early 2011 there has been political unrest in a range of countries in the Middle East and North Africa ("**MENA**") region, including Algeria, Bahrain, Egypt, Iraq, Israel/Palestine, Libya, Saudi Arabia, Syria, Tunisia and Yemen. Oman also experienced unrest although to a lesser extent. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and civil war and has given rise to increased political uncertainty across the region and, in certain cases, regime changes. The Bank does not have operations in any of these countries except for Oman, UAE and Egypt (see "*Description of The National Bank of Oman SAOG - Branch Network and Product Distribution*"). It is not possible to predict the occurrence of events or circumstances such as, or similar to, a war or the impact of such occurrences and no assurance can be given that the Bank would be able to sustain its current profit levels if such events or circumstances were to occur. A general downturn or sustained deterioration in the economy of Oman, instability in certain sectors of Oman or regional economy, or major political upheaval therein could have a material adverse effect on the Bank's business, results of operations, financial condition and ability to make payments in respect of the Capital Securities.

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

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

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

Enforcement under Omani Law

Choice of Law

If any proceedings were brought in Oman in relation to the Capital Securities (whether in connection with the enforcement of an English judgment or otherwise), pursuant to the Civil Transactions Law of Oman (SD 29/3013) (the "**Civil Code**"), the Omani court would recognise and give effect to the choice of English law as the governing law of the Capital Securities (save for Condition 4.2 (*Subordination of the Capital Securities*) of the terms and conditions of the Capital Securities relating to subordination, which is governed by Omani law), unless any provision of English law was considered to be contrary to a mandatory provision of law, public order or morality of Oman or Islamic Shari'a principles.

Enforcing foreign judgments in Oman

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

Although Omani law provides for the enforcement of foreign judgments in Oman subject to certain requirements being met, the Bank is not aware of a foreign judgment (other than one subject to a GCC reciprocity treaty) ever having been enforced in Oman. Accordingly, it may be the case that an English judgment against the Bank could not be enforced before the courts of Oman without a re-examination of the merits and that such a judgment would be of evidential value only in such proceedings.

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

No binding precedent

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

Foreign arbitral awards

Foreign arbitration awards may be enforced in Oman pursuant to: (a) treaty obligations; (b) the Law of Civil and Commercial Procedures (SD 29/2002, amended); or (c) the Law of Arbitration (SD 47/1997, as amended) (the "**Law of Arbitration**"). Oman has acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (SD 36/1998) (the "**Convention**"), and ratified the Riyadh Arab Convention of 1983 (SD 34/1999). In accordance with the Law of Civil and Commercial Procedures, the Oman Courts possess an inherent jurisdiction to enforce foreign awards. Arbitral awards are assimilated to judgments, and their enforceability in Oman depends on the court being satisfied that the following conditions are satisfied (reading "judgment" as "award"): (a) that the foreign judgment was given by a competent arbitration in accordance with the law of the country the judgment was given in; (b) that the parties to the action in which the foreign judgment was rendered were summoned to appear and were validly represented; and (c) that the judgment or order contained nothing involving a violation of any law in force in Oman, and that it does not conflict with a judgment or order previously rendered by a court in Oman, and includes nothing which offends morals or public order. The Law of Civil and Commercial Procedures also requires that the matter in which the award is rendered is competent to be arbitrated under Oman law and that the award is enforceable in the country in which it is issued. Enforcement of foreign arbitral awards in Oman is also directly available under the provisions of the Law of Arbitration, where the award in question has been rendered: (a) in Oman; or (b) in an international commercial arbitration (for example, an arbitration under London Court of International Arbitration ("**LCIA**") or International Chamber of Commerce ("**ICC**") rules) in which parties have specified that the Law of Arbitration shall apply.

However, although Oman is a party to the Convention, the Bank is aware of only one case which has come before the courts of Oman where a claimant has sought to enforce a foreign arbitral award issued by a contracting state. The Bank has no reason to believe that the courts of Oman would not enforce such an arbitral award (without the need to re-examine or re-litigate), subject only to no valid argument being put forward that the enforcement of that arbitral award should be refused on one or more of the grounds set out in Article V of the Convention or such matter is against public order or morality in Oman. It should be noted, however, that there is no doctrine of binding precedent under Omani law, although decisions of the Supreme Court of Oman should be persuasive.

Regulation of Interest Rates under Omani Law

The Central Bank and the Omani Ministry of Commerce and Industry (the "**MOCI**") each have the power to regulate interest rates in Oman. Ministerial Decision 97/2015 (Determining Return in Exchange of Procurement of Loan or Commercial Debt), which is issued pursuant to Article 80 of the Oman Commercial Law (Royal Decree 55/99, as amended) (the "**Ministerial Decision**"), specifies that the maximum "return" that a creditor has the right to receive on a loan or commercial debt is 6.5 per cent. The Ministerial Decision does not apply to transactions conducted by commercial banks regulated by the Central Bank. Interest rates (other than those for consumer loans) are currently unregulated under the Central Bank regulatory regime. It is not clear however, whether the issuance of Capital Securities by the Bank would constitute a transaction conducted by commercial banking regulated by the Central Bank, and as such whether it would fall to be regulated by Ministerial Decision 97/2015 of the MOCI referred to above.

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

Factors which are material for the purpose of assessing the risks associated with the Capital Securities

The Capital Securities are subordinated and unsecured obligations of the Bank

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

Further, the payment obligations of the Bank under the Conditions (which include obligations relating to the repayment of principal amounts and/or the payment of interest amounts) are neither secured nor guaranteed by any entity and are not subject to any other arrangement that legally or economically enhances the seniority of the claims of holders of the Capital Securities vis-à-vis depositors, general creditors and holders of other subordinated debt or sukuk of the Bank, to which such payment obligations rank, or are expressed to rank, junior.

A holder of the Capital Securities may exercise its enforcement rights in relation to the Capital Securities only in the manner provided in Condition 11 (*Events of Default*). If the Bank were wound up, liquidated or dissolved, the Bank's liquidator would apply the assets of the Bank to satisfy all claims of creditors in respect of Senior Obligations in priority to the claims of the holders of the Capital Securities and *pari passu* with creditors whose claims are in respect of *Pari Passu* Obligations. In such case, there may not be sufficient assets to satisfy the claims of the holders of the Capital Securities in full.

No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital (as defined in the Conditions) by the Bank as set out in Condition 4.3 (*Other Issues*) which (subject to the limited exceptions set out therein) limits the circumstances in which Tier 1 Capital of the Bank can be issued that ranks senior to the Capital Securities, there is no restriction on the Bank incurring additional indebtedness or on issuing securities or creating any guarantee or contractual support arrangement which would rank *pari passu* with, or senior to, the Capital Securities. The issue of or the creation of any such Senior Obligations (as defined in the Conditions) may reduce the amount recoverable by holders of the Capital Securities on a winding-up of the Bank. Accordingly, in the winding-up of the Bank and after payment of the claims of creditors in respect of Senior Obligations, there may not be a sufficient amount to satisfy the amounts owing to the holders of the Capital Securities. See also "*—The Capital Securities are subordinated and unsecured obligations of the Bank*".

Payments of Interest Payment Amounts are conditional upon certain events and may be cancelled and are noncumulative

No Interest Payment Amounts are payable if either a Non-Payment Event (as defined below) or a Non-Payment Election (as defined in the Conditions) occurs.

Pursuant to Condition 6.2 (*Non-Payment Election*), in the event of a Non-Payment Election, the Bank may not make payment of an Interest Payment Amount to holders of the Capital Securities on the corresponding Interest Payment Date.

In each of the following events (each, a "**Non-Payment Event**"), Interest Payment Amounts shall not be paid on any Interest Payment Date:

(a) the Interest Payment Amounts payable, when aggregated with any distributions or amounts payable by the Bank on any *Pari Passu* Obligations (as defined in the Conditions), having the same dates in respect of payment of such distributions or amounts as, or otherwise due and payable on, the dates for payment of Interest Payment Amounts, exceed, on the relevant date for payment of such Interest Payment Amounts, the Bank's Distributable Items (as defined in the Conditions);

(b) the Bank is, on that Interest Payment Date, in breach of the Applicable Regulatory Capital Requirements (as defined in the Conditions) (including any payment restrictions due to a breach of capital buffers imposed on the Bank by the Regulator) or payment of the relevant Interest Payment Amount would cause it to be in breach thereof; or

(c) the Regulator requires that Interest Payment Amount due on that Interest Payment Date shall not be paid.

In the event of a Non-Payment Event or a Non-Payment Election, certain restrictions on declaration of dividends and payment of certain amounts otherwise payable under, or redemption of, certain securities by the Bank will take effect in accordance with Condition 6.4 (*Dividend and Redemption Restrictions*). However, the holders of the Capital Securities shall have no claim in respect of any Interest Payment Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and the consequential non-payment of any Interest Payment Amount in such a circumstance shall not constitute an Event of Default (as defined in the Conditions). The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid amount.

In such case, the holders of the Capital Securities will not receive Interest Payment Amounts on their investment in the Capital Securities and shall not have any claim in respect thereof.

Perpetual Securities

The Capital Securities are perpetual securities which have no fixed or final redemption date. Holders of the Capital Securities have no ability to require the Bank to redeem their Capital Securities unless an Event of Default (as defined in the Conditions) occurs. The Bank has the option to redeem the Capital Securities in certain circumstances as more particularly described in Condition 9 (*Redemption and Variation*), although there is no assurance that it will do so.

This means that the holders of the Capital Securities have no ability to cash in their investment, except:

(a) if the Bank exercises its rights to redeem the Capital Securities in accordance with Condition 9 (*Redemption and Variation*);

(b) upon the occurrence of an Event of Default (subject to Condition 4.2 (*Subordination of the Capital Securities*)); or

(c) by selling their Capital Securities.

There can be no assurance that holders of the Capital Securities will be able to reinvest the amount received upon redemption or sale at a rate that will provide the same rate of return as their investment in the Capital Securities. See also " - *Absence of secondary market/limited liquidity*" for a description of the risks relating to the ability of holders of the Capital Securities to sell the Capital Securities in the secondary market.

Basel regulatory framework as implemented in Oman may have an effect on the Capital Securities

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

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

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

On 17 November 2013, the Central Bank published its guidelines on regulatory capital under Basel III through Central Bank Circular BM1114 (the "**Guidelines**"). The Central Bank has provided the Bank with a letter of no objection to the issuance of the Capital Securities as Tier 1 Capital in accordance with the Guidelines. To the extent that the relevant statutory and/or regulatory authorities in Oman introduce any amendments to the Guidelines, or introduce a statutory resolution regime to implement loss absorbency upon the occurrence of a Basel III Non-Viability Event, either through the writing-off of the principal amount of the instruments or the conversion of such instruments into ordinary shares, it is possible that such amendments or statutory regime, if applicable to the Capital Securities, could: (i) supersede the write-down provisions contained in Condition 10 (*Write-down at the Point of Non-Viability*); or (ii) give rise to a Capital Event as a consequence of which the Capital Securities may be redeemed or varied pursuant to Condition 9.1(d) (*Redemption or Variation for Capital Event*)). The introduction (or anticipation) of any such amendments or new statutory resolution regime, could, therefore materially adversely affect the value of the Capital Securities. See "*—Variation upon the occurrence of a Capital Event or a Tax Event*" and "*—The Capital Securities may be subject to early redemption; redemptions are conditional*" below.

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

If a Non-Viability Event occurs at any time, the Capital Securities will be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) and all rights of any holder of Capital Securities for payment of any amounts under or in respect of the Capital Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) shall, as the case may be, be cancelled or written-down *pro rata* among the holders of the Capital Securities and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares of the Bank should absorb losses prior to the Capital Securities, a Write-down in full or in part of the Capital Securities could occur prior to the ordinary shares of the Bank absorbing losses in full or at all. A Write-down shall not constitute an Event of Default. As a result, holders of the Capital Securities may lose the entire amount or, as the case may be, a material amount of their investment in the Capital Securities. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 10 (*Write-down at the Point of Non-Viability*) has not been tested in Oman and therefore some degree of uncertainty may exist in its application.

The circumstances triggering a Write-down are unpredictable

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

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

Variation upon the occurrence of a Capital Event or a Tax Event

Upon the occurrence and continuation of a Capital Event or a Tax Event, the Bank may, subject as provided in Condition 9.1(c) (*Redemption or Variation due to Taxation*) or 9.1(d) (*Redemption or Variation for Capital Event*) (as the case may be) and without the need for any consent or approval of the holders of the Capital Securities, either redeem or vary the terms of the Capital Securities such that they become or remain (as appropriate) Qualifying Tier 1 Instruments (as defined in the Conditions).

A Capital Event will arise if the Bank is notified by the Regulator to the effect that the outstanding principal amount (or the amount that qualifies as regulatory capital, if some amount of the Capital Securities are held by the Bank or whose purchase is funded by the Bank) of the Capital Securities will cease or has ceased to qualify, in full or in part, for inclusion in the consolidated Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital).

A Tax Event will arise if the Bank would become required to pay Additional Amounts, whether or not a Non-Payment Event has occurred, as a result of any change in, or amendment to or interpretation of, the laws, published practice or regulations of Oman, or any change in the application or interpretation of such laws or regulations, which change or amendment becomes effective on or after 16 November 2015 (and such requirement cannot be avoided by the Bank taking reasonable measures available to it).

The tax and stamp duty consequences of holding the Capital Securities following variation as contemplated in Condition 9.1 (*Redemption and Variation*) could be different for certain holders of the

Capital Securities from the tax and stamp duty consequences for them of holding the Capital Securities prior to such variation and the Bank shall not be responsible to any holder of the Capital Securities for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the holders of the Capital Securities (as reasonably determined by the Bank), no assurance can be given as to whether any of these changes will negatively affect any particular holder of the Capital Securities.

The Capital Securities may be subject to early redemption; redemptions are conditional

Upon the occurrence of a Tax Event or a Capital Event, the Bank may, at any time, having given not less than 30 nor more than 60 days' prior notice to the holders of the Capital Securities in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Capital Securities together with any Outstanding Payments (as more particularly described in Condition 9.1(c) (*Redemption or Variation due to Taxation*) in relation to a Tax Event, and Condition 9.1(d) (*Redemption or Variation for Capital Event*) in relation to a Capital Event).

Any redemption of the Capital Securities is subject to the requirements in Condition 9.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), including obtaining the prior written consent of the Regulator. There can be no guarantee that the consent of the Regulator will be received on time or at all.

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

Modification

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

The Conditions also provide that the Fiscal Agent and the Bank may agree, without the consent of holders of the Capital Securities, to any modification of any Capital Securities, in the circumstances specified in Condition 17 (*Meetings of Holders of the Capital Securities and Modification*).

The Conditions also provide that the Bank may, without the consent or approval of the holders of the Capital Securities, vary the Conditions so that they remain or, as appropriate, become, Qualifying Tier 1 Instruments, as provided in Condition 9.1(c) (*Redemption or Variation due to Taxation*) and Condition 9.1(d) (*Redemption or Variation for Capital Event*). See "*—Variation upon the occurrence of a Capital Event or a Tax Event*" above.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the "**Savings Directive**") on the taxation of savings income, member states of the EU ("**EU Member States**") are required to provide to the tax authorities of another EU Member State details of payments of interest and other similar income paid by a person established within its jurisdiction to, or for the benefit of, an individual resident in, or certain other types of entity established in, that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise. A number of non-EU countries and territories including Switzerland have adopted similar measures to the Savings Directive.

The Council of the EU formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. EU Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, EU Member States will not be required to apply the new requirements of the Amending Directive.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Bank, nor any Fiscal Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Fiscal Agent, the Bank will be required to maintain a Fiscal Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive.

U.S. Foreign Account Tax Compliance Act withholding may affect payments on the Capital Securities

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**") impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to: (i) certain payments from sources within the United States; (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime; and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Capital Securities are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Bank's obligations under the Capital Securities are discharged once it has paid the clearing systems, and the Bank has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to the section "*Taxation – U.S. Foreign Account Tax Compliance Act*".

Trading in the clearing systems

As the Capital Securities have a denomination consisting of the minimum Authorised Denomination (as defined in the Conditions and further described in Condition 2.1 (*Form and Denomination*)) plus one or more higher integral multiples of another smaller amount, it is possible that such Capital Securities may be traded in amounts that are not integral multiples of such minimum Authorised Denomination. In such a case a holder of the Capital Securities who, as a result of trading such amounts, holds an amount which is less than the minimum Authorised Denomination in his account with the relevant clearing system at the relevant time may not receive an Individual Certificate (as defined in the Conditions) in respect of such holding (should Individual Certificates be printed) and would need to purchase a principal amount of Capital Securities such that its holding amounts to at least an Authorised Denomination in order to be eligible to receive an Individual Certificate.

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

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Capital Securities will be represented on issue by a Global Certificate (as defined in the Conditions) that will be deposited with a common depositary for Euroclear and Clearsteam, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Individual Certificates. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate. While the Capital Securities are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants. While Capital Securities are represented by the Global Certificate, the Bank will discharge its payment obligations under such Capital Securities by making payments through the relevant clearing systems. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Capital Securities. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

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

Factors related to market risks generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk and credit risk:

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Capital Securities will develop or, if it does develop, that it will provide the holders of the Capital Securities with sufficient liquidity of investment or that it will continue for the life of the Capital Securities. The Capital Securities generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "*– Perpetual Securities*" above), are subordinated (see "*– The Capital Securities are subordinated and unsecured obligations of the Bank*" above) and payments of Interest Payment Amounts may be cancelled in certain circumstances (see "*– Payments of Interest Payment Amounts are conditional upon certain events and may be cancelled and are non-cumulative*" above).

Application has been made for the Capital Securities to be admitted to the Official List and for such Capital Securities to be admitted to trading on the Main Securities Market. However, there can be no assurance that any such listing will occur or will enhance the liquidity of the Capital Securities.

Illiquidity may have an adverse effect on the market value of the Capital Securities. Accordingly, a holder of the Capital Securities may not be able to find a buyer to buy its Capital Securities readily or at prices that will enable the holder of the Capital Securities to realise a desired yield. The market value of the Capital Securities may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Capital Securities. Accordingly, the purchase of Capital Securities is suitable only for investors who can bear the risks associated with a lack of liquidity in the Capital Securities and the financial and other risks associated with an investment in the Capital Securities.

Exchange rate risks and exchange controls

The Bank will pay principal and interest on the Capital Securities in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (a) the Investor's Currency-equivalent yield on the Capital Securities; (b) the Investor's Currency-equivalent value of the principal payable on the Capital Securities; and (c) the Investor's Currency-equivalent market value of the Capital Securities.

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

Emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Taxation risks on payments

Payments made by the Bank in respect of the Capital Securities could become subject to taxation. Condition 12 (*Taxation*) requires the Bank to pay additional amounts in certain circumstances in the event that any withholding or deduction is imposed by the Sultanate of Oman in respect of payments under the Capital Securities such that net amounts received by the holders of the Capital Securities after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Capital Securities in the absence of such withholding or deduction.

OVERVIEW OF THE ISSUANCE

The following description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus.

Words and expressions defined in "*Form of the Capital Securities*" and "*Terms and Conditions of the Capital Securities*" shall have the same meanings in the following description.

Issuer:	The National Bank of Oman SAOG.
Description:	U.S.$300,000,000 Perpetual Tier 1 Capital Securities.
Joint Lead Managers:	Citigroup, Crédit Agricole Corporate and Investment Bank, Merrill Lynch International, National Bank of Abu Dhabi P.J.S.C., The National Bank of Oman SAOG and Standard Chartered Bank.
Co-Lead Manager:	First Gulf Bank P.J.S.C.
Fiscal Agent and Calculation Agent:	HSBC Bank plc.
Registrar and Transfer Agent:	HSBC Bank plc.
Issue Date:	18 November 2015.
Issue Price:	100.00 per cent.
Interest Payment Dates:	18 November and 18 May every year, commencing on 18 May 2016.
Interest Payment Amounts:	Subject to Condition 6 (*Interest Restrictions*), the Capital Securities shall bear interest semi-annually in arrear from (and including) the Issue Date. The Interest Payment Amount payable on each Interest Payment Date during the Initial Period shall be U.S.$39.375 per U.S.$1,000 in outstanding principal amount of the Capital Securities and shall be payable out of Distributable Items (as defined in the Conditions). The Interest Rate will be reset on each Reset Date (as defined in the Conditions) on the basis of the aggregate of the Initial Margin of 6.193 per cent. per annum and the Relevant 5 Year Reset Rate on the relevant Determination Date, as determined by the Calculation Agent (see Condition 5 (*Interest*)). If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, the Bank shall not pay the corresponding Interest Payment Amounts on the relevant Interest Payment Date and the Bank shall not have any obligation to make any subsequent payment in respect of any unpaid Interest Payment Amount as more particularly described in Condition 6 (*Interest Restrictions*). In such circumstances, interest will not be cumulative and any interest which is not paid will not accumulate or compound and holders of the Capital Securities will have no right to receive such interest at any time, even if interest is paid in the future.

Form of Capital Securities:	The Capital Securities will be issued in registered form as described in "*Form of the Capital Securities*". The Capital Securities will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Individual Certificates evidencing holding of Capital Securities will be issued in exchange for interests in the Global Certificate only in limited circumstances.
Clearance and Settlement:	Holders of the Capital Securities must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.
Denomination:	The Capital Securities will be issued in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Status of the Capital Securities:	The payment obligations of the Bank under the Capital Securities will: (a) constitute Tier 1 Capital of the Bank; (b) constitute direct, unsecured, unconditional and subordinated obligations of the Bank that rank *pari passu* amongst themselves; (c) rank junior to all Senior Obligations; (d) rank *pari passu* with *Pari Passu* Obligations; and (e) rank in priority only to all Junior Obligations (each as defined below). "**Junior Obligations**" means all claims of the holders of Ordinary Shares; "***Pari Passu* Obligations**" means all subordinated payment obligations of the Bank which rank, or are expressed to rank, *pari passu* with the Obligations; and "**Senior Obligations**" means all unsubordinated payment obligations of the Bank (including deposit holders) and all subordinated payment obligations (if any) of the Bank to which the Obligations rank, or are expressed to rank, junior.
Redemption and Variation:	The Capital Securities are perpetual securities in respect of which there is no fixed or final redemption date. The Capital Securities may be redeemed in whole but not in part, or the terms thereof may be varied by the Bank only in accordance with the provisions of Condition 9 (*Redemption and Variation*).

Pursuant to Condition 9.1(b) (*Bank's Call Option*), the Bank may, on 18 November 2020 (the "**First Call Date**") or on any Call Date (as defined in the Conditions) thereafter, redeem all, but not some only, of the Capital Securities at the Early Redemption Amount.

For the avoidance of doubt, the Bank shall not do anything which creates an expectation that the Bank's call option will be exercised.

In addition (on any date on or after the Issue Date, whether or not an Interest Payment Date), upon the occurrence of a Tax Event or a Capital Event, all but not some only, of the Capital Securities may be redeemed or the terms of the Capital Securities may be varied, in each case in accordance with Conditions 9.1(c) (*Redemption or Variation due to Taxation*) and 9.1(d) (*Redemption or Variation for Capital Event*).

Any redemption of the Capital Securities is subject to the conditions described in Condition 9.1 (*Redemption and Variation*).

Non-Viability Event:

If a Non-Viability Event (as defined in the Conditions) occurs, a Write-down (as defined in the Conditions) shall occur on the relevant Non-Viability Event Write-down Date (as defined in the Conditions), as more particularly described in Condition 10 (*Write-down at the Point of Non-Viability*). In such circumstances, the rights of the holders of the Capital Securities to payment of any amounts under or in respect of the Capital Securities shall, as the case may be, be cancelled or written-down permanently *pro rata* among the holders of the Capital Securities. See "*Risk Factors – Factors which are material for the purpose of assessing the risks associated with the Capital Securities - The rights of the holders of the Capital Securities to receive repayment of the principal amount of the Capital Securities and the rights of the holders of the Capital Securities for any further interest may be written-down permanently upon the occurrence of a Non- Viability Event*".

Events of Default:

Upon the occurrence of an Event of Default, any holder of the Capital Securities may give written notice to the Bank at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, that such Capital Security is due and payable, whereupon the same shall, subject to Condition 9.1 (*Redemption and Variation*), become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment without presentation, demand, protest or other notice of any kind.

Withholding Tax:

All payments in respect of the Capital Securities will be made without deduction for or on account

	of withholding taxes imposed by Oman, subject as provided in Condition 12 (*Taxation*). In the event that any such deduction is made, the Bank will, save in certain limited circumstances provided in Condition 12 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.
Ratings:	The Bank has been assigned a long term credit rating of A3 by Moody's. The Capital Securities will not be rated by any rating organisation upon their issue. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued or endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation).
Listing and Admission to Trading:	Application has been made to the Irish Stock Exchange for the Capital Securities to be admitted to the Official List and to trading on the Main Securities Market.
Transaction Documents:	The Agency Agreement and the Deed of Covenant.
Governing Law and Jurisdiction:	The Capital Securities (except for Condition 4.2 (*Subordination of the Capital Securities*)) and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by, and shall be construed in accordance with, English law. Condition 4.2 (*Subordination of the Capital Securities*) will be governed by, and shall be construed in accordance with, the laws of Oman. The Transaction Documents and any non-contractual obligations arising out of, relating to or having any connection with the Transaction Documents will be governed by, and shall be construed in accordance with, English law. In respect of any dispute, claim, difference or controversy under the Transaction Documents to which it is a party, the Bank has consented to arbitration in accordance with the LCIA Arbitration Rules unless any holder of Capital Securities (in the case of the Capital Securities) or any Agent (in the case of the Agency Agreement) elects to have the dispute, claim, difference or controversy resolved by a court, in which case the English courts will have exclusive jurisdiction to settle such dispute.

Waiver of Immunity: The Bank has irrevocably and unconditionally waived with respect to the Capital Securities and the Transaction Documents any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence (see Condition 19.6 (*Waiver of immunity*)).

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Capital Securities in the United States, the United Kingdom, Hong Kong, Japan, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar and the Sultanate of Oman and such other restrictions as may be required in connection with the offering and sale of the Capital Securities (see "*Subscription and Sale*").

FORM OF THE CAPITAL SECURITIES

The Global Certificate contains the following provisions which apply to the Capital Securities whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, words and expressions defined in "Terms and Conditions of the Capital Securities" shall have the same meanings in the following description.

Form of the Capital Securities

The Capital Securities will be in registered form and will be issued outside the United States to persons who are not U.S. Persons in reliance on Regulation S.

The Capital Securities will be represented by ownership interests in a global certificate in registered form (the "**Global Certificate**"). The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and will be registered in the name of a nominee for the Common Depositary. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Individual Certificates in fully registered form.

Holders

For so long as the Capital Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the "**Registered Holder**"). Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate principal amount of such Capital Securities (the "**Accountholders**") (in which regard any Capital Security or other document issued by a clearing system as to the aggregate principal amount of such Capital Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of the Capital Securities in respect of the aggregate principal amount of such Capital Securities standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder, as against the Bank and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder, and the expressions "**holder of Capital Securities**" and related expressions shall be construed accordingly. In addition, holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the relevant Capital Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Cancellation

Cancellation of any Capital Security represented by the Global Certificate will be effected by reduction in the aggregate principal amount of the Capital Securities in the Register.

Payments

Payments of any amount in respect of the Global Certificate will, in the absence of any provision to the contrary, be made:

(a) in the case of a Global Certificate, to the person shown on the Register as the registered holder of the Global Certificate at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business; and

(b) in the case of an Individual Certificate, to the persons shown on the Register on the relevant Record Date (as defined in the Conditions) immediately preceding the due date for payment in the manner provided in Condition 7.1 (*Payments in respect of Individual Certificates)*.

None of the Bank or any Agent will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of ownership interests in the Capital Securities or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payments of the Redemption Amount in respect of Capital Securities represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the Agency Agreement. Distributions of amounts with respect to book-entry interests in the Capital Securities held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Capital Securities will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

Notices

So long as all the Capital Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders rather than by publication and delivery as required by the Conditions except that, so long as the Capital Securities are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Capital Securities held by a holder of the Capital Securities are represented by the Global Certificate, notices to be given by such holder of the Capital Securities may be given (where applicable) through Euroclear and/ or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Registration of Title

The Registrar will not register title to the Capital Securities in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Interest Payment Amount or the Redemption Amount in respect of the Capital Securities.

Transfers

Transfers of book-entry interests in the Capital Securities will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Exchange for Individual Certificates

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Individual Certificates only upon the occurrence of an Exchange Event. The Bank will promptly give notice to holders of the Capital Securities in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in the Conditions) has occurred; or (ii) the Bank has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of legal holiday) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Bank is available. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Individual Certificates and the Bank will, at the cost of the Bank (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Certificates to be executed and delivered to the Registrar within 10 days following the request for exchange for completion and dispatch to the holders of the Capital Securities. A person having an interest in the Global Certificate must provide the

Registrar with a written order containing instructions (and such other information as the Bank and the Registrar may require) to complete, execute and deliver such Individual Certificates.

General

In this Prospectus, "**Individual Certificate**" means a Capital Security in definitive registered form issued by the Bank in accordance with the provisions of the Agency Agreement in exchange for the Global Certificate, such Capital Security substantially in the form set out in schedule 2 to the Agency Agreement.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system as may be approved by the Bank and the Fiscal Agent.

A Capital Security may be accelerated by the holder thereof in certain circumstances described in Condition 11 (*Events of Default*). In such circumstances, where any Capital Security is still represented by a Global Certificate and the Global Certificate (or any part thereof) has become due and repayable in accordance with the Conditions of such Capital Securities and payment in full of the amount due has not been made in accordance with the provisions of the Global Certificate, then the Global Certificate will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Certificate credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Bank on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the "**Deed of Covenant**") dated 18 November 2015 and executed by the Bank.

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

Each of the U.S.$300,000,000 Perpetual Tier 1 Capital Securities, and any further capital securities issued pursuant to Condition 16 (*Further Issues*), (the "**Capital Securities**") is issued by The National Bank of Oman SAOG in its capacity as issuer (the "**Bank**") pursuant to the Agency Agreement (as defined below).

Payments relating to the Capital Securities will be made pursuant to an agency agreement dated the Issue Date (the "**Agency Agreement**") made between the Bank, HSBC Bank plc as fiscal agent and principal paying agent with its specified office at 8 Canada Square, London E14 5HQ, England (in such capacity, the "**Fiscal Agent**" and together with any further or other paying agents appointed from time to time in respect of the Capital Securities, the "**Paying Agents**"), HSBC Bank plc as registrar with its specified office at 8 Canada Square, London E14 5HQ, England (in such capacity, the "**Registrar**") and as transfer agent (in such capacity, the "**Transfer Agent**" and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Capital Securities, the "**Transfer Agents**") and HSBC Bank plc as calculation agent with its specified office at 8 Canada Square, London E14 5HQ, England (the "**Calculation Agent**", which expression includes the Calculation Agent for the time being). The Paying Agents, the Calculation Agent and the Transfer Agents are together referred to in these terms and conditions (the "**Conditions**") as the "**Agents**". References to the Agents or any of them shall include their successors.

Any reference to "**holders**" in relation to any Capital Securities shall mean the persons in whose name the Capital Securities are registered and shall, in relation to any Capital Securities represented by a Global Certificate, be construed as provided below.

The holders of the Capital Securities are entitled to the benefit of the Deed of Covenant (the "**Deed of Covenant**") dated the Issue Date and executed by the Bank. The original Deed of Covenant is held by the common depositary for Euroclear and Clearstream, Luxembourg (each as defined in Condition 2.1 (*Form and Denomination*)).

Copies of the Agency Agreement and the Deed of Covenant are obtainable during normal business hours at the specified office of the Agents. The holders of the Capital Securities are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the Deed of Covenant. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

1. INTERPRETATION

Words and expressions defined in the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and **provided that**, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

"**Additional Amounts**" has the meaning given to it in Condition 12 (*Taxation*);

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

"**Authorised Denomination**" has the meaning given to that term in Condition 2.1 (*Form and Denomination*);

"**Authorised Signatories**" means the persons listed from time to time on the Bank's signatory card registered with the Ministry of Commerce and Industry in Oman;

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

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

"**Basel III Documents**" means the Basel Committee on Banking Supervision document "A global regulatory framework for more resilient banks and banking systems" released by the Basel Committee on 16 December 2010 and revised in June 2011 and the Annex contained in its document "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" released by the Basel Committee on 13 January 2011 each as revised, amended or supplemented from time to time;

"**Business Day**" means a day, other than a Friday, Saturday, Sunday or public holiday, on which registered banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City, London and Muscat, Oman;

"**Call Date**" means the First Call Date and any Interest Payment Date thereafter;

"**Capital Event**" is deemed to have occurred if the Bank is notified in writing by the Regulator to the effect that the outstanding principal amount (or the amount that qualifies as regulatory capital, if some amount of the Capital Securities are held by the Bank or whose purchase is funded by the Bank) of the Capital Securities would cease to qualify, in full, for inclusion in the consolidated Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

"**Capital Event Redemption Amount**" in relation to a Capital Security means 101 per cent. of its outstanding principal amount together with any Outstanding Payments;

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

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

"**Common Equity Tier 1 Capital**" means capital qualifying as, and approved by the Regulator as, common equity tier 1 capital in accordance with the Capital Regulations and, as common equity tier 1 capital as implemented in the Applicable Regulatory Capital Requirements at such time;

"**Day-count Fraction**" means the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Interest Period in which the relevant period falls (including the first such day but excluding the last);

"**Determination Date**" means, in respect of a Reset Period, the third Business Day prior to the commencement of such Reset Period;

"**Directors**" means the executive and non-executive directors of the Bank who make up its board of directors;

"**Dispute**" has the meaning given to it in Condition 19.2 (*Arbitration*);

"**Distributable Items**" means the Bank's accumulated and realised profits (to the extent not previously distributed or capitalised), less accumulated losses, all as set out in the most recent audited or (as the case may be) auditor reviewed financial statements of the Bank as approved by the CBO;

"**Dividend Stopper Date**" has the meaning given to it in Condition 6.4 (*Dividend and Redemption Restrictions*);

"**Early Redemption Amount**" means, in relation to a Capital Security, its outstanding principal amount together with any Outstanding Payments;

"**Event of Default**" means:

(a) ***Non-payment***: the Bank fails to pay an amount in the nature of principal or interest due and payable by it pursuant to the Conditions and the failure continues for a period of seven days in the case of principal and 14 days in the case of interest (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Event or the Bank making a Non-Payment Election); or

(b) ***Insolvency***: a final determination is made by a court or other official body that the Bank is insolvent or bankrupt or unable to pay its debts; or

(c) ***Winding-up***: an administrator is appointed, an order is made by a court of competent jurisdiction or an effective resolution passed for the winding-up or dissolution or administration of the Bank or the Bank shall apply or petition for a winding-up or administration order in respect of itself or cease, or through an official action of its board of directors threaten to cease, to carry on all or substantially all of its business or operations, in each case except: (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the holders of the Capital Securities; or (ii) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or

(d) ***Analogous Event***: any event occurs which under the laws of Oman has an analogous effect to any of the events referred to in paragraph (b) or (c) above.

References in subparagraph (b) (*Insolvency*) above to "**debts**" shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a* and which is treated as debt for the purposes of applicable law, in each case whether entered into directly or indirectly by the Bank;

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

"**First Call Date**" means 18 November 2020;

"**First Interest Payment Date**" means 18 May 2016;

"**Global Certificate**" means the global registered certificate;

"**Individual Certificate**" means a registered certificate in definitive form;

"**Initial Interest Rate**" has the meaning given to it in Condition 5.1 (*Interest Payments*);

"**Initial Margin**" has the meaning given to it in Condition 5.1 (*Interest Payments*);

"**Initial Period**" means the period from and including the Issue Date, to but excluding the First Call Date;

"**Interest Payment Amount**" means the amount of interest payable, subject to Condition 6 (*Interest Restrictions*) and Condition 7 (*Payments*), on each Interest Payment Date;

"**Interest Payment Date**" means each 18 November and 18 May in each year, starting on (and including) 18 May 2016;

"**Interest Period**" means the period from and including the Issue Date to, but excluding, the First Interest Payment Date, and each successive period from and including an Interest Payment Date to but excluding the next Interest Payment Date;

"**Interest Rate**" means, in respect of the Initial Period, the Initial Interest Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 5.1 (*Interest Payments*);

"**Issue Date**" means 18 November 2015;

"**Junior Obligations**" means all claims of the holders of Ordinary Shares;

"**LCIA**" means the London Court of International Arbitration;

"**Non-Payment Election**" has the meaning given to it in Condition 6.2 (*Non-Payment Election*);

"**Non-Payment Event**" has the meaning given to it in Condition 6.1 (*Non-Payment Event*);

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

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

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

whichever is earlier;

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

"**Non-Viability Notice**" has the meaning given to it in Condition 10 (*Write-down at the Point of Non-Viability*);

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

"**Obligations**" has the meaning given to it in Condition 4.2 (*Subordination of the Capital Securities*);

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

"**Ordinary Shares**" means ordinary shares of the Bank;

"**Other Common Equity Tier 1 Instruments**" means securities issued by the Bank that constitute Common Equity Tier 1 Capital of the Bank other than Ordinary Shares;

"**Outstanding Payments**" means, in relation to any amounts payable on redemption of the Capital Securities, an amount representing any due and payable but unpaid interest for the Interest Period during which redemption occurs to the date of redemption. For the avoidance of doubt, the obligation to pay Outstanding Payments is without prejudice to the Bank's right to elect not to pay earlier Interest Payment Amounts or to the non-payment of such amounts as a result of a Non-Payment Event having occurred;

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

"**Payment Day**" has the meaning given to it in Condition 7.4 (*Payment Day*);

"**Proceedings**" has the meaning given to it in Condition 19.4 (*Submission to jurisdiction*);

"**Qualifying Tier 1 Instruments**" means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) other than Ordinary Shares or Other Common Equity Tier 1 Instruments, issued directly or indirectly by the Bank that:

(a) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) Tier 1 Capital;

(b) have terms and conditions not materially less favourable to a holder of the Capital Securities than the Capital Securities (as reasonably determined by the Bank (**provided that** in making this determination the Bank is not required to take into account the tax treatment of the new instrument in the hands of all or any holders of the Capital Securities, or any transfer or similar taxes that may apply on the acquisition of the new instrument) **provided that** a certification to such effect of two Directors shall have been delivered to the Fiscal Agent prior to the variation of the terms of the Conditions);

(c) continue to be obligations of the Bank, directly or indirectly or by a guarantee or equivalent support undertaking by the Bank;

(d) rank on a winding up at least *pari passu* with the Obligations;

(e) have the same outstanding principal amount and interest payment dates as the Capital Securities and at least equal interest or distribution rate or rate of return as the Capital Securities;

(f) (where the instruments are varied prior to the First Call Date) have the same first call date as the Capital Securities; and

(g) have the same optional redemption dates as the Capital Securities,

and which may include such technical changes as necessary to reflect the requirements of Tier 1 Capital under the Capital Regulations then applicable to the Bank (including, without limitation, such technical changes as may be required in connection with, or as a result of the adoption or implementation in Oman of the Basel III Documents);

"**Record Date**" means in the case of the payment of interest, the date falling on the 15th day before the relevant Interest Payment Date and, in the case of the payment of a Redemption Amount, the date falling two Payment Days before the date for payment of the relevant Redemption Amount (as the case may be);

"**Redemption Amount**" means the Early Redemption Amount, the Tax Redemption Amount or the Capital Event Redemption Amount (as the case may be);

"**Register**" has the meaning given to it in Condition 2.1 (*Form and Denomination*);

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

"**Relevant Date**" means the date on which the payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Fiscal Agent on or prior to the due date, Relevant Date means the date on which, the full amount of the moneys having been so received, notice to that effect is duly given to holders of the Capital Securities in accordance with Condition 15 (*Notices*);

"**Relevant 5 Year Reset Rate**" means the mid-swap rate for U.S. dollar swap transactions with a maturity of 5 years displayed on Reuters 3000 page "ISDAFIX1" (or such other page as may replace that page on Bloomberg, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Determination Date. If the correct mid-swap rate does not appear on that page, the 5 year U.S. dollar mid-swap rate shall instead be determined by the Calculation Agent on the basis of the arithmetic mean of quotations provided by the principal office of each of four major banks in the U.S. dollar swap market (or at least two such banks if more cannot be provided) of the rates at which swaps in U.S. dollars are offered by it at approximately 11.00 a.m. (New York time) on the Determination Date to participants in the U.S. dollar swap market for a 5-year period, expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards). If on any Determination Date only one or none of the four major banks in the U.S. dollar swap market provides the Calculation Agent with the quotations referred to in the foregoing sentence, the Relevant 5 Year Reset Rate shall be determined to be the Relevant 5 Year Reset Rate as at the last preceding Reset Date or, in the case of the first Determination Date, as at the Issue Date;

"**Replacement Agent**" means the Registrar and the Transfer Agents;

"**Reset Date**" means the First Call Date and every fifth anniversary thereafter;

"**Reset Period**" means the period from and including the First Call Date to, but excluding, the following Reset Date, and each successive period thereafter from and including such Reset Date to the next succeeding Reset Date;

"**Rules**" has the meaning given to it in Condition 19.2 (*Arbitration*);

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

"**Tax Event**" means on the occasion of the next payment due under the Capital Securities, the Bank has or will become obliged to pay Additional Amounts (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), as a result of any change in, or amendment to or interpretation of, the laws, published practice or regulations of Oman or any change in the application or interpretation of such laws or regulations, which change or amendment becomes effective on or after 16 November 2015 and such requirement cannot be avoided by the Bank taking reasonable measures available to it);

"**Tax Redemption Amount**" in relation to a Capital Security, means its outstanding principal amount together with any Outstanding Payments;

"**Taxes**" has the meaning given to it in Condition 12 (*Taxation*);

"**Tier 1 Capital**" means capital qualifying as, and approved by the Regulator as, tier 1 capital in accordance with the Capital Regulations;

"**Tier 2 Capital**" means capital qualifying as, and approved by the Regulator as, tier 2 capital in accordance with the Capital Regulations; and

"**Write-down**" means:

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

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

For the avoidance of doubt, with respect to paragraphs (a) and (b) of this definition, the Write-down will be full and permanent where the Regulator has determined, under paragraph (b) in the definition of "Non-Viability Event", that a public sector injection of capital or equivalent support is required and shall occur prior to any public sector injection of such capital or equivalent support.

All references in these Conditions to "**U.S. dollars**", "**U.S.$**" and "**$**" are to the lawful currency of the United States of America.

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

The Capital Securities are issued in registered form in principal amounts of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Denomination**"). A Capital Security will be issued to each holder of the Capital Securities in respect of its registered holding of Capital Securities. Each Individual Certificate will be numbered serially with an identifying number which will be recorded on the relevant Individual Certificate and in the register of holders of the Capital Securities (the "**Register**").

Upon issue, the Capital Securities will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**").Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. The Conditions are modified by certain provisions contained in the Global Certificate.

Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive Individual Certificates representing their holdings of Capital Securities. See "Form of the Capital Securities".

2.2 Title

The holder of any Capital Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the certificate issued in respect of it) and no person will be liable for so treating the holder.

For so long as any of the Capital Securities is represented by a Global Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of such Capital Securities (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Capital Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by each of the Bank and the Agents as the holder of such principal amount of such Capital Securities for all purposes other than with respect to the payment of principal or interest on such principal amount of such Capital Securities, for which purpose the registered holder of the Global Certificate shall be treated by each of the Bank and any Agent as the holder of such principal amount of such Capital Securities in accordance with and subject to the terms of the Global Certificate.

3. TRANSFERS OF CAPITAL SECURITIES

3.1 Transfers of interests in the Global Certificate

Capital Securities which are represented by the Global Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Clearstream, Luxembourg (as the case may be).

3.2 Transfer of Individual Certificates

Subject to the conditions set forth in the Agency Agreement, an Individual Certificate may be transferred in whole or in part (in Authorised Denominations). In order to effect any such transfer: (a) the holder or holders must (i) surrender the Capital Security for registration of the transfer of the Capital Security (or the relevant part of the Capital Security) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent; and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Bank and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 5 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar and the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Individual Certificate of a like aggregate principal amount to the Capital Security (or the relevant part of the Capital Security) transferred. In the case of the transfer of part only of an Individual Certificate, a new Individual Certificate in respect of the balance of the Capital Security not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

3.3 **Costs of registration**

Holders of the Capital Securities will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Bank may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3.4 **Other**

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system as shall have been approved by the Bank and the Fiscal Agent.

4. **STATUS, SUBORDINATION**

4.1 **Status of the Capital Securities**

Each Capital Security will rank *pari passu* without preference or priority, with all other Capital Securities.

4.2 **Subordination of the Capital Securities**

(a) The payment obligations of the Bank under the Capital Securities (the "**Obligations**") will: (i) constitute Tier 1 Capital of the Bank, (ii) constitute direct, unsecured, unconditional and subordinated obligations of the Bank that rank *pari passu* amongst themselves; (iii) rank junior to all Senior Obligations; (iv) rank *pari passu* with all *Pari Passu* Obligations; and (v) rank in priority only to all Junior Obligations.

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

(c) In accordance with these Conditions, the Obligations shall be neither secured nor guaranteed by any entity and shall not be subject to any other arrangement which, either legally or economically or otherwise, enhances the seniority of the claims of holders of the Capital Securities in respect of the Obligations compared with the claims of holders or beneficiaries of Senior Obligations (including deposit holders and general creditors of the Bank and holders of other subordinated payment obligations of the Bank, to which the Obligations rank, or are expressed to rank, junior).

4.3 **Other Issues**

So long as any of the Capital Securities remain outstanding, the Bank will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or a consolidated basis) issued Tier 1 Capital of the Bank if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions are amended to ensure that the Bank obtains and/or (b) the Obligations have, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

5. INTEREST

5.1 Interest Payments

Subject to Condition 6 (*Interest Restrictions*), the Capital Securities bear interest from (and including) the Issue Date to (but excluding) the First Call Date at a rate of 7.875 per cent. per annum (the "**Initial Interest Rate**") on the outstanding principal amount of the Capital Securities (being the aggregate of an initial margin of 6.193 per cent. per annum (the "**Initial Margin**") and the 5 year U.S. dollar mid-swap rate as determined for the Issue Date) in accordance with the provisions of this Condition 5. The Interest Payment Amount payable on each Interest Payment Date during the Initial Period shall be U.S.$39.375 per U.S.$1,000 in principal amount of the Capital Securities.

Subject to Condition 6 (*Interest Restrictions*), interest shall be payable on the Capital Securities semi-annually in arrear on each Interest Payment Date, in each case as provided in this Condition 5. Interest will not be cumulative and any interest which is not paid will not accumulate or compound and holders of the Capital Securities will have no right to receive such interest at any time, even if interest is paid in respect of any subsequent Interest Period.

If interest is required to be calculated in respect of a period of less than a full Interest Period (the "**Relevant Period**"), it shall be calculated as an amount equal to the product of: (a) the applicable Interest Rate; (b) the outstanding principal amount of the relevant Capital Security; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(a) ***Interest Rate***

For the purpose of calculating payments of interest on and from the First Call Date, the interest rate will be reset on each Reset Date on the basis of the aggregate of the Initial Margin and the Relevant 5 Year Reset Rate on the Determination Date, as determined by the Calculation Agent. For the avoidance of doubt, the reset shall apply to the Relevant 5 Year Reset Rate and not to the Initial Margin.

The Calculation Agent will, as soon as practicable upon determination of the Interest Rate which shall apply to the Reset Period commencing on the relevant Reset Date, cause the applicable Interest Rate and the corresponding Interest Payment Amount to be notified to each of the Paying Agents and the Irish Stock Exchange and to be notified to holders of the Capital Securities in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the second Business Day thereafter.

(b) ***Determinations of Calculation Agent Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Calculation Agent, the Paying Agents and the holders of the Capital Securities and (in the absence of wilful default, bad faith or manifest error) no liability to the holders of the

Capital Securities shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

6. INTEREST RESTRICTIONS

6.1 Non-Payment Event

Notwithstanding Condition 5.1 (*Interest Payments*), if any of the following events occurs (each, a "**Non-Payment Event**"), Interest Payment Amounts shall not be paid on any Interest Payment Date:

(a) the Interest Payment Amount payable, when aggregated with any distributions or amounts payable by the Bank on any *Pari Passu* Obligations, having the same dates in respect of payment of such distributions or amounts as, or otherwise due and payable on, the dates for payment of Interest Payment Amounts, exceed, on the relevant date for payment of such Interest Payment Amounts, Distributable Items;

(b) the Bank is, on that Interest Payment Date, in breach of the Applicable Regulatory Capital Requirements (including any payment restrictions due to a breach of capital buffers imposed on the Bank by the Regulator) or payment of the relevant Interest Payment Amount would cause it to be in breach thereof; or

(c) the Regulator requires that the Interest Payment Amount due on that Interest Payment Date shall not be paid.

6.2 Non-Payment Election

Notwithstanding Condition 5.1 (*Interest Payments*), the Bank may in its sole discretion elect that Interest Payment Amounts shall not be paid to holders of the Capital Securities on any Interest Payment Date (each a "**Non-Payment Election**"). The foregoing shall not apply in respect of any amounts due on any date on which the Capital Securities are to be redeemed in full in accordance with Condition 9.1 (*Redemption and Variation*).

For the avoidance of doubt, the Bank will have the right to otherwise use any Interest Payment Amounts not paid to holders of the Capital Securities and such non-payment will not impose any restriction on the Bank other than as set out in Condition 6.4 (Dividend and Redemption Restrictions).

6.3 Effect of Non-Payment Event or Non-Payment Election

If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, the Bank shall: (a) in the case of a Non-Payment Election, 14 calendar days prior to such event, and (b) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than one Business Day prior to the relevant Interest Payment Date, give notice to the holders of the Capital Securities and the Fiscal Agent in accordance with Condition 15 (*Notices*) in each case providing details of the Non-Payment Election or Non-Payment Event (as the case may be). Holders of the Capital Securities shall have no claim in respect of any Interest Payment Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and any non-payment of an Interest Payment Amount in such circumstances shall not constitute an Event of Default. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid Interest Payment Amount.

6.4 Dividend and Redemption Restrictions

If any Interest Payment Amount is not paid as a consequence of a Non-Payment Event or a Non-Payment Election pursuant to Condition 6.1 (*Non-Payment Event*) or 6.2 (*Non-Payment Election*) (as the case may be), then, from the date of such Non-Payment Event or Non-Payment Election (the "**Dividend Stopper Date**"), the Bank will not, so long as any of the Capital Securities are outstanding:

(a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(b) pay interest, profit or any other distribution on any of its Other Common Equity Tier 1 Instruments or securities, ranking, as to the right of payment of dividend, distributions or similar payments, junior to or *pari passu* with the Obligations (excluding securities the terms of which do not at the relevant time enable the Bank to defer or otherwise not to make such payment), only to the extent such restriction on payment or distribution is permitted under the Applicable Regulatory Capital Requirements; or

(c) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Ordinary Shares; or

(d) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Other Common Equity Tier 1 Instruments or any securities issued by the Bank ranking, as to the right of repayment of capital, junior to or *pari passu* with the Obligations (excluding securities the terms of which stipulate a mandatory redemption or conversion into equity), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the Applicable Regulatory Capital Requirements,

in each case unless or until one Interest Payment Amount following the Dividend Stopper Date has been paid in full.

7. PAYMENTS

7.1 Payments in respect of Individual Certificates

Subject as provided below, payments will be made by credit or transfer to an account maintained by the payee with, or, at the option of the payee, by a cheque drawn on, a bank in New York City.

Payments of principal in respect of each Capital Security will be made against presentation and surrender of the Individual Certificate at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Individual Certificate appearing in the Register at the close of business on the third business day (being for this purpose a day on which banks are open for business in London) before the relevant due date. Notwithstanding the previous sentence, if: (a) a holder does not have a Designated Account; or (b) the principal amount of the Capital Securities held by a holder is less than U.S.$200,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in U.S. dollars drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means a bank in New York City.

Interest payments in respect of each Capital Security will be made by a cheque in U.S. dollars drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Capital Security appearing in the Register at the close of business on the 15^{th} day (whether or not such 15^{th} day is a business day) before the relevant due date (the "**Record Date**") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any interest payment in respect of an Individual Certificate, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future interest payments (other than interest payments due on redemption) in respect of the Capital Securities which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Interest Payments due in respect of each Capital Security on redemption will be made in the same manner as payment of the principal amount of such Capital Security.

Holders of Capital Securities will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Capital Security as a result of a cheque posted in accordance with this Condition 7.1 arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Capital Securities.

7.2 **Payments in respect of the Global Certificate**

The holder of the Global Certificate shall be the only person entitled to receive payments in respect of Capital Securities represented by the Global Certificate and the Bank will be discharged by payment to, or to the order of, the holder of such Global Certificate in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular principal amount of Capital Securities represented by such Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be), for his share of each payment so made by the Bank, or to the order of, the holder of such Global Certificate.

7.3 **Payments Subject to Laws**

All payments are subject in all cases to: (a) any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*); and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law in any jurisdiction implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the holders of the Capital Securities in respect of such payments.

7.4 **Payment Day**

If the date for payment of any amount in respect of the Capital Securities is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 13 (*Prescription*)) is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and London.

7.5 **Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Capital Securities shall be deemed to include, as applicable:

(a) any Additional Amounts which may be payable with respect to principal under Condition 12 (*Taxation*);

(b) the Early Redemption Amount of the Capital Securities;

(c) the Capital Event Redemption Amount of the Capital Securities; and

(d) the Tax Redemption Amount of the Capital Securities.

Any reference in the Conditions to interest in respect of the Capital Securities shall be deemed to include, as applicable, any additional amounts which may be payable with respect to distributions under Condition 12 (*Taxation*).

The Capital Securities, on issue, will be represented by the Global Certificate registered in the name of, and held by a nominee on behalf of, a common depository for Euroclear and/or Clearstream, Luxembourg. All payments in respect of Capital Securities represented by the Global Certificate will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the *date of payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.*

8. **AGENTS**

The names of the initial Agents and their initial specified offices are set out in the preamble to the Conditions.

The Bank is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, **provided that**:

(a) there will at all times be a Fiscal Agent and a Registrar;

(b) with effect from the First Call Date, and so long as any Capital Securities remain outstanding thereafter, there will be a Calculation Agent;

(c) so long as the Capital Securities are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

(d) there will at all times be a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(e) there will at all times be a Paying Agent and a Transfer Agent with a specified office in western Europe.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the holders of the Capital Securities in accordance with Condition 15 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Bank and do not assume any obligation to, or relationship of agency or trust with, any holders of the Capital Securities. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

9. **REDEMPTION AND VARIATION**

9.1 **Redemption and Variation**

(a) ***No Fixed Redemption Date and Conditions for Redemption and Variation***

The Capital Securities are perpetual securities in respect of which there is no fixed or final redemption date and the Bank shall (subject to the provisions of Condition 11 (*Events of Default*) and without prejudice to the provisions of Condition 13 (*Prescription*)) only have the right to redeem the Capital Securities or vary the terms thereof in accordance with the following provisions of this Condition 9.

The redemption of the Capital Securities or variation of the Conditions, in each case pursuant to this Condition 9, is subject to the following conditions:

(i) the prior consent of the Regulator;

(ii) the requirement that, at the time when the relevant notice of redemption or variation is given and immediately following such redemption or variation (as applicable), the Bank is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements; and

(iii) (in the case of Conditions 9.1(c) (*Redemption or Variation due to Taxation*) or 9.1(d) (*Redemption or Variation for Capital Event*) only) the change of law or regulation or change in interpretation giving rise to the right to redeem the Capital Securities becomes effective after 16 November 2015,

(in the case of (i) and (ii) above only, except to the extent that the Regulator no longer so requires).

(b) ***Bank's Call Option***

Subject to Condition 9.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), the Bank may, by giving:

(i) not less than 30 nor more than 60 days' prior notice to the holders of the Capital Securities in accordance with Condition 15 (*Notices*); and

(ii) not less than 15 days before the giving of the notice referred to in 9.1(b)(i), notice to the Fiscal Agent and the Registrar;

(which notices shall be irrevocable and specify the date fixed for redemption) redeem all, but not some only, of the Capital Securities at the Early Redemption Amount.

Redemption of the Capital Securities pursuant to this Condition 9.1(b) may only occur on the First Call Date or any Call Date thereafter.

For the avoidance of doubt, the Bank shall not do anything which creates an expectation that the Bank's call option will be exercised.

(c) ***Redemption or Variation due to Taxation***

(i) Subject to Condition 9.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), upon the occurrence of a Tax Event, the Bank may, by giving not less than 30 nor more than 60 days' prior notice to the Fiscal Agent and the holders of the Capital Securities in accordance with Condition 15 (*Notices*), which notices shall be irrevocable: (A) redeem all, but not some only, of the Capital Securities at the Tax Redemption Amount; or (B) vary the terms of the Capital Securities so that they remain or, as appropriate, become, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the holders of the Capital Securities.

(ii) Redemption of the Capital Securities, or variation of the Conditions, pursuant to this Condition 9.1(c) may occur on any date on or after the Issue Date (whether or not an Interest Payment Date), **provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Bank would be obliged to pay such additional amounts were a payment in respect of the Capital Securities then due.

(iii) Prior to the publication of any notice of redemption or variation (as the case may be) pursuant to this Condition 9.1(c), the Bank shall give to the Fiscal Agent: (A) a certificate signed by two Authorised Signatories of the Bank stating that: (I) the conditions set out in Condition 9.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (II) a Tax Event has occurred; and (III) in the case of a variation only, the varied Capital Securities are Qualifying Tier 1 Instruments and that the Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 1 Instruments; and (B) an opinion of independent legal advisors of recognised standing to the effect that the Bank has or will become obliged to pay Additional Amounts as a result of the Tax Event. Such certificate delivered in accordance with this Condition shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above. Upon expiry of such notice, the Bank shall redeem or vary the terms of the Capital Securities (as the case may be).

The Capital Regulations, as in force from time to time, may oblige the Bank to demonstrate to the satisfaction of the Regulator that (among other things) the Tax Event was not reasonably foreseeable at the Issue Date.

(d) ***Redemption or Variation for Capital Event***

(i) Subject to Condition 9.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), upon the occurrence of a Capital Event, the Bank may, by giving not less than 30 nor more than 60 days' prior notice to the holders of the Capital Securities in accordance with Condition 15 (*Notices*), which notice shall be irrevocable: (A) redeem all, but not some only, of the Capital Securities at the Capital Event Redemption Amount; or (B) solely for the purpose of ensuring compliance with Applicable Regulatory Capital Requirements vary the terms of the Capital Securities so that they remain or, as appropriate, become, Qualifying Tier 1 Instruments without any requirement for consent or approval of the holders of the Capital Securities.

(ii) Redemption of the Capital Securities, or variation of the Conditions, pursuant to this Condition 9.1(d) may occur on any date on or after the Issue Date (whether or not an Interest Payment Date).

(iii) At the same time as the delivery of any notice of redemption or variation (as the case may be) pursuant to this Condition 9.1(d) the Bank shall give to the Fiscal Agent a certificate signed by two Authorised Signatories stating that: (A) the conditions set out in Condition 9.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Capital Event has occurred; and (C), in the case of a variation only, the varied Capital Securities are Qualifying Tier 1 Instruments and that the Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above. Upon expiry of such notice the Bank shall redeem or vary the terms of the Capital Securities (as the case may be).

The Capital Regulations (as in force from time to time) may oblige the Bank to demonstrate to the satisfaction of the Regulator that (among other things) the Capital Event was not reasonably foreseeable at the Issue Date.

(e) ***Taxes upon Variation***

In the event of a variation in accordance with Conditions 9.1(c) (*Redemption or Variation due to Taxation)* or 9.1(d) (*Redemption or Variation for Capital Event*), the Bank will not be obliged to pay and will not pay any liability of any holder of the Capital Securities to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Capital Securities **provided that** (in the case of a Tax Event) or so that (in the case of a Capital Event) they remain or, as appropriate, become, Qualifying Tier 1 Instruments, including in respect of any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such holder of the Capital Securities.

9.2 **Purchase**

Subject to the Bank: (a) obtaining the prior written consent of the Regulator; and (b) being in compliance with the Applicable Regulatory Capital Requirements, the Bank or any of its subsidiaries (if any), may at any time after the First Call Date purchase the Capital Securities at any price in the open market or otherwise. Such Capital Securities must be surrendered to any Agent for cancellation.

9.3 **Cancellation**

All Capital Securities which are redeemed will forthwith be cancelled. All Capital Securities so cancelled and any Capital Securities purchased and cancelled pursuant to Condition 9.2 (*Purchase*) above shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

10. **WRITE-DOWN AT THE POINT OF NON-VIABILITY**

10.1 **Non-Viability Event**

If a Non-Viability Event occurs, a Write-down will take place in accordance with Condition 10.2 (*Non-Viability Notice*) below.

A Non-Viability Event means that upon the occurrence of a trigger event, which, in accordance with the definition of "Non-Viability Event" in Condition 1 (*Interpretation*), is the earlier of (a) the Regulator having notified the Bank in writing that it has determined that the Bank is, or will become, Non-Viable without a Write-down or (b) a decision having been taken to make a public sector injection of capital or equivalent support, without which the Bank is, or will become, Non-Viable, the Capital Securities shall be permanently written down in whole or in part, as further provided in the definition of "Write-down" in Condition 1 (*Interpretation*), as determined by the Bank in conjunction with the Regulator in accordance with the Capital Regulations.

For the avoidance of doubt, where the Regulator has determined that a public sector injection of capital (or equivalent support) is required, the Write-down will be full and permanent, and shall occur prior to any public sector injection of such capital or equivalent support.

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

A Write-down shall not constitute an Event of Default.

Although this will depend on the terms of other financing arrangements to which the Bank is a party as an obligor, the Bank believes that, as a result of a Write-down not constituting an Event of Default under the Conditions, such Write-down will not trigger cross-default clauses in such other financing arrangements.

It is the Bank's intention at the date of this Prospectus that a Write-down will take place: (1) after the Ordinary Shares of the Bank absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Bank at such time) and the Regulator has not notified the Bank in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; (2) simultaneously with the write-down of any of the Bank's other obligations in respect of Tier 1 Capital and other instruments related to the Bank's other obligations constituting Tier 1 Capital; and (3) prior to the write-down of any of the Bank's other obligations in respect of tier 2 capital and other instruments related to the Bank's other obligations constituting tier 2 capital, ***provided that****, in the case of (2) and (3) above, this will only apply to the extent such other instruments have contractual provisions for such analogous write-down at the point of non-viability or are subject to a statutory framework that provides for such analogous write-down.*

10.2 **Non-Viability Notice**

If a Non-Viability Event occurs, on the third Business Day following the occurrence of such Non-Viability Event (or such earlier date as determined by the Regulator), the Bank will notify the holders of the Capital Securities thereof in accordance with Condition 15 (*Notices*) (a "**Non-Viability Notice**"). Upon provision of such Non-Viability Notice, a Write-down of the Capital Securities shall take place on the Non-Viability Event Write-down Date and, with effect from such date, holders shall not be entitled to any claim for any amount subject to such Write-down in connection with the Capital Securities. Any such Write-down shall not constitute an Event of Default. Holders of the Capital Securities acknowledge that there shall be no recourse to the

Regulator in respect of any determination made by it with respect to the occurrence of a Non-Viability Event.

Following any Write-down of the Capital Securities in accordance with this Condition 10: (a) references in these Conditions to the "principal amount" or "outstanding principal amount" of the Capital Securities shall be construed as referring to the written-down amount; (b) the principal amount so written down will be cancelled and interest will continue to accrue only on the outstanding principal amount following such cancellation, subject to Conditions 6.1 (*Non-Payment Event*) and 6.2 (*Non-Payment Election*) as described herein; and (c) any amounts so written down may not be restored and holders of the Capital Securities shall not have any claim thereto under any circumstances, including, without limitation (i) where the relevant Non-Viability Event is no longer continuing, (ii) in the event of the liquidation or winding-up of the Bank, (iii) following the exercise of a call option by the Bank pursuant to Condition 9.1(b) (*Bank's Call Option*), or (iv) following the redemption or variation of the Capital Securities upon the occurrence of a Tax Event (pursuant to Condition 9.1(c) (*Redemption or Variation due to Taxation*)) or a Capital Event (pursuant to Condition 9.1(d) (*Redemption or Variation for Capital Event*)).

11. EVENTS OF DEFAULT

Notwithstanding any of the provisions below in this Condition 11, the right to institute winding-up proceedings is limited to circumstances where payment has become due. In the case of any payment of interest in respect of the Capital Securities, such payment may be cancelled pursuant to Condition 6 (Interest Restrictions) and, if so cancelled will not be due on the relevant payment date and, in the case of payment of principal, such payment is subject to the conditions set out in Condition 9.1(a) (No Fixed Redemption Date and Conditions for Redemption and Variation) being met and if these conditions are not met will not be due on such payment date.

Upon the occurrence of an Event of Default, any holder of the Capital Securities may give written notice to the Bank at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, that such Capital Security is due and payable, whereupon the same shall, subject to Condition 9.1 (*Redemption and Variation*), become forthwith due and payable at its Early Redemption Amount, together with interest due and payable under the Conditions (if any) to the date of repayment without presentation, demand, protest or other notice of any kind.

To the extent permitted by applicable law and by these Conditions, any holder of the Capital Securities may at its discretion institute proceedings for the winding-up of the Bank and/or prove in the winding-up of the Bank and/or claim in the liquidation of the Bank for such payment, but the institution of such proceedings shall not have the effect that the Bank shall be obliged to pay any sum or sums sooner than would otherwise have been payable by it.

No remedy against the Bank, other than the institution of the proceedings referred to in this Condition 11, and the proving or claiming in any dissolution and liquidation of the Bank, shall be available to the holders of the Capital Securities, whether for the recovery of amounts owing in respect of the Capital Securities or in respect of any breach by the Bank of any other obligation, condition or provision binding on it under the Capital Securities.

12. TAXATION

All payments of principal and interest in respect of the Capital Securities by the Bank will be made without withholding or deduction for or on account of any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature imposed or levied by or on behalf of Oman or any political sub-division or authority thereof or therein having the power to tax unless such withholding or deduction is required by law. In such event, the Bank will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Capital Securities after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Capital Securities (as the case may be), in the absence of such withholding or deduction ("**Additional Amounts**"); except that no such additional amounts shall be payable with respect to any Capital Security:

(a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Capital Security by reason of his having some connection with Oman other than the mere holding of such Capital Security; or

(b) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such 30th day assuming that day to have been a Payment Day; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Capital Security to another Paying Agent in a Member State of the European Union; or

(e) for or on account of any withholding or deduction arising under or in connection with any agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof or any law in any jurisdiction implementing any intergovernmental approach thereto.

13. PRESCRIPTION

Subject to applicable law, claims for payment in respect of the Capital Securities will become void unless made within a period of ten years (in the case of principal) and 5 years (in the case of interest) after the Relevant Date therefor.

14. REPLACEMENT OF CAPITAL SECURITIES

Should any Capital Security be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Replacement Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Bank and the Replacement Agent may reasonably require. Mutilated or defaced Capital Securities must be surrendered before replacements will be issued.

15. NOTICES

All notices to the holders of the Capital Securities will be valid if mailed to them at their respective addresses in the register of the holders of the Capital Securities maintained by the Registrar. The Bank shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Capital Securities are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

For so long as all the Capital Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to the holders rather than by publication and delivery except that, so long as the Capital Securities are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Notices to be given by any holder of the Capital Securities shall be in writing and given by lodging the same, together (in the case of any Individual Certificate) with the relative Capital Security or Capital Securities, with the Registrar. Whilst any of the Capital Securities are represented by a Global Certificate, such notice may be given by any holder of a Capital Security to the Registrar through Euroclear and/or Clearstream, Luxembourg (as the case may be), in such manner as the Registrar, and Euroclear and/or Clearstream, Luxembourg (as the case may be) may approve for this purpose.

16. FURTHER ISSUES

The Bank may from time to time without the consent of the holders of the Capital Securities, create and issue further instruments ranking *pari passu* in all respects (or in all respects save for the date from which distributions or interest thereon accrue and the amount and date of the first distributions or interest thereon (or such other equivalent amount) on such further instrument) and so that such further issue shall be consolidated and form a single series with the outstanding Capital Securities. References in these Conditions to the "**Capital Securities**" include (unless the context requires otherwise) any other securities issued pursuant to this Condition 16 and forming a single series with the Capital Securities.

17. MEETINGS OF HOLDERS OF THE CAPITAL SECURITIES AND MODIFICATION

The Agency Agreement contains provisions for convening meetings of the holders of the Capital Securities to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Capital Securities or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Bank and shall be convened by the Bank if required in writing by holders of the Capital Securities holding not less than ten per cent. in principal amount of the Capital Securities for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in principal amount of the Capital Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing holders of the Capital Securities whatever the principal amount of the Capital Securities so held or represented, except that, at any meeting the business of which includes the modification of certain provisions of the Capital Securities (including modifying any date for interest payment thereon, reducing or cancelling the amount of principal or the interest payable in respect of the Capital Securities or altering the currency of payment of the Capital Securities), the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Capital Securities for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Capital Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the holders of the Capital Securities shall be binding on all the holders of the Capital Securities, whether or not they are present at the meeting.

The Fiscal Agent and the Bank may agree, without the consent of the holders of the Capital Securities, to:

(a) any modification (except as mentioned above) of the Capital Securities, the Agency Agreement or the Deed of Covenant which is not prejudicial to the interests of the holders of the Capital Securities; or

(b) any modification of the Capital Securities, the Agency Agreement or the Deed of Covenant which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the holders of the Capital Securities and any such modification shall be notified to the holders of the Capital Securities in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. **GOVERNING LAW AND DISPUTE RESOLUTION**

19.1 **Governing law**

The Agency Agreement and the Capital Securities (except for Condition 4.2 (*Subordination of the Capital Securities*)), and any non-contractual obligations arising out of or in connection with the Agency Agreement and the Capital Securities are governed by, and shall be construed in accordance with, English law. Condition 4.2 (*Subordination of the Capital Securities*) is governed by, and shall be construed in accordance with, the laws of Oman.

19.2 **Arbitration**

Subject to Condition 19.3 (*Court of law*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Capital Securities (including any dispute, claim, difference or controversy relating to any non-contractual obligations arising out of or in connection with the Capital Securities; and any dispute, claim, difference or controversy regarding their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the "**Rules**"), which Rules (as amended from time to time) are incorporated by reference into this Condition 19.2. For these purposes:

(a) the seat, or legal place, of arbitration will be London;

(b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and

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

19.3 **Court of law**

Notwithstanding Condition 19.2 (*Arbitration*) above, any holder of the Capital Securities may, in the alternative, and at its sole discretion, by notice in writing to the Bank:

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

(b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If any holder of the Capital Securities gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 19.4 (*Submission to jurisdiction*) and, subject as provided below, any arbitration commenced under Condition 19.2 (*Arbitration*) in respect of that Dispute will be terminated. Each of the parties to the terminated arbitration will bear its own costs in relation thereto.

If any notice to terminate the arbitration in accordance with this Condition 19.3 is given after service of any Request for Arbitration in respect of any Dispute, the holder of the Capital Securities must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

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

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

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

19.4 **Submission to jurisdiction**

In the event that a notice pursuant to Condition 19.3 (*Court of law*) is issued, the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and the Bank submits to the exclusive jurisdiction of such courts;

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

(c) this Condition 19.4 is for the benefit of the holders of the Capital Securities only. As a result, and notwithstanding paragraph (a) above, any holder of the Capital Securities may take proceedings relating to a Dispute ("**Proceedings**") in any other court with jurisdiction. To the extent allowed by law, any holder of the Capital Securities may take concurrent Proceedings in any number of jurisdictions.

19.5 **Appointment of Process Agent**

The Bank appoints Law Debenture Corporate Services Limited at its registered office at 100 Wood Street, London EC2V 7EX, United Kingdom as its agent for service of process, and undertakes that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will immediately (and in any event within 30 days of the event taking place) appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes. Failure by a process agent to notify the person that appointed it of any process will not invalidate the relevant proceedings. Nothing herein shall affect the right to serve process in any other manner permitted by law.

19.6 **Waiver of immunity**

The Bank hereby irrevocably and unconditionally waives with respect to the Capital Securities any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings or Disputes.

19.7 **Other documents**

The Bank has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and to arbitration, appointed an agent for service of process and waived its immunity in terms substantially similar to those set out above.

There will appear at the foot of the Conditions endorsed on each Capital Security in definitive form the names and specified offices of the Registrar, Transfer Agents and the Paying Agents as set out at the end of this Prospectus.

USE OF PROCEEDS

The net proceeds from the issue of Capital Securities will be used by the Bank to increase its Tier 1 Capital (as defined in the Conditions) for the purpose of increasing its capital adequacy and for its general corporate purposes.

SELECTED FINANCIAL INFORMATION

The following financial information has been derived from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Bank's Financial Statements (other than the September 2015 Financial Statements) and the related notes thereto and the other information included elsewhere in the this Prospectus.

The following table sets forth selected financial information of the Bank as at and for the years ended 31 December 2014 and 2013 and the six month period ended 30 June 2015. The statement of comprehensive income and statement of financial position data for the years ended 31 December 2014 and 2013 has been presented in Omani Riyals and, as set out in those Financial Statements for convenience only, in United States dollars using an exchange rate of U.S.$1 = RO 0.3850. The statement of comprehensive income and statement of financial position data for the six month period ended 30 June 2015 has been presented in Omani Riyals and, to present a consistent approach and for convenience only, translated in United States dollars using an exchange rate of U.S.$1 = RO 0.3850.

STATEMENT OF FINANCIAL POSITION

	As at 30 June 2015		As at 31 December 2014		As at 31 December 2013	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
ASSETS						
Cash and balances with Central Banks	398,179	1,034,231	288,832	750,213	368,316	956,665
Due from banks and other money market placements (net)	144,040	374,130	144,933	376,449	228,518	593,553
Loans, advances and financing activities for customers (net)	2,434,076	6,322,275	2,316,813	6,017,696	2,068,199	5,371,946
Financial investments	164,969	428,491	147,524	383,179	132,603	344,423
Premises and equipment	29,676	77,081	23,204	60,270	20,104	52,218
Deferred tax asset	600	1,558	436	1,132	460	1,195
Other assets	83,532	216,966	54,352	141,175	78,141	202,964
TOTAL ASSETS	**3,255,072**	**8,454,732**	**2,976,094**	**7,730,114**	**2,896,341**	**7,522,964**
LIABILITIES, SUBORDINATED DEBT AND EQUITY						
LIABILITIES						
Due to banks and other money market deposits	62,109	161,322	102,188	265,423	226,359	587,945
Customers' deposits and unrestricted investment accounts	2,458,689	6,386,205	2,177,742	5,656,473	2,179,159	5,660,153
Euro medium term notes	195,908	508,852	195,223	507,073	—	—
Other liabilities	102,107	265,213	69,761	181,198	77,512	201,330
Taxation	3,279	8,517	6,051	15,717	5,527	14,357
TOTAL LIABILITIES	**2,822,092**	**7,330,109**	**2,550,965**	**6,625,884**	**2,488,557**	**6,463,785**
SUBORDINATED DEBT						
Subordinated debt	**62,100**	**161,299**	**63,600**	**165,195**	**79,700**	**207,013**
EQUITY						
Share capital	134,071	348,236	121,883	316,579	110,803	287,799
Share premium	34,465	89,519	34,465	89,519	34,465	89,519
Legal reserve	43,380	112,675	43,380	112,675	39,586	102,821
General reserve	4,419	11,478	4,419	11,478	4,419	11,478
Other non-distributable reserves	41,830	108,649	41,322	107,330	44,905	116,636
Proposed cash dividend	—	—	20,720	53,818	16,620	43,169
Proposed stock dividend	—	—	12,188	31,657	11,080	28,779
Retained earnings	112,715	292,766	83,152	215,979	66,206	171,965
TOTAL EQUITY	**370,880**	**963,325**	**361,529**	**939,035**	**328,084**	**852,166**
TOTAL LIABILITIES, SUBORDINATED DEBT AND EQUITY	**3,255,072**	**8,454,732**	**2,976,094**	**7,730,114**	**2,896,341**	**7,522,964**

STATEMENT OF COMPREHENSIVE INCOME

	For the six month period ended 30 June 2015		For the year ended 31 December 2014		For the year ended 31 December 2013	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Interest income	59,347	154,148	117,577	305,395	116,630	302,935
Interest expense	(15,555)	(40,403)	(36,877)	(95,784)	(41,891)	(108,808)
Net interest income	43,792	113,745	80,700	209,611	74,739	194,127
Other operating income	19,009	49,374	31,770	82,519	28,955	75,208
Income from Islamic finance and investment activities	1,842	4,784	2,017	5,239	335	870
Unrestricted investment account holders share of profit	(265)	(688)	(257)	(668)	(107)	(278)
Net income from Islamic financing and Investment activities	1,577	4,096	1,760	4,571	228	592
OPERATING INCOME	**64,378**	**167,216**	**114,230**	**296,701**	**103,922**	**269,927**
Staff costs	(16,993)	(44,138)	(33,701)	(87,534)	(28,596)	(74,275)
Other operating expenses	(9,974)	(25,906)	(17,716)	(46,016)	(16,645)	(43,234)
Depreciation	(1,548)	(4,021)	(3,003)	(7,800)	(3,339)	(8,673)
Total operating expenses	**(28,515)**	**(74,065)**	**(54,420)**	**(141,350)**	**(48,580)**	**(126,182)**
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX	**35,863**	**93,151**	**59,810**	**155,351**	**55,342**	**143,745**
Credit loss expense - customers' loan	(8,102)	(21,044)	(12,299)	(31,945)	(19,193)	(49,852)
Recoveries and releases from provision for credit losses	4,586	11,912	2,888	7,501	3,539	9,192
Recoveries from loans and advances written off			7,411	19,249	7,522	19,538
Impairment losses on available for sale investments			(331)	(860)	(11)	(29)
Credit loss expense - bank loans	—	—	15	39	(139)	(361)
Provision – others	(69)	(179)	—	—	(92)	(238)
TOTAL IMPAIRMENT LOSSES (NET)	**(3,585)**	**(9,312)**	**(2,316)**	**(6,016)**	**(8,374)**	**(21,750)**
PROFIT BEFORE TAX	**32,278**	**83,839**	**57,494**	**149,335**	**46,968**	**121,995**
Taxation	(4,215)	(10,948)	(7,226)	(18,769)	(5,591)	(14,522)
PROFIT FOR THE PERIOD/ YEAR	**28,063**	**72,891**	**50,268**	**130,566**	**41,377**	**107,473**
OTHER COMPREHENSIVE INCOME						
Net movement on available for sale investments	1,974	5,127	(179)	(465)	1,694	4,400
Tax effect of net movement on available for sale investments	34	88	(24)	(62)	(48)	(125)
OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE PERIOD/YEAR	**2,008**	**5,216**	**(203)**	**(527)**	**1,646**	**4,275**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR.	**30,071**	**78,106**	**50,065**	**130,039**	**43,023**	**111,748**

STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share premium	Legal reserve	General reserve	Other non-distributable reserves	Proposed Cash Dividend	Proposed stock dividend	Retained earnings	Total
					(RO '000)				
Balance at 1 January 2015	121,883	34,465	43,380	4,419	41,322	20,720	12,188	83,152	361,529
Total comprehensive income for the period									
Profit for the period	—	—	—	—	2,008	—	—	28,063	30,071
Net movement on available for sale investments	—	—	—	—	—	—	—	—	—
Transfer to retained earnings...	—	—	—	—	(1,500)	—	—	1,500	—
Transactions with owners recorded directly in equity..	—	—	—	—	—	—	—	—	—
Issue of Shares........................	12,188	—	—	—	—	—	(12,188)	—	—
Dividend paid	—	—	—	—	—	(20,720)	—	—	(20,720)
Proposed cash dividend	—	—	—	—	—	—	—	—	—
Proposed stock dividend	—	—	—	—	—	—	—	—	—
Transfer to subordinated debt reserve	—	—	—	—	—	—	—	—	—
Transfer to legal reserve..........	—	—	—	—	—	—	—	—	—
Balance at 30 June 2015	**134,071**	**34,465**	**43,380**	**4,419**	**41,830**	**—**	**—**	**112,715**	**370,880**
Balance at 1 January 2015 - in USD'000.................................	316,579	89,519	112,675	11,478	107,330	53,818	31,657	215,979	939,036
Balance at 30 June 2015 - in USD'000	348,236	89,519	112,675	11,478	108,649	—	—	292,766	963,325

	Share Capital	Share premium	Legal reserve	General reserve	Other non-distributable reserves	Proposed Cash Dividend	Proposed stock dividend	Retained earnings	Total
					(RO '000)				
Balance at 1 January 2014	110,803	34,465	39,586	4,419	44,905	16,620	11,080	66,206	328,084
Total comprehensive income for the year									
Profit for the year...................	—	—	—	—	—	—	—	50,268	50,268
Net movement on available for sale investments...........	—	—	—	—	(203)	—	—	—	(203)
Transfer to retained earnings..	—	—	—	—	(16,100)	—	—	16,100	
Transactions with owners recorded directly in equity.	—	—	—	—	—	—	—	—	—
Issue of Shares.......................	11,080	—	—	—	—	—	(11,080)	—	—
Dividend paid	—	—	—	—	—	(16,620)	—	—	(16,620)
Proposed cash dividend	—	—	—	—	—	20,720	—	(20,720)	—
Proposed stock dividend	—	—	—	—	—	—	12,188	(12,188)	—
Transfer to subordinated debt reserve	—	—	—	—	12,720	—	—	(12,720)	—
Transfer to legal reserve.........	—	—	3794	—	—	—	—	(3,794)	—
Balance at 31 December 2014.................................	**121,883**	**34,465**	**43,380**	**4,419**	**41,322**	**20,720**	**12,188**	**83,152**	**361,529**
Balance at 1 January 2014 - in USD'000................................	287,799	89,519	102,821	11,478	116,636	43,169	28,779	171,965	852,166
Balance at 31 December 2014 - in USD'000	316,579	89,519	112,675	11,478	107,330	53,818	31,657	215,979	939,035

	Share Capital	Share premium	Legal reserve	General reserve	Other non-distributable reserves	Proposed Cash Dividend	Proposed stock dividend	Retained earnings	Total
					(RO '000)				
Balance at 1 January 2013	110,803	34,465	39,586	4,419	30,719	19,391	—	65,069	304,452
Total comprehensive income for the year									
Profit for the year...................	—	—	—	—	—	—	—	41,377	41,377
Net movement on available for sale investments...........	—	—	—	—	1,646	—	—	—	1,646
Transactions with owners recorded directly in equity.	—	—	—	—	—	—	—	—	—
Issue of Shares.......................	—	—	—	—	—	—	—	—	—
Dividend paid	—	—	—	—	—	(19,391)	—	—	(19,391)
Proposed cash dividend	—	—	—	—	—	16,620	—	(16,620)	—
Proposed stock dividend	—	—	—	—	—	—	11,080	(11,080)	—
Transfer to subordinated debt reserve	—	—	—	—	12,540	—	—	(12,540)	—
Transfer to legal reserve.........	—	—	—	—	—	—	—	—	—
Balance at 31 December 2013.................................	**110,803**	**34,465**	**39,586**	**4,419**	**44,905**	**16,620**	**11,080**	**66,206**	**328,084**
Balance at 1 January 2013 – in USD'000............................	287,799	89,519	102,821	11,478	79,790	50,366	—	169,011	790,784
Balance at 31 December 2013 - in USD'000	287,799	89,519	102,821	11,478	116,636	43,169	28,779	171,965	852,166

Statement of Cash Flows

	For the six month period ended 30 June 2015		For the year ended 31 December 2014		For the year ended 31 December 2013	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
OPERATING ACTIVITIES						
Profit before taxation	32,278	83,839	57,494	149,335	46,968	121,994
Adjustments for:						
Depreciation.................................	1,548	4,021	3,003	7,800	3,339	8,673
Provision for credit losses (net).....	7,444	19,335	9,411	24,444	15,654	40,660
Provision for credit losses (net)- due from banks.........................	68	177	(15)	(39)	139	361
Impairment losses on available for sale investments........................	1	3	331	860	11	29
Provision against collateral assets .	—	—	—	—	92	239
Profit on sale of equipment (net)...	(4)	(10)	(16)	(42)	(43)	(112)
Profit on sale of investments.........	67	174	(2,072)	(5,382)	(1,700)	(4,416)
Investment income	(2,379)	(6,179)	(4,129)	(10,725)	(3,346)	(8,691)
Operating profit before changes in operating assets and liabilities	**39,023**	**101,358**	**64,007**	**166,251**	**61,114**	**158,737**
Due from banks and other money market placements.....................	(24,870)	(13,616)	6,106	15,860	19,351	50,262
Due to banks and other money market deposits..........................	(5,242)	(64,597)	(133,358)	(346,384)	32,724	84,998
Loans and advances to customers .	(124,707)	(323,914)	(258,025)	(670,195)	(172,291)	(447,509)
Other assets..................................	(29,310)	(76,130)	26,512	68,863	(16,605)	(43,130)
Customers' deposits......................	280,947	729,732	(1,417)	(3,681)	292,405	759,494
Euro medium term notes	685	1,779	192,500	500,000		
Other liabilities	32,346	84,016	(7,751)	(20,132)	8,734	22,686
Cash from operations	168,872	438,629	(111,426)	(289,418)	225,432	585,538
Taxes paid....................................	(6,971)	(18,106)	(6,699)	(17,400)	(5,751)	(14,938)
Net cash from operating activities..................................	**161,901**	**420,522**	**(118,125)**	**(306,818)**	**219,681**	**570,600**
INVESTING ACTIVITIES						
Purchase of non-trading investments...............................	(16,649)	(43,244)	(24,599)	(63,894)	(37,310)	(96,909)
Proceeds from sale of non-trading investments...............................	1,191	3,094	11,244	29,205	18,824	48,893
Purchase of premises and equipment.................................	(8,053)	(20,917)	(6,120)	(15,896)	(3,017)	(7,836)
Disposal of premises and equipment.................................	23	60	25	65	85	221
Income from bond and other investments...............................	1,390	3,610	2,593	6,735	2,673	6,943
Dividend income..........................	989	2,569	1,536	3,990	673	1,748
Translation differences on premises and equipment and tax	(15)	(39)	(14)	(36)	(81)	(211)
Net cash used in investing activities..................................	**(21,124)**	**(54,868)**	**(15,335)**	**(39,831)**	**(18,153)**	**(47,151)**
FINANCING ACTIVITIES						
Payment of dividend	(20,720)	(53,818)	(16,620)	(43,169)	(19,391)	(50,366)
Net movement in subordinated debt...	(1,500)	(3,896)	(16,100)	(41,818)	18,000	46,753
Net cash (used in) / from financing activities..................	**(22,220)**	**(57,714)**	**(32,720)**	**(84,987)**	**(1,391)**	**(3,613)**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	118,557	307,940	(166,180)	(431,636)	200,137	519,836
Cash and cash equivalents at the beginning of the year................	313,135	813,338	479,315	1,244,974	279,178	725,138
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**431,692**	**1,121,278**	**313,135**	**813,338**	**479,315**	**1,244,974**
REPRESENTING:						
Cash and balances with Central Banks..	397,679	1,032,932	288,332	748,914	367,816	955,366

	For the six month period ended 30 June 2015		For the year ended 31 December 2014		For the year ended 31 December 2013	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Deposits and balances with other banks and financial institutions (net)	34,013	88,345	24,803	64,424	111,499	289,608
	431,692	**1,121,278**	**313,135**	**813,338**	**479,315**	**1,244,974**

SELECTED FINANCIAL RATIOS

	As at	As at 31 December	
	30 June 2015	2014	2013
		(%)	
Return on average assets[1]	1.8	1.5	1.5
Return on average equity[2]	15.7	14.7	13.3
Net interest margin[3]	3.2	3.0	3.2
Customers' deposits/total assets	75.5	73.2	75.2
Cost to income ratio[4]	44.3	47.6	46.7
Non-performing financings ratio[5]	1.9	2.0	1.9
Non-performing financings provisions ratio[6]	148.7	142.0	139.1
Capital adequacy ratio[7]	14.1	14.6	14.6
Tier 1 capital ratio[8]	11.8	12.3	11.8
Loans to Deposit ratio[9]	99.0	106.4	94.9

1 Net profit for the year divided by average total assets (annualised for the six month period ended 30 June 2015).

2 Net profit for the year divided by average shareholders equity (annualised for the six month period ended 30 June 2015).

3 Net interest income including interest on investments divided by average income earning assets (annualised for the six month period ended 30 June 2015).

4 Total operating cost divided by total operating income.

5 Non-performing loans net of reserved interest divided by gross loans less reserved interest.

6 Total impairment provision (including the portfolio provision for risk inherent in the Bank's portfolio) divided by non - performing loans net of reserved interest.

7 Calculated in accordance with Central Bank regulations. Ratio as at 30 June 2015 is calculated without including interim profits, whereas ratios as at 31 December 2014 and 31 December 2013 are calculated including full year retained profits.

8 Calculated in accordance with Central Bank regulations. Ratio as at 30 June 2015 is calculated without including interim profits, whereas ratios as at 31 December 2014 and 31 December 2013 are calculated including full year retained profits.

9 Loans, advances and financing activities for customers (net) divided by customers' deposits and unrestricted investment accounts.

RELATED PARTY TRANSACTIONS

Details of all transactions where a Board member and/or other related parties might have a potential interest are provided to the Board for their review and approval, and the interested Board member neither participates in the discussions, nor do they vote on such matters. On a half yearly basis, as at 30 June and 31 December of each financial year, the details of the related party transactions are produced and submitted to the Central Bank and other regulatory bodies for information and proper disclosure. Details of all the related party transactions are provided to the shareholders as part of the financial statements submitted for approval at the Annual General Meeting along with the statement that transactions are on an arm's length and independent basis and are reasonable.

In the ordinary course of business, the Bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties as at the six-month period ended 30 June 2015 and the years ended 31 December 2014 and 31 December 2013 are as follows.

	As at 30 June			As at 31 December					
	2015			2014			2013		
	Principal share holders	Others	Total	Principal share holders	Others	Total	Principal share holders	Others	Total
					RO'000				
Loans and advances	—	32,429	32,429	—	12,952	12,952	—	36,107	36,107
Customers deposits	106,524	25,543	132,067	93,196	22,513	115,709	188,244	23,498	211,742
Due from banks	3,880	26,843	30,723	16	12,898	12,914	36,589	12,898	49,487
Due to banks	19,500	—	19,500	48,282	—	48,282	99	—	99
Subordinated debt	14,500	4,000	18,500	14,500	4,000	18,500	14,500	5,500	20,000
Letter of credit, guarantees	318	1,500	1,818	469	1,229	1,698	45	1,029	1,074

	As at 30 June			As at 31 December					
	2015			2014			2013		
	Principal share holders	Others	Total	Principal share holders	Others	Total	Principal share holders	Others	Total
					RO'000				
and acceptance									
Standby revolving credit facility...............................	77,000	—	77,000	77,000	—	77,000	77,000	—	77,000
Risk indemnities received	479	—	479	906	—	906	1,793	1,333	3,126
Investment.............................	2,094	—	2,094	2,174	—	2,174	1,800	129	1,929

	As at 30 June			As at 31 December					
	2015			2014			2013		
	Principal share holders	Others	Total	Principal share holders	Others	Total	Principal share holders	Others	Total
					U.S.$'000				
Loans and advances	—	84,231	84,231	—	33,642	33,642	—	93,784	93,784
Customers deposits	276,686	66,345	343,031	242,068	58,475	300,543	488,945	61,034	549,979
Due from banks	10,078	69,722	79,800	42	33,501	33,543	95,036	33,501	128,537
Due to banks...........................	50,649	—	50,649	125,408	—	125,408	257	—	257
Subordinated debt..................	37,662	10,390	48,052	37,662	10,390	48,052	37,662	14,286	51,948
Letter of credit, guarantees and acceptance	826	3,896	4,722	1,218	3,192	4,410	117	2,673	2,790
Standby revolving credit facility...............................	200,000	—	200,000	200,000	—	200,000	200,000	—	200,000
Risk indemnities received	1,244	—	1,244	2,353	—	2,353	4,657	3,462	8,119
Investment.............................	5,439	—	5,439	5,647	—	5,647	4,675	335	5,010

The Bank's statement of comprehensive income includes the following amounts in relation to transactions with related parties as at six-month period ended 30 June 2015 and the years ended 31 December 2014 and 31 December 2013.

	As at 30 June			As at 31 December					
	2015			2014			2013		
	Principal share holders	Others	Total	Principal share holders	Others	Total	Principal share holders	Others	Total
					RO'000				
Interest income	17	433	450	4	949	953	26	1,619	1,645
Commission income	—	26	26	—	45	45	—	21	21
Interest expense	1,834	171	2,005	4,754	595	5,349	721	634	1,355
Other expenses	—	208	208	—	810	810	—	1,620	1,620

	As at 30 June			As at 31 December					
	2015			2014			2013		
	Principal share holders	Others	Total	Principal share holders	Others	Total	Principal share holders	Others	Total
					U.S.$' 000				
Interest income	44	1,125	1,169	10	2,465	2,475	68	4,205	4,273
Commission income	—	68	68	—	117	117	—	55	55
Interest expense	4,764	444	5,208	12,348	1,545	13,893	1,872	1,647	3,519
Other expenses	—	540	540	—	2,104	2,104	—	4,208	4,208

The Bank's senior management compensation amounts are set out below as at six-month period ended 30 June 2015 and the years ended 31 December 2014 and 31 December 2013.

Salaries and other short term benefits

	As at 30 June	As at 31 December	
	2015	2014	2013
		RO '000	
Fixed..	1,234	2,298	2,257
Discretionary	1,699	910	1,006
Total..	**2,933**	**3,208**	**3,263**

Salaries and other short term benefits

	As at 30 June	As at 31 December	
	2015	**2014**	**2013**
		U.S.$ '000	
Fixed	3,205	5,969	5,862
Discretionary	4,413	2,364	2,613
Total	**7,618**	**8,333**	**8,475**

FINANCIAL REVIEW

The following discussion contains an analysis of the audited results of operations of the Bank as at and for the years ended 31 December 2014 and 2013 and the unaudited results of operations of the Bank for the six month period ended 30 June 2015 and 2014. The financial data disclosed in this financial review should be read in conjunction with the Bank's Financial Statements (other than the September 2015 Financial Statements) and the related notes thereto. Unless otherwise specified, the financial data discussed below has been extracted without material adjustment from the Bank's Financial Statements (other than the September 2015 Financial Statements) and the related notes thereto, as included elsewhere in this Prospectus. To present a consistent approach and for convenience only, the financial data for the six month period ended 30 June 2015 has been translated from Omani Riyals to United States dollars using an exchange rate of U.S.$1 = RO 0.3850.

Overview

The Bank was established in the Sultanate of Oman in 1973 as a joint stock company (under registration no. 1003704) and is engaged in retail banking, wholesale banking and investment banking services.

As at 30 June 2015, the Bank was the third largest bank in Oman by total assets, representing approximately 11.3 per cent. of total assets, 12.8 per cent. of total loans and 12.3 per cent of total deposits (source: Central Bank's Consolidated Balance Sheet June 2015).

For the six month period ended 30 June 2015, the Bank achieved a net profit of RO 28.1 million, representing an increase of 21.8 per cent. compared to RO 23.0 million for the six month period ended 30 June 2014. For the year ended 31 December 2014, the Bank achieved a net profit of RO 50.3 million, representing an increase of 21.5 per cent. compared to RO 41.4 million for the year ended 31 December 2013. Its total assets amounted RO 3.3 billion as at 30 June 2015, an increase of 9.4 per cent. compared to RO 3.0 billion as at 31 December 2014.

Shareholders' equity amounted to RO 370.9 million as at 30 June 2015, an increase of 10.8 per cent. from RO 334.7 million as at 30 June 2014, and an increase of 2.6 per cent. from an equity of RO 361.5 million as at 31 December 2014.

Since 1 January 2014, the Bank has been required by the Central Bank to maintain a minimum total capital adequacy ratio of 12.625 per cent. The Bank's total capital adequacy ratio is calculated in accordance with Central Bank guidelines and as at 30 June 2015 was 14.1 per cent., compared to 14.6 per cent as at 31 December 2014 and 14.6 per cent. as at 31 December 2013. The Bank's Tier 1 capital ratio was 11.8 per cent. as at 30 June 2015, compared to 12.3 per cent. as at 31 December 2014 and 11.8 per cent. as at 31 December 2013. Capital ratios as at 30 June 2015 are calculated without including interim profits, whereas capital ratios as at 31 December 2014 and 31 December 2013 are calculated to include full year retained profits.

As at 30 June 2015, the authorised ordinary share capital of the Bank comprised 2,000,000,000 ordinary shares of RO 0.100 each and the issued and fully paid-up ordinary share capital of the Bank comprised 134.1 million ordinary shares of RO 0.100 each. As at 30 June 2015, 34.9 per cent. of the Bank's issued share capital was held by Commercial Bank. The Bank operates as one of Commercial Bank's "alliance banks", enabling it to partner with other alliance banks on specific cross- border/international transactions (see "*Description of The National Bank of Oman SAOG - Capital Structure - Commercial Bank*").

A discussion of the Bank's significant accounting policies is provided at Note 3 to the Bank's Annual Financial Statements.

Significant Factors Affecting Results of Operations

The Bank's revenues and results of operations during the periods under review have been affected by the following factors:

Liquidity

High levels of liquidity in the banking sector in Oman, together with limits in place for overseas exposures, have lowered the yields and margins within the banking sector to 4.5 per cent. in June 2015 compared to 4.7 per cent. in December 2014 and 5.0 per cent. in December 2013 (source: Central Bank December 2014 and December 2013 Monthly Statistical Bulletins).

Lower costs of funds

Higher net interest income has been generated as a result of an overall lower cost of funding for the Bank, thereby contributing to higher profitability. The Bank's overall cost of funding decreased from 1.8 per cent. in the year ended 31 December 2013 to 1.3 per cent. in the year ended 31 December 2014 and further to 1.2 per cent. in the six month period ended 30 June 2015.

Increase in staff costs

Staff costs increased due to the Bank's continued growth in the UAE and its "Muzn" Islamic banking window. In addition mandatory increases in salary costs in Oman (following recent labour reforms) have further increased costs.

Credit loss expenses

The Bank experienced volatility in net credit loss expenses in the years ended 31 December 2013 and 31 December 2014. The Bank had to absorb high loan loss charges in 2013 but benefited from lower provisions in 2014 and relative stability in 2015. While the recoveries from the delinquent retail portfolio are gradually improving year on year, the corresponding recoveries from corporate counterparties remain volatile. This is discussed in more detail below.

Expansion in the Bank's UAE operations

Operating profit contribution from the Bank's UAE operations increased from RO 0.002 million for the year ended 31 December 2013 to RO 1.3 million for the year ended 31 December 2014. This positive trend has continued into the six month period ended 30 June 2015.

Central Bank regulatory guidelines (2012)

The Central Bank's regulatory guidelines issued in 2012 reduced the debt burden ratio for individuals (the ratio of equated monthly installment to borrowers' income) from 65 per cent. to 50 per cent. The Bank is required to undertake diligence to ensure that this limit is not surpassed when entering into new loan agreements. Central Bank guidelines also

- reduced the permitted interest rate cap on loans from banks to individuals from 8 per cent. to 6 per cent.;
- reduced the Bank's lending limit (excluding mortgages) from 40 per cent. to 35 per cent. of gross loans and advances
- limited the tenor of unsecured loans to individual clients to a maximum of 10 years; and
- limited the services charges on insurance premium charged to the customers.

These guidelines have had a negative impact on the Bank's retail earnings since 2012. See "*The Sultanate of Oman Banking System and Prudential Regulations*".

Results of Operations for six month period ended 30 June 2015 and 30 June 2014

Operating income

The following table sets out the principal components of the Bank's operating income for each period indicated.

	For the six month period ended 30 June				Percentage change
	2015		2014		2015/2014
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*
Interest income..	59,347	154,148	57,392	149,070	3.4

	For the six month period ended 30 June				Percentage change
	2015		2014		2015/2014
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*
Interest expense	(15,555)	(40,403)	(19,409)	(50,413)	(19.9)
Net interest income	43,792	113,746	37,983	98,657	15.3
Net Income from Islamic financing and Investment activities	1,577	4,096	468	1,215	237.0
Other operating income	19,009	49,374	15,686	40,743	21.2
Total operating income	**64,378**	**167,215**	**54,137**	**140,616**	**18.9**

The Bank's total operating income increased by 18.9 per cent. to RO 64.4 million for the six month period ended 30 June 2015 compared to RO 54.1 million for the six month period ended 30 June 2014. This increase was principally a result of an increase in net interest income (RO 5.8 million) and other operating income (RO 3.3 million). Net Income from Islamic financing and investment activities also contributed additional RO 1.6 million to the total operating income in this period.

Interest income

The Bank's interest income increased by 3.4 per cent. to RO 59.3 million for the six month period ended 30 June 2015 compared to RO 57.4 million for the six month period ended 30 June 2014. This increase was primarily due to the change in maturity profile of assets as certain short term assets were replaced with assets that had longer maturities. As a result, interest bearing assets generated a yield of 4.5 per cent in six-month period ended 30 June 2015 compared to a yield of 4.2 per cent during the six month period ended 30 June 2014.

Interest expense

The Bank's interest expense decreased by 19.9 per cent. to RO 15.6 million for the six month period ended 30 June 2015 from RO 19.4 million for the six month period ended 30 June 2014. This decrease was principally due to the decrease in average overall cost of funds in the six month period ended 30 June 2015 (1.2 per cent) compared to the six month period ended 30 June 2014 (1.4 per cent). The decrease was due to the general decline in the market interest rates, despite the proportion of low cost deposits (including current and savings accounts) compared to the total deposits decreasing from 67 per cent. (for the six month period ended 30 June 2014) to 60 per cent. in the six-month period ended 30 June 2015.

Net Income from Islamic financing and Investment

The Bank's net income from Islamic financing and investment activities increased by 237.0 per cent. to RO 1.6 million for the six month period ended 30 June 2015 compared to RO 0.5 million for the six month period ended 30 June 2014. This increase was primarily due to a 64.2 per cent. increase in net financing to customers to RO 84.9 million as at 30 June 2015 compared to RO 51.7 million as at 30 June 2014.

Other operating income

The Bank's Other operating income increased by 21.2 per cent. to RO 19.0 million for the six month period ended 30 June 2015 compared to RO 15.7 million for the six month period ended 30 June 2014. This increase was principally a result of increase in income from service charges, fees and commissions and gains from foreign exchange dealings.

Operating expenses

The following table sets out the principal components of the Bank's total operating expenses for each period indicated.

	For the six month period ended 30 June				Percentage change
	2015		2014		2015/2014
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*
Staff costs	(16,993)	(44,138)	(15,407)	(40,018)	10.3

	For the six month period ended 30 June				Percentage change
	2015		2014		2015/2014
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*
Other operating expenses	(9,974)	(25,906)	(8,600)	(22,338)	16.0
Depreciation	(1,548)	(4,021)	(1,453)	(3,774)	6.5
Total operating expenses	**(28,515)**	**(74,065)**	**(25,460)**	**(66,130)**	**12.0**

The Bank's total operating expenses increased by 12.0 per cent. to RO 28.5 million for the six month period ended 30 June 2015 compared to RO 25.5 million for the six month period ended 30 June 2014. This is largely due to an increase in staff costs and increased costs relating to the expansion of the Bank's UAE branch business and the Muzn Islamic banking window.

Staff costs

The Bank's staff costs increased by 10.3 per cent. to RO 17.0 million for the six month period ended 30 June 2015 compared to RO 15.4 million for the six month period ended 30 June 2014. This increase was principally a result of an increase in the number of Bank employees, primarily as a result of the Bank's expansion in the UAE, the development of the Islamic banking operations in Oman and mandatory increases in staff salaries.

The Central Bank's regulations governing Islamic banking operations require a clear separation between the Bank's conventional and Islamic banking operations. This has resulted in a certain level of duplication, and therefore an increase in the overall number of Bank employees during this period.

Other operating expenses

The Bank's other operating expenses, which primarily constitute establishment costs, and operating and administrative expenses, increased by 16.0 per cent. to RO 10.0 million for the six month period ended 30 June 2015 compared to RO 8.6 million for the six month period ended 30 June 2014. The increase was principally a result of increased operational expenses relating to the Bank's card business, publicity expenses and office rentals (primarily for the Bank's Muzn Islamic banking window).

Depreciation

The Bank's depreciation expense increased by 6.5 per cent. to RO 1.5 million for the six month period ended 30 June 2015 compared to RO 1.5 million for the six month period ended 30 June 2014. The increase was principally a result of additional depreciation for motor vehicles, furniture and equipment and freehold land buildings and leasehold improvements.

Total impairment losses (net)

The following table sets out the principal components of the Bank's net total impairment losses for each period indicated.

	For the six month period ended 30 June				Percentage change
	2015		2014		2015/2014
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*
Credit loss expense - customers' loan	(8,102)	(21,044)	(7,575)	(19,675)	7.0
Recoveries and releases from provision for credit losses	658	1,709	2,132	5,538	(69.1)
Recoveries from loans and advances written off	3,928	10,203	3,100	8,052	26.7
Write-back/(impairment losses) on available for sale investments	(1)	(3)	(20)	(52)	(95.0)
Write-back/(credit loss expense) bank loans	(68)	(177)	121	314	(156.2)
Total impairment losses (net)	**(3,585)**	**(9,312)**	**(2,242)**	**(5,823)**	**59.9**

The Bank's total impairment losses increased by 59.9 per cent. to RO 3.6 million for the six month period ended 30 June 2015 compared to RO 2.2 million for the six month period ended 30 June 2014. This increase was principally a result of an increase in general provisions for the retail and corporate loans, coupled with lower recoveries due to the absence of any corporate recoveries for the six month period ended 30 June 2015.

Pursuant to Central Bank regulations, banks in Oman are required to maintain general impairment provisions amounting to 1 per cent. of corporate lending to banks and retail mortgage portfolios and 2 per cent. on unsecured loans to individuals (see "*The Sultanate of Oman Banking and Prudential Regulations*"). The Central Bank of the UAE also requires banks to hold general provisions of 1.5 per cent. of credit risk weighted assets. Write-back/ (credit loss expense) bank loans shown above also include such general impairment provisions, which are mandated by the Central Bank and the Central Bank of the UAE.

Credit loss expense - customers' loan

The Bank's credit loss expense - customers' loan increased by 7.0 per cent. to RO 8.1 million for the six month period ended 30 June 2015 compared to RO 7.6 million for the six month period ended 30 June 2014. This increase was principally a result of the increase in general provisioning on corporate and retail loans. General provision amounted to RO 2.0 million in the six month period ended 30 June 2015 compared to RO 0.6 million in the six month period ended 30 June 2014.

Recoveries and releases from provision for credit losses

The Bank's recoveries and releases from provision for credit losses decreased by 69.1 per cent. to RO 658,000 for the six month period ended 30 June 2015 compared to RO 2.1 million for the six month period ended 30 June 2014. This decrease was principally due to the inclusion of certain one-off corporate recoveries in the six month period ended 30 June 2014.

Recoveries from loans and advances written off

The Bank's recoveries from loans and advances written off increased by 26.7 per cent. to RO 3.9 million for the six month period ended 30 June 2015 compared to RO 3.1 million for the six month period ended 30 June 2014. This is as a result of the Bank's improved retail and corporate debt recovery procedures, thereby improving recoveries made on debts previously provided or written-off.

Write-back/impairment losses on available for sale investments

The Bank's impairment losses on available for sale investments decreased by 95 per cent. to RO 1,000 for the six month period ended 30 June 2015 compared to RO 20,000 for the six month period ended 30 June 2014. This is primarily as a result of improved market conditions on the Bank's available for sale quoted investments.

Write-back/credit loss expense - bank loans

The Bank incurred a credit loss expense of RO 68,000 in the six month period ended 30 June 2015 compared to a writeback of RO 121,000 for the six month period ended 30 June 2014. Central Bank of Oman requires that banks maintain general provision on loans to other banks. The charge and the release represent the movement in such general provision. Apart from cost of general provision, the Bank does not have any other cost of delinquencies on loans to other banks.

Profit for the period

As a result of the foregoing, the Bank's profit increased by 21.8 per cent. to RO 28.1 million for the six month period ended 30 June 2015 compared to RO 23.1 million for the six month period ended 30 June 2014.

Total comprehensive income for the period

The following table sets out the principal components of the Bank's profit for each period indicated.

	For the six month period ended 30 June				Percentage change
	2015		2014		2015/2014
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*
Profit for the period	28,063	72,891	23,049	59,868	21.8
Other comprehensive income for the period	2,008	5,216	212	551	847.2
Total comprehensive income for the period	**30,071**	**78,107**	**23,261**	**60,419**	**29.3**

The Bank's total comprehensive income for the period increased by 29.3 per cent. to RO 30.1 million for the six month period ended 30 June 2015 compared to RO 23.3 million for the six month period ended 30 June 2014. The increase was primarily due to increased net profit for the period.

Other comprehensive income for the period

Other comprehensive income for the period principally constitutes the net movements on available for sale investments having taken into account the tax effects of such movements. The increase in other comprehensive income for the period by 847.2 per cent. to RO 2.0 million for the six month period ended 30 June 2015 compared to RO 212,000 for the six month period ended 30 June 2014 was principally due to gains from fair value changes of the Bank's available for sale investment portfolio.

Results of operations for the twelve month periods ended 31 December 2014 and 31 December 2013

Operating income

The following table sets out the principal components of the Bank's operating income for each year indicated.

	For the twelve month period ended 31 December				Percentage change
	2014		2013		2014/2013
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Interest income	117,577	305,395	116,630	302,935	0.8
Interest expense	(36,877)	(95,784)	(41,891)	(108,808)	(12.0)
Net interest income	80,700	209,611	74,739	194,127	8.0
Net income from Islamic financing and investment activities	1,760	4,571	228	592	671.9
Other operating income	31,770	82,519	28,955	75,208	9.7
Total operating income	**114,230**	**296,701**	**103,922**	**269,927**	**9.9**

The Bank's total operating income increased by 9.9 per cent. to RO 114.2 million for the twelve months ended 31 December 2014 compared to RO 103.9 million for the twelve months ended 31 December 2013. This increase was principally a result of higher net interest income (reflecting the Bank's lower cost of funds during this period) and net income from Islamic financing and investment activities (reflecting the expansion in the related underlying activities).

Interest income

The Bank's interest income increased by 0.8 per cent. to RO 117.6 million for the twelve months ended 31 December 2014 compared to RO 116.6 million for the twelve months ended 31 December 2013 despite a 12.0 per cent increase in loans and advances for the period ended 31 December 2014 compared to 31 December 2013. This reflects, in part, the lower interest rate environment during this period. Interest bearing assets, other than investments, earned interest at an overall effective annual rate of 4.2 per cent for the year ended 31 December 2014, which is lower than the equivalent 4.9 per cent rate for the year ended 31 December 2013.

Interest expense

The Bank's interest expense decreased by 12.0 per cent. to RO 36.9 million for the twelve months ended 31 December 2014 from RO 41.9 million for the twelve months ended 31 December 2013. For the year ended 31 December 2014, the average overall effective annual cost of the Bank's funds was 1.3 per cent.

(year ended 31 December 2013 – 1.8 per cent.). This decrease in the Bank's cost of funds was principally a result of a larger low cost deposit base (achieved as a result of the Bank's continued efforts to broaden and deepen the customer deposit relationships) as well as the Bank's successful issue of U.S.$500 million 3.125 per cent. Notes (due 2019). which has contributed towards diversification of the Bank's funding base as well as reduction in its overall cost of funds.

Net income from Islamic financing and investment activities

The Bank's net income from Islamic financing and investment activities amounted to RO 1.8 million for the twelve months ended 31 December 2014 compared to RO 288,000 for the twelve months ended 31 December 2013. This increase was principally a result of a 418 per cent. increase in net loans and advances made through the Bank's newly established Islamic banking window between 31 December 2014 and 31 December 2013.

Other operating income

The Bank's Other operating income increased by 9.7 per cent. to RO 31.8 million for the twelve months ended 31 December 2014 compared to RO 29.0 million for the twelve months ended 31 December 2013, primarily due to the Bank's continued effort to diversify its non-fund based sources of income. The Bank benefitted from growth in the income generated by its trade related activities, fee based income from corporate loan origination and syndications, gain on foreign exchange dealings and income from Investment activities such as Dividend income and Profit on sale of investment.

Operating expenses

The following table sets out the principal components of the Bank's total operating expenses for each year indicated.

	For the twelve month period ended 31 December				Percentage change
	2014		2013		2014/2013
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Staff costs	(33,701)	(87,534)	(28,596)	(74,275)	17.9
Other operating expenses	(17,716)	(46,016)	(16,645)	(43,234)	6.4
Depreciation	(3,003)	(7,800)	(3,339)	(8,673)	(10.1)
Total operating expenses	**(54,420)**	**(141,350)**	**(48,580)**	**(126,182)**	**12.0**

The Bank's total operating expenses increased by 12.0 per cent. to RO 54.4 million for the twelve months ended 31 December 2014 compared to RO 48.6 million for the twelve months ended 31 December 2013. This increase was principally a result of higher staff costs and other operating expenses.

Staff costs

The Bank's staff costs increased by 17.9 per cent. to RO 33.7 million for the twelve months ended 31 December 2014 compared to RO 28.6 million for the twelve months ended 31 December 2013. This increase was principally a result of additional staff being employed as a result of the Bank's expansion in the UAE and the development of its Islamic banking operations in Oman. The Bank also funded end of service payments to Egypt staff as a result of the closure of certain Bank operations in Egypt (see "*Description of The National Bank of Oman SAOG - Branch Network and Product Distribution*").

Other operating expenses

The Bank's other operating expenses increased by 6.4 per cent. to RO 17.7 million for the twelve months ended 31 December 2014 compared to RO 16.6 million for the twelve months ended 31 December 2013. This increase was principally a result of increased operating and administration costs combined with a higher rental expense due to committed inflation adjustments.

Depreciation

The Bank's depreciation decreased by 10.1 per cent. to RO 3.0 million for the twelve months ended 31 December 2014 compared to RO 3.3 million for the twelve months ended 31 December 2013. This decrease was principally a result of the completion of depreciation charge relating to branch renovations undertaken in the previous years, and limited depreciation on the new additions due to the timing of the Capitalisation.

Total impairment losses (net)

The following table sets out the principal components of the Bank's net total impairment losses for each year indicated.

	For the twelve month period ended 31 December				Percentage change
	2014		2013		2014/2013
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Credit loss expense - customers' loan	(12,299)	(31,945)	(19,193)	(49,852)	(35.9)
Recoveries and releases from provision for credit losses	2,888	7,501	3,539	9,192	(18.4)
Recoveries from loans and advances written off	7,411	19,249	7,522	19,538	(1.5)
Impairment losses on available for sale investments	(331)	(860)	(11)	(29)	2,909.1
Credit loss expense - bank loans	15	39	(139)	(361)	(110.8)
Provision – others	-	-	(92)	(238)	(100.0)
Total impairment losses (net)	**(2,316)**	**(6,016)**	**(8,374)**	**(21,750)**	**(72.3)**

The Bank's total impairment losses decreased by 72.3 per cent. to RO 2.3 million for the twelve months ended 31 December 2014 compared to RO 8.4 million for the twelve months ended 31 December 2013. This decrease was principally a result of a decrease in the provisions required on retail and corporate loans.

The following table sets out the Bank's net total impairment losses for specific and general provisions for each year indicated.

	For the twelve month period ended 31 December			
	2014		2013	
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*
Specific provisions	36,202	94,031	37,167	96,538
General provisions	32.995	85,701	30,585	79,442

Credit loss expense - customers' loan

The Bank's credit loss expense - customers' loan decreased by 35.9 per cent. to RO 12.3 million for the twelve months ended 31 December 2014 compared to RO 19.2 million for the twelve months ended 31 December 2013. This variance was principally a result of a higher provision charge in the year ended 31 December 2013 as additional provisions were required for corporate loans in the year ended 31 December 2013.

Recoveries and releases from provision for credit losses

The Bank's recoveries and releases from provision for credit losses decreased by 18.4 per cent. to RO 2.9 million for the twelve months ended 31 December 2014 compared to RO 3.5 million for the twelve months ended 31 December 2013. This variance represents more corporate recoveries in the year ended 31 December 2013 compared to the year ended 31 December 2014, as explained above at *"Significant Factors Affecting Results of Operations"*.

Recoveries from loans and advances written off

The Bank's recoveries from loans and advances written off decreased marginally by 1.5 per cent. to RO 7.4 million for the twelve months ended 31 December 2014 compared to RO 7.5 million for the twelve months ended 31 December 2013.

Impairment losses on available for sale investments

The Bank's impairment losses on available for sale investments increased to RO 331,000 for the twelve months ended 31 December 2014 compared to RO 11,000 for the twelve months ended 31 December 2013. This increase was principally a result of changes in the Bank's provisioning procedures to reflect market price volatility during the last quarter of the year ended 31 December 2014.

Credit loss expense - bank loans

The Bank's credit loss expense - bank loans amounted to a release of RO 15,000 for the twelve months ended 31 December 2014, compared to an expense of RO 139,000 for the twelve months ended 31 December 2013. Central Bank of Oman requires that banks maintain general provision on loans to other banks. The charge and the release represent the movement in such general provision.

Provision - others

The Bank's provision - others was nil for the twelve months ended 31 December 2014, compared to RO 92,000 for the twelve months ended 31 December 2013. This represented a Central Bank regulatory provision created against collateral assets pending sale in that period.

Profit for the period

As a result of the foregoing, the Bank's profit for the twelve month period ended 31 December 2014 amounted to RO 50.3 million compared to RO 41.4 million for the twelve month period ended 31 December 2013, representing an increase of 21.5 per cent.

Total comprehensive income for the period

The following table sets out the principal components of the Bank's profit for each year indicated.

	For the twelve month period ended 31 December				Percentage change
	2014		2013		2014/2013
	RO '000	*U.S.$'000*	*RO '000*	*U.S.$'000*	*%*
Profit for the period..	50,268	130,566	41,377	107,473	21.5
Other comprehensive income/(expense) for the period	(203)	(527)	1,646	4,275	(112.3)
Total comprehensive income for the period....	**50,065**	**130,039**	**43,023**	**111,748**	**16.4**

The Bank's total comprehensive income for the period increased by 16.4 per cent. to RO 50.1 million for the twelve months ended 31 December 2014 compared to RO 43.0 million for the twelve months ended 31 December 2013. This increase was principally a result of the increase in profit for the period.

Other comprehensive income for the period

The Bank's other comprehensive income for the period decreased by 112.3 per cent. to RO 203,000 for the twelve months ended 31 December 2014 compared to RO 1.6 million for the twelve months ended 31 December 2013. This decrease was principally due to the difference in fair value changes of the Bank's available for sale investment portfolio.

Financial condition as at 30 June 2015, 31 December 2014 and 31 December 2013

The following table sets out a breakdown of the principal components of the Bank's total assets as at the relevant dates.

Total Assets

	As at 30 June		As at 31 December				Percentage Change	
	2015		2014		2013		2015/2014	2014/2013
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	
Cash and balances with Central Banks......................................	398,179	1,034,231	288,832	750,213	368,316	956,665	37.9	(21.6)
Due from banks and other money	144,040	374,130	144,933	376,449	228,518	593,553	(0.6)	(36.6)

	As at 30 June		As at 31 December				Percentage Change	
	2015		2014		2013		2015/2014	2014/2013
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	
market placements (net)								
Loans, advances and financing activities for customers (net)	2,434,076	6,322,275	2,316,813	6,017,696	2,068,199	5,371,946	5.1	12.0
Financial investments	164,969	428,491	147,524	383,179	132,603	344,423	11.8	11.3
Premises and equipment	29,676	77,081	23,204	60,270	20,104	52,218	27.9	15.4
Deferred tax asset	600	1,558	436	1,132	460	1,195	37.6	(5.2)
Other assets	83,532	216,966	54,352	141,175	78,141	202,964	(53.7)	(30.4)
Total assets..................................	**3,255,072**	**8,454,732**	**2,976,094**	**7,730,114**	**2,896,341**	**7,522,964**	**9.4**	**2.8**

As at 30 June 2015, the Bank's total assets increased by 9.4 per cent. to RO 3,255.1 million compared to RO 2,976.1 million as at 31 December 2014, which in turn constituted a 2.8 per cent. increase compared to RO 2,896.3 million as at 31 December 2013.

The 9.4 per cent. increase in total assets as at 30 June 2015 compared with 31 December 2014 was primarily a result of an increase in cash and balances with Central Banks and net loans, advances and financing activities for customers. The 2.8 per cent. increase in assets as at 31 December 2014 compared with 31 December 2013 was primarily a result of increases in net loans, advances and financing activities for customers, partially offset by decline in Cash and balances with central banks and the decline in Due from banks and other money market placements (net).

Cash and balances with Central Banks

As at 30 June 2015, the Bank's cash and balances with Central Banks amounted to RO 398.2 million compared to RO 288.8 million as at 31 December 2014, representing an increase of 37.9 per cent., which in turn constituted a 21.6 per cent. decrease compared to RO 368.3 million as at 31 December 2013.

The 37.9 per cent. increase in cash and balances with Central Banks as at 30 June 2015 was primarily a result of increased balances related to certificate of deposits and other balances maintained with the Central Bank of Oman as at 30 June 2015 which reflected the corresponding increase in customer deposits during this period. Similarly, the 21.6 per cent. decrease in cash and balances with Central Banks as at 31 December 2014 compared to December 2013 was as a result of a reduction in certificate of deposits which reflected the corresponding reduction in customer deposits during this period.

Due from banks and other money market placements (net)

Amounts due from banks and other money market placements marginally decreased by 0.6 per cent. to RO 144.0 million as at 30 June 2015 compared to RO 144.9 million as at 31 December 2014.

Amounts due from banks and other money market placements decreased by 36.6 per cent. to RO 144.9 million as at 31 December 2014 compared to RO 228.5 million as at 31 December 2013 principally as a result of reductions to customer deposits.

Loans, advances and financing activities for customers (net)

As at 30 June 2015, the Bank's loans, advances and financing activities for customers (net) amounted to RO 2,434.1 million compared to RO 2,316.8 million as at 31 December 2014, representing an increase of 5.1 per cent., which in turn constituted a 12.0 per cent. increase compared to RO 2,068.2 million as at 31 December 2013.

The 5.1 per cent. increase in loans, advances and financing activities for customers (net) between 30 June 2015 and 31 December 2014 was primarily due to the expansion of the Bank's UAE operations and Islamic banking operations in Oman. The 12.0 per cent. increase in loans, advances and financing activities for customers (net) as at 31 December 2014 compared to 31 December 2013 was primarily a result of growth in the Bank's corporate and retail loans.

A further discussion of the Bank's loans, advances and financing activities is provided at Note 6 to the Bank's Financial Statements.

Types of loans, advances and activities

The following table sets out a breakdown of the type of the Bank's loans, advances and activities as at the relevant dates.

	As at 30 June		As at 31 December				Percentage change	
	2015		2014		2013		2015/2014	2014/2013
	RO'000	*U.S.$ '000*	*RO'000*	*U.S.$ '000*	*RO'000*	*U.S.$ '000*	%	
Overdrafts	70,594	183,361	59,781	155,275	54,268	140,956	18.1	10.2
Personal loans	1,109,243	2,881,151	1,046,172	2,717,330	1,065,032	2,766,317	6.0	(1.8)
Corporate loans	1,337,642	3,474,395	—	—	—	—	—	—
Other loans	—	—	1,124,900	2,921,818	956,697	2,484,928	(100.0)	17.6
Loans against trust receipts	—	—	117,195	304,403	60,723	157,722	(100.0)	93.0
Bills discounted	—	—	47,713	123,930	20,121	52,262	(100.0)	137.1
Gross loans and advances	**2,517,479**	**6,538,906**	**2,395,761**	**6,222,756**	**2,156,841**	**5,602,185**	**5.1**	**11.1**
Less: Allowance for credit losses and reserved interest	(83,403)	(216,631)	(78,948)	(205,060)	(88,642)	(230,239)	5.6	(10.9)
Net loans and advances	**2,434,076**	**6,322,275**	**2,316,813**	**6,017,696**	**2,068,199**	**5,371,945**	**5.1**	**12.0**

Loans, advances and financing activities by sector

The Bank's loan portfolio comprises loans, advances and financing activities to retail, corporate customers, as well as Government and Government-related entities across a range of economic sectors on both a conventional and an Islamic basis. The following table sets out the Bank's gross loans and advances by sector as at the relevant dates.

	As at 30 June			As at 31 December					
	2015			2014			2013		
	RO '000	*U.S.$ '000*	*%*	*RO '000*	*U.S.$ '000*	*%*	*RO '000*	*U.S.$ '000*	*%*
Import trade	88,350	229,481	3.5	75,608	196,384	3.2	52,065	135,234	2.4
Export trade	—	-	—	300	779	0.0	341	886	—
Wholesale and retail trade	116,685	303,078	4.6	100,833	261,904	4.2	101,724	264,218	4.7
Mining and quarrying	31,548	81,943	1.3	13,774	35,777	0.6	7,191	18,678	0.3
Construction	234,311	608,600	9.3	235,948	612,852	9.8	196,018	509,138	9.1
Manufacturing	242,262	629,252	9.6	221,293	574,787	9.2	163,467	424,590	7.6
Electricity, gas and water	91,654	238,062	3.6	112,747	292,849	4.7	105,043	272,839	4.9
Transport and Communication	116,004	301,309	4.6	132,281	343,587	5.5	112,559	292,361	5.2
Financial institutions	117,006	303,912	4.6	80,746	209,730	3.4	84,757	220,148	3.9
Services	234,426	608,899	9.3	252,596	656,094	10.5	158,796	412,457	7.4
Personal loans	1,108,539	2,879,322	44.0	1,046,172	2,717,330	43.7	1,065,032	2,766,317	49.4
Agriculture and allied activities	8,735	22,688	0.3	10,430	27,091	0.4	13,484	35,023	0.6
Government	4,094	10,634	0.2	3,873	10,060	0.2	21	55	—
Non-Resident lending	52,096	135,314	2.1	—	—	—	49,161	127,691	2.3
All Others	71,769	186,413	2.9	109,160	283,532	4.6	47,182	122,551	2.2
Gross loans and advances	**2,517,479**	**6,538,906**	**100.00**	**2,395,761**	**6,222,756**	**100.0**	**2,156,841**	**5,602,185**	**100.0**

Impairment provisions

Impairment of financial assets

At each relevant reporting date, the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include:

- indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments;

- the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognised in the profit or loss for the year.

Loans and advances

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

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

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

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. Provisions raised if any, are written back to profit and loss account after payment of twelve instalments without default after restructure in case of retail loans, and with respect to corporate loans, as agreed with the Central Bank.

An analysis of the credit quality of the Bank's loan and advances is set out below as at the relevant dates:

	Performing loans (neither Past due nor impaired)	**Loans past due and not impaired**	**Non-performing loans**	**Gross loans**
		RO'000		
Balance as at 30 June 2015	2,410,001	47,885	59,593	2,517,479
Balance as at 30 June 2015 – U.S.$'000s	6,259,743	124,377	154,787	6,539,906
Balance as at 31 December 2014	2,283,140	54,156	58,465	2,395,761
Balance as at 31 December 2014 – U.S.$'000s	5,930,234	140,665	151,857	6,222,756
Balance as at 31 December 2013	2,048,434	47,120	61,287	2,156,841
Balance as at 31 December 2013 – U.S.$'000s	5,320,608	122,390	159,187	5,602,185

An ageing analysis of the Bank's loans which are past due but not impaired is set out below as at the relevant dates:

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
		RO'000		
Loans and advances to customers (net) at				
30 June 2015	23,354	13,524	11,007	47,885
30 June 2015 – U.S.$'000s	60,660	35,127	28,590	124,377
31 December 2014	35,572	11,984	6,600	54,156
31 December 2014 – U.S.$000s	92,395	31,127	17,143	140,665
31 December 2013	30,844	12,074	4,202	47,120
31 December 2013 – U.S.$'000s	80,114	31,361	10,914	122,389

Analysis of loans and provisions are presented as below as at the relevant dates:

	As at 30 June		As at 31 December			
	2015		2014		2013	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Gross Loans	2,517,479	6,538,906	2,395,761	6,222,756	2,156,841	5,602,187
Suspended Interest	10,750	27,922	(9,751)	(25,327)	(20,890)	(54,260)
Loans net of Suspended Interest	**2,506,729**	**6,510,984**	**2,386,010**	**6,197,429**	**2,135,951**	**5,547,927**
Non-performing Loans	59,593	154,787	58,465	151,857	61,287	159,187
Suspended Interest	10,750	27,922	(9,751)	(25,327)	(20,890)	(54,260)
Non-performing Loans net of Suspended Interest	**48,843**	**126,865**	**48,714**	**126,530**	**40,397**	**104,927**

Financial investments

As at 30 June 2015, the Bank's financial investments was RO 165.0 million compared to RO 147.5 million as at 31 December 2014, which in turn constituted a 11.3 per cent. increase compared to RO 132.6 million as at 31 December 2013.

The 11.3 per cent. increase in financial investments as at 31 December 2014 was primarily a result of increased investments in Oman Government development bonds.

Other assets

Other assets comprise receivables, accrued interest, customer acceptances, prepayments and various overnight items due for collection. As at 30 June 2015, the Bank's other assets increased by 53.7 per cent. to RO 83.5 million compared to RO 54.4 million as at 31 December 2014 which in turn constituted a 30.4 per cent. decrease compared to RO 78.1 million as at 31 December 2013. The increase in other assets is primarily a result of an increase in interest receivable and an increase in customers' indebtedness for acceptances.

Total Liabilities

The following table sets out a breakdown of the Bank's total liabilities as at the relevant dates.

	As at 30 June		As at 31 December				Percentage change	
	2015		2014		2013		2015/2014	2014/2013
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	%	
Due to banks and other deposits	62,109	161,322	102,188	265,423	226,359	587,945	(39.2)	(54.9)
Customers' deposits and unrestricted investment accounts	2,458,689	6,386,205	2,177,742	5,656,473	2,179,159	5,660,153	12.9	(0.1)
Euro medium term notes	195,908	508,852	195,223	507,073	—	—	0.4	—
Other liabilities.	102,107	265,213	69,761	181,197	77,512	201,330	46.4	(10.0)
Taxation Liabilities	3,279	8,517	6,051	15,717	5,527	14,357	(45.8)	9.5
Total liabilities	**2,822,092**	**7,330,109**	**2,550,965**	**6,625,884**	**2,488,557**	**6,463,785**	**10.6**	**2.5**

As at 30 June 2015, the Bank's total liabilities amounted to RO 2,822.1 million compared to RO 2,551.0 million as at 31 December 2014, representing an increase of 10.6 per cent., which in turn constituted a 2.5 per cent. increase compared to RO 2,488.6 million as at 31 December 2013.

The 10.6 per cent. increase in total liabilities as at 30 June 2015 and 2.5 per cent. as at 31 December 2014 were primarily a result of increases in customers' deposits and unrestricted investment accounts, and increase in taxation liabilities respectively.

The Bank's customers' deposits and unrestricted investment accounts and due to banks (representing deposits placed by other banks with the Bank) and other money market deposits amounted to RO 2,520.8 million as at 30 June 2015, RO 2,280 million as at 31 December 2014 and RO 2,405.5 million as at 31 December 2013. Of these amounts, customers' deposits and unrestricted investment accounts amounted to RO 2,458.7 million as at 30 June 2015, RO 2,177.7 million as at 31 December 2014 and RO 2,179.2 million as at 31 December 2013 and represented 97.5 per cent., 95.5 per cent. and 90.6 per cent., respectively, of the Bank's total customers' deposits and unrestricted investment accounts and due to banks and other money market deposits. As at 30 June 2015, 31 December 2014 and 31 December 2013, the concentration of the Bank's customers' deposits and other money market deposits to its 20 largest depositors was 43.2 per cent. (RO 1,062 million), 35.8 per cent. (RO 780.3 million) and 41.2 per cent. (RO 896.9 million), respectively.

Due to banks and other money market deposits

As at 30 June 2015, the Bank's due to banks and other money market deposits amounted to RO 62.1 million compared to RO 102.2 million as at 31 December 2014, representing a decrease of 39.2 per cent., which in turn constituted a 54.9 per cent. decrease compared to RO 226.4 million as at 31 December 2013. This continued decrease is due to prepayments of high cost borrowings with funds received from issuance made under the EMTN programme during the year ended 31 December 2014 and the scheduled repayments in the six month period ended 30 June 2015.

Customers' deposits and unrestricted investment accounts

As at 30 June 2015, the Bank's customers' deposits and unrestricted investment accounts amounted to RO 2,458.7 million compared to RO 2,177.7 million as at 31 December 2014, representing an increase of 12.9 per cent., which in turn constituted a 0.1 per cent. decrease compared to RO 2,179.2 million as at 31 December 2013.

The 12.9 per cent. increase in customers' deposits and unrestricted investment accounts as at 30 June 2015 was due to an increase in term deposits arising during the ordinary course of the Bank's business. The 0.1 per cent. decrease in customers' deposits and unrestricted investment accounts as at 31 December 2014 was due to a decrease in term deposits, which resulted from the Bank accepting fewer term deposits during the year ended 31 December 2014 to accommodate the supply of additional funds it received under the EMTN programme during this period, and an increase in current account deposits.

The following table sets out the break-down of funding from the Bank's customers' deposits and unrestricted investment accounts as at the relevant dates.

	As at 30 June		**As at 31 December**				**Percentage change**	
	2015		**2014**		**2013**		**2015/2014**	**2014/2013**
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	
Current Accounts....................	875,707	2,274,564	824,587	2,141,784	618,035	1,605,285	6.2	33.4
Savings Accounts	603,112	1,566,525	563,729	1,464,231	542,376	1,408,769	7.0	3.9
Term Deposits	979,870	2,545,117	789,426	2,050,458	1,018,748	2,646,099	24.1	(22.5)
Total Deposits	**2,458,689**	**6,386,206**	**2,177,742**	**5,656,473**	**2,179,159**	**5,660,153**	**12.9**	**(0.1)**

Other liabilities

The Bank's other liabilities comprise accrued expenses, end of service benefits to employees and other payables such as interest accruals and employee benefits. As at 30 June 2015, the Bank's other liabilities amounted to RO 102.1 million compared to RO 69.8 million as at 31 December 2014, representing an increase of 46.4 per cent., which in turn constituted a 10.0 per cent. decrease compared to RO 77.5 million as at 31 December 2013.

The increase and decrease in these other liabilities was primarily a result of an increase and decrease in interest payables and other accruals and liabilities under trade acceptance that are classified under other liabilities and have equivalent assets grouped under "*Other Assets*".

Liabilities, subordinated debt and equity

The following table sets out the Bank's total liabilities, subordinated debt and equity as at the relevant dates.

	As at 30 June		As at 31 December				Percentage change	
	2015		2014		2013		2015/2014	2014/2013
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*%*	
Total liabilities......................	2,822,092	7,330,109	2,550,965	6,625,883	2,488,557	6,463,784	10.6	2.5
Subordinated debt.................	62,100	161,299	63,600	165,195	79,700	207,013	(2.4)	(20.2)
Total equity	370,880	963,325	361,529	939,035	328,084	852,166	2.6	10.2
Total liabilities, subordinated debt and equity..............................	**3,255,072**	**8,454,732**	**2,976,094**	**7,730,114**	**2,896,341**	**7,522,964**	**9.4**	**2.8**

As at 30 June 2015, the Bank's total liabilities, subordinated debt and equity amounted to RO 3,255.1 million compared to RO 2,976.1 million as at 31 December 2014, representing an increase of 9.4 per cent., which in turn constituted a 2.8 per cent. increase compared to RO 2,896.3 million as at 31 December 2013.

Subordinated debt

As at 30 June 2015 the Bank's subordinated debt amounted to RO 62.1 million compared to RO 63.6 million as at 31 December 2014, representing a decrease of 2.4 per cent. This reduction is as a result of partial redemptions of such debt. Similarly, the Bank's subordinated debt levels decreased by 20.2 per cent. as at 31 December 2014 compared to RO 79.7 million as at 31 December 2013, due to redemption amounting to RO 16.1 million.

The Bank's current subordinated debt is privately placed with institutional investors and is not Basel III-compliant. However the Bank is in the process of exchanging these instruments for Basel III compliant instruments. The exchange is expected to be completed by the end of 2015.

As a percentage of the Bank's total liabilities, subordinated debt and equity, the Bank's subordinated debt constituted 1.9 per cent. as at 31 March 2015, 2.1 per cent. as at 31 December 2014 and 2.8 per cent. as at 31 December 2013. The following table provides an analysis of the Bank's subordinated debt as at 30th June 2015, 31 December 2014 and 31 December 2013.

	As at 30 June		As at 31 December			
	2015		2014		2013	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
At 1 January..	63,600	165,195	79,700	207,013	61,700	160,260
Received during the year..............................	(1,500)	(3,896)	(16,100)	(41,818)	18,000	46,753
	62,100	**161,299**	**63,600**	**165,195**	**79,700**	**207,013**

Total equity

As at 30 June 2015, the Bank's total equity amounted to RO 370.9 million compared with RO 361.5 million as at 31 December 2014, representing an increase of 2.6 per cent., which in turn constituted a 10.2 per cent. increase compared to RO 328.1 million as at 31 December 2013. This increase was primarily due to the increase in the earnings retained by the Bank less dividend payments approved during 2015.

The main constituents of the Bank's total equity as at these dates were share capital, retained earnings, other non-distributable reserves, legal reserve and share premium. Of the Bank's reserves, the most significant is the legal reserve, into which, in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No.10 of Abu Dhabi, 10 per cent. of profit earned each year must be contributed until the legal reserve amounts to one third of the Bank's share capital in Oman and half of the branch capital in Abu Dhabi. As at 30 June 2015, the legal reserve of Oman represented approximately one third of the Bank's issued share capital.

The following table sets out a breakdown of the Bank's total equity as at the relevant dates.

	As at 30 June		As at 31 December				Percentage change	
	2015		2014		2013		2015/2014	2014/2013
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	%	
Share capital.	134,071	348,236	121,883	316,579	110,803	287,799	10.0	10.0
Share premium	34,465	89,519	34,465	89,519	34,465	89,519	—	—
Legal reserve	43,380	112,675	43,380	112,675	39,586	102,821	—	9.6
General reserve	4,419	11,478	4,419	11,478	4,419	11,478	—	—
Other non-distributable reserves	41,830	108,649	41,322	107,330	44,905	116,636	1.2	(8.0)
Proposed cash dividend	—	—	20,720	53,818	16,620	43,169	(100.0)	24.7
Proposed stock dividend	—	—	12,188	31,657	11,080	28,779	(100.0)	10.0
Retained earnings	112,715	292,766	83,152	215,979	66,206	171,965	35.6	25.6
Total Equity	**370,880**	**963,325**	**361,529**	**939,035**	**328,084**	**852,166**	**2.6**	**10.2**

Contingent Liabilities and Commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised in the Bank's financial statements, they contain credit risk and are therefore part of the overall risk of the Bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

The sets out the Bank's contingent liabilities and commitments as at the relevant dates.

	As at 30 June		As at 31 December			
	2015		2014		2013	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Guarantees	414.958	1,077,813	487,964	1,267,439	482,327	1,252,797
Documentary letters of credit	86,541	224,782	77,018	200,047	80,423	208,891
Undrawn commitment to lend	135,205	351,182	83,637	217,239	97,836	254,119
	636,704	**1,653,777**	**648,619**	**1,684,725**	**660,586**	**1,715,807**

A further discussion of the Bank's contingent liabilities and commitments is provided at Note 21 to the Bank's Annual Financial Statements.

Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("**Basel**") and adopted by the Central Bank. The Central Bank is the Bank's principal regulator which sets and monitors its capital requirements in Oman. The Central Bank requires each Oman-based bank or banking group to maintain a minimum ratio of total capital to risk-weighted assets of 12.625 per cent, taking into account both on and off balance sheet transactions.

The current capital management plan envisaged for the Bank is based on the regulatory risk capital framework of Basel II and uses a standardised approach for calculating the credit as well market risk. The basic indicator approach for operational risk is prescribed by Central Bank. In accordance with Central Bank timelines, the Bank has implemented the Basel II standardised approach in relation to credit risk, market risk and operational risk.

The Bank's capital management is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory capital adequacy ratio requirements. In accordance with the Central Bank's guidelines, the Bank is required to report the capital component disclosures to the Central Bank's Banking Surveillance Department on a quarterly basis.

The following table sets out the Bank's key capital adequacy ratios as at the relevant dates (calculated in accordance with Central Bank guidelines).

	As at 30 June	As at 31 December		
	2015	2014	2013	New Regulation*
		%		
Core Equity	11.800	12.300	11.800	7.625
Tier 1	11.800	12.300	11.800	9.625
Total Capital adequacy	**14.100**	**14.600**	**14.600**	**12.625**

* Capital conservation buffer of 2.5% is phased in over four years starting from 2014 at 0.625% per annum. Note: As per Central Bank regulations, interim profits are excluded from the capital adequacy calculations.

The following table sets out the elements of the Bank's capital and risk weighted assets as at the relevant dates.

	As at 30 June		As at 31 December			
	2015		2014		2013	
	RO '000	*U.S.$ '000*	*RO '000*	*U.S.$ '000*	*RO '000*	*U.S.$ '000*
Tier I Capital (after supervisory deductions)	333,847	867,135	334,011	867,561	304,420	790,701
Tier II Capital (after supervisory deductions and up to eligible limits)	64,962	168,732	62,823	163,177	73,347	190,512
Total Regulatory Capital	398,809	1,035,868	396,834	1,030,738	377,767	981,214
Risk Weighted Assets - Banking Book	2,599,449	6,751,816	2,490,741	6,469,457	2,349,255	6,101,961
Risk Weighted Assets - Operational Risk	197,760	513,662	197,760	513,662	183,501	476,626
Risk Weighted Assets - Trading Book	36,587	95,031	23,210	60,286	48,385	125,675
Total Risk Weighted Assets — Whole bank	**2,833,796**	**7,360,509**	**2,711,711**	**7,043,405**	**2,581,141**	**6,704,262**

A further discussion of the Bank's capital and risk weighted assets as at 31 December 2014 is contained in the Bank's Basel II and III – Pillar III Report 2014 which is contained in the Bank's 2014 Annual Report.

Credit risk mitigation

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

Management is confident that the Bank has suitable policies to measure and control the credit risk, however, risks may arise from adverse changes in the credit quality and recoverability of loans and amounts due from counterparties. See "*Risk Factors – Risks Relating to the Bank – Commercial and Market risks - Credit risk*". In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required. The following table sets out an analysis of the credit quality of the Bank's loan and advances.

	Performing loans (neither past due nor impaired)	Loans past due and not impaired	Non performing loans	Gross loans
		RO'000		
Balance as at 1 January 2014	2,048,434	47,120	61,287	2,156,841
Additions during the year	1,104,563	65,132	20,620	1,190,315
Attrition during the year	(866,069)	(58,096)	(5,034)	(929,199)
Written-off during the year	(3,788)	-	(18,408)	(22,196)

	Performing loans (neither past due nor impaired)	Loans past due and not impaired	Non performing loans	Gross loans
		RO'000		
Balance as at 31 December 2014	**2,283,140**	**54,156**	**58,465**	**2,395,761**
Balance as at 31 December 2014 – U.S.$'000s	**5,930,234**	**140,665**	**151,857**	**6,222,756**
Balance as at 31 December 2013	2,048,434	47,120	61,287	2,156,841
Balance as at 31 December 2013 – U.S.$'000s	5,320,608	122,390	159,187	5,602,185

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

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
		RO'000		
Loans and advances to customers (net) at 31 December 2014	**35,572**	**11,984**	**6,600**	**54,156**
31 December 2014 – U.S.$'000s	**92,395**	**31,127**	**17,143**	**140,665**
31 December 2013	30,844	12,074	4,202	47,120
31 December 2013 – U.S.$'000s	80,114	31,361	10,914	122,389

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

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

The Bank's retail housing loans are secured by mortgage over the residential property. The Bank's Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

The following table sets out the Bank's collateral held and other credit enhancement held against loan and advances granted as at 31 December 2013 and 2014.

	Performing loans (neither past due nor impaired)	Loans past due and not impaired	Non performing loans	Total
		RO'000		
Collateral available	1,354,072	65,567	36,190	1,455,829
Guarantees available	9,673		—	9,673
Government Soft Loans*	6,746	—	1,253	7,999
Balance as at 31 December 2014	1,370,491	65,567	37,443	1,473,501
Balance as at 31 December 2014 - U.S.$'000	3,559,717	170,304	97,255	3,827,276
Balance as at 31 December 2013	1,162,348	106,226	27,272	1,295,846
Balance as at 31 December 2013 - U.S.$'000	3,019,086	275,912	70,836	3,365,834

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

A discussion of the Bank's key credit risks is provided at "*Description of The National Bank of Oman SAOG - Risk Management - Credit Risk*".

Concentrations

The Bank also manages, limits and controls concentrations of credit risk through diversification of lending activities so as to avoid undue concentrations of individuals or groups of customers in specific locations or businesses. The distribution of the Bank's assets, liabilities and contingent items by geographical regions as at 31 December 2014 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
			RO'000		
Cash and balances with Central Banks	275,011	12,562	1,259	—	288,832
Due from banks and other money market placements (net)	—	15,595	63	129,275	144,933
Loans, advances and financing activities for customers (net)	2,153,113	136,719	2	26,979	2,316,813
Financial investments	139,952	2,691	—	4,881	147,524
Premises and equipment	22,543	353	308	—	23,204
Deferred tax asset	436	—	—	—	436
Other assets	44,447	9,004	901	—	54,352
Total assets	**2,635,502**	**176,924**	**2,533**	**161,135**	**2,976,094**
Due to banks and other money market deposits	3,028	20,749	6,545	71,866	102,188
Customers' deposits and unrestricted investment accounts	2,073,867	101,436	2,439	—	2,177,742
Euro medium term notes	195,223	—	—	—	195,223
Other liabilities	58,834	10,362	565	—	69,761
Taxation	5,414	321	316	—	6,051
Subordinated debt	63,600	—	—	—	63,600
Shareholders' equity	354,751	6,106	672	—	361,529
Liabilities and shareholders' equity	**2,754,717**	**138,974**	**10,537**	**71,866**	**2,976,094**
Contingent liabilities	**406,189**	**48,193**	**14**	**110,586**	**564,982**

	Sultanate of Oman	UAE	Egypt	Others	Total
			U.S.$'000		
Cash and balances with Central Banks	714,314	32,629	3,270	—	750,213
Due from banks and other money market placements (net)	—	40,506	164	335,779	376,449
Loans, advances and financing activities for customers (net)	5,592,502	355,114	5	70,075	6,017,696
Financial investments	363,512	6,990	—	12,677	383,179
Premises and equipment	58,553	917	800	—	60,270
Deferred tax asset	1,132	—	—	—	1,132
Other assets	115,448	23,387	2,340	—	141,175
Total assets	**6,845,461**	**459,543**	**6,579**	**418,531**	**7,730,114**
Due to banks and other money market deposits	7,865	53,894	17,000	186,664	265,423
Customers' deposits and unrestricted investment accounts	5,386,668	263,470	6,335	—	5,656,473
Euro medium term notes	507,073	—	—	—	507,073
Other liabilities	152,816	26,914	1,468	—	181,198
Taxation	14,062	834	821	—	15,717
Subordinated debt	165,195	—	—	—	165,195
Shareholders' equity	921,430	15,860	1,745	—	939,035
Liabilities and shareholders' equity	**7,155,109**	**360,972**	**27,369**	**186,664**	**7,730,114**
Contingent liabilities	**1,055,037**	**125,177**	**36**	**287,236**	**1,467,486**

The distribution of the Bank's assets, liabilities and contingent items by geographical regions as at 31 December 2013 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
			RO'000		
Cash and balances with Central Banks	348,454	10,875	8,987	—	368,316
Due from banks and other money market placements (net)	—	27,275	54	201,189	228,518
Loans and advances (net)	1,991,304	45,551	1	31,343	2,068,199
Financial investments	123,360	4,635	1,399	3,209	132,603
Premises and equipment	19,480	308	316	—	20,104
Deferred tax asset	460	—	—	—	460
Other assets	74,551	2,130	1,460	—	78,141
Total assets	**2,557,609**	**90,774**	**12,217**	**235,741**	**2,896,341**
Due to banks and other money market deposits	31,816	296	6,478	187,769	226,359
Customers' deposits	2,079,303	50,236	8,974	40,646	2,179,159
Other liabilities	74,252	2,635	625	—	77,512
Taxation	5,190	1	336	—	5,527
Subordinated debt	79,700	—	—	—	79,700
Shareholders' equity	322,178	4,820	1,086	—	328,084
Liabilities and shareholders' equity	**2,592,439**	**57,988**	**17,499**	**228,415**	**2,896,341**
Contingent liabilities	**320,261**	**52,338**	**298**	**189,853**	**562,750**

	Sultanate of Oman	UAE	Egypt	Others	Total
			U.S.$'000		
Cash and balances with Central Banks	905,075	28,247	23,343	—	956,665
Due from banks and other money market placements (net)	—	70,844	140	522,569	593,553
Loans and advances (net)	5,172,218	118,314	3	81,411	5,371,946
Financial investments	320,416	12,039	3,634	8,334	344,423
Premises and equipment	50,597	800	821	—	52,218
Deferred tax asset	1,195	—	—	—	1,195
Other assets	193,640	5,532	3,792	—	202,964
Total assets	**6,643,141**	**235,776**	**31,733**	**612,314**	**7,522,964**
Due to banks and other money market deposits	82,639	769	16,826	487,711	587,945
Customers' deposits	5,400,787	130,483	23,309	105,574	5,660,153
Other liabilities	192,863	6,844	1,623	—	201,330
Taxation	13,481	3	873	—	14,357
Subordinated debt	207,013	—	—	—	207,013
Shareholders' equity	836,826	12,519	2,821	—	852,166
Liabilities and shareholders' equity	**6,733,609**	**150,618**	**45,452**	**593,285**	**7,522,964**
Contingent liabilities	**831,847**	**135,943**	**774**	**493,125**	**1,461,688**

Segmental information

For management purposes, the Bank's business activities are organised into the following operating segments:

- retail banking;
- corporate banking;
- investment banking;
- treasury and international banking;
- Islamic banking; and
- head office.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Set out below is a summary of certain financial information in relation to each operating segment for the six month period ended 30 June 2015 and for the twelve months ended 31 December 2014 and 31 December 2013:

For the six-month period ended 30 June 2015	**Retail Banking**	**Corporate Banking**	**Investment Banking**	**Treasury and International Banking**	**Head Office**	**Islamic Banking**	**Total**
				RO'000			
Net interest income..................	18,460	19,165	(477)	404	6,240	1,577	45,369
Operating income	26,573	24,754	1,319	2,439	7,660	1,633	64,378
Operating profit	15,894	22,228	980	2,132	(6,050)	679	35,863
Net profits................................	14,653	20,138	979	2,064	(10,246)	475	28,063
Total assets	1,032,539	1,370,414	54,093	68,499	625,845	103,682	3,255,072
Total liabilities and equity......	**930,027**	**1,454,846**	**38,995**	**-**	**727,523**	**103,682**	**3,255,072**

For Year ended 31 December 2014	**Retail Banking**	**Corporate Banking**	**Investment Banking**	**Treasury and International Banking**	**Head Office**	**Islamic Banking**	**Total**
				RO'000			
Net interest income..................	42,214	37,750	(333)	627	443	1,760	82,460
Operating income	12,720	8,030	4,953	3,391	2,600	75	31,770
Operating profit	33,969	41,248	3,941	3,413	(23,166)	405	59,810
Impairment provisions (NET)...	120	(1,556)	(331)	15	-	(564)	(2,316)
Net profits................................	34,089	39,692	3,610	3,428	(30,371)	(180)	50,268
Total assets	987,366	1,292,620	39,280	57,196	509,444	90,188	2,976,094
Total liabilities and equity......	**881,577**	**1,208,271**	**42,054**	**-**	**754,003**	**90,189**	**2,976,094**

For Year ended 31 December 2013	**Retail Banking**	**Corporate Banking**	**Investment Banking**	**Treasury and International Banking**	**Head Office**	**Islamic Banking**	**Total**
				RO'000			
Net interest income..................	39,898	30,002	(54)	1,938	2,955	228	74,967
Operating income	13,527	6,202	3,490	3,418	2,294	24	28,955
Operating profit	33,219	32,144	2,691	4,691	(16,893)	(510)	55,342
Impairment provisions (NET)...	(2,998)	(5,106)	5	(139)	-	(136)	(8,374)
Net profits................................	30,221	27,038	2,696	4,552	(22,484)	(646)	41,377
Total assets	1,023,915	1,067,325	29,175	100,755	660,496	14,675	2,896,341
Total liabilities and equity......	**788,234**	**1,326,082**	**52,706**	**-**	**714,644**	**14,675**	**2,896,341**

For a more detailed analysis in relation to each of the operating segments, see "*Business Activities*" in the "*Description of The National Bank of Oman SAOG*".

DESCRIPTION OF THE NATIONAL BANK OF OMAN SAOG

Overview

The National Bank of Oman SAOG (the "**Bank**") was established in the Sultanate of Oman on 28 February 1973 as a joint stock company (under registration no. 1003704) and is engaged in retail banking, corporate banking, investment banking, treasury, international and Islamic banking services. It is known in Arabic as "Bank Al Watani" and its registered address is P.O. Box 751, Ruwi, postal code 112, Muscat, Oman. The Bank's website address is www.NBO.co.om and its telephone number is +968 24 778164. The Bank's shares are listed on the Muscat Securities Market under the company code "NBOB".

As at 30 June 2015, the Bank had a network of 70 branches, 186 automatic teller machines ("**ATMs**") and cash and cheque deposit machines ("**CCDMs**") and the Bank provided banking services to approximately 405,000 retail customers and approximately 19,000 corporate and SME customers.

As at 30 June 2015, the Bank was the third largest bank in Oman by total assets, representing approximately 11.3 per cent. of the total assets, 12.8 per cent. of the total loans and 12.3 per cent of the total deposits of all banks in Oman (source: Central Bank's Consolidated Balance Sheet June 2015).

As at 30 June 2015, the Bank's international operations in the UAE and Egypt accounted for 6.8 per cent. of its total assets. In 2013, the Bank secured a banking license to open a branch in Dubai and as a result it now has two branches in UAE, one in Abu Dhabi and one in Dubai. The Bank has one branch in Egypt, which accounted for 0.6 per cent. of the Bank's total assets as at 30 June 2015. The Bank opened its first Islamic banking branch under the brand name "Muzn" in 2013, and as at 30 June 2015, the number of Islamic banking branches had increased to five.

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

As at the date of this Prospectus, the Bank had been assigned: a Long-term Issuer Default Rating of 'BBB' (stable outlook), a Short-term Issuer Default Rating of 'F2', a Viability Rating of 'bbb-', a Support Rating of '2' and a Support Rating Floor of 'BBB' by Fitch Ratings Limited ("**Fitch**"); and a Bank Deposits rating of 'A3/P-1', a Baseline Credit Assessment of 'ba1', an Adjusted Baseline Credit Assessment of 'baa3' and a Senior Unsecured rating of 'A3' with a 'negative' outlook by Moody's Investors Service Cyprus Ltd (**Moody's Cyprus**). Each of Moody's Cyprus and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).

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

History

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

Since its establishment, the Bank has focused on providing a full range of banking services to its customers. The Bank was the first bank in Oman to offer customers various new products and services including credit and debit cards, access to ATMs and several savings products. In 2013, the Bank launched its Islamic banking operations under the brand name "Muzn", with the aim of offering customers a range of Shari'a-compliant products and services. As at 30 June 2015, the Islamic banking assets amounted to RO 103.7 million, having increased significantly from RO 56.0m as at 30 June 2014.

The Bank has had an international presence in the UAE (Abu Dhabi) and in Egypt for over ten years. In 2013, it secured a full banking licence to offer conventional and Islamic finance services in the UAE and in the last quarter of 2013 it opened a branch in Dubai. The Bank has grown its UAE (net) loan portfolio from RO 83.9 million as at 30 June 2014 to RO 141.2 million as at 30 June 2015. Due to political instability, since 2011, the Bank's operations in Egypt have been reduced from five branches to one branch. See " - *Branch Network and Product Distribution*".

Strategy

The Bank's long term strategic goal is to be the bank of choice for both individual and business customers within Oman by delivering a consistently superior customer experience, engaging customers through technology and offering them convenience, personalised services and innovative products. The development of the Bank's UAE operations are designed to facilitate the trade and business corridors between Oman and the UAE, serve Omani mid-sized corporates and nationals based in the UAE and serve UAE nationals.

In 2010, the Bank engaged external consultants, McKinsey & Company, to review the business and establish future strategies. Since 2010, economic, political, market and regulatory changes have required changes to be made to the Bank's strategies. In particular, regulatory changes in Oman, the positive economic climate in the UAE and political developments in Egypt have required adjustments to the Bank's strategies.

Within Oman, the Bank's key strategy is to deliver superior service to its customers, as well as increase its market share through diversification and expansion. The Bank's primary focus remains expanding its corporate and investment banking operations where the Bank believes there are opportunities to grow in the medium and long term.

In 2013, the Central Bank removed the regulatory guidelines which restricted conventional banks operating in Oman from offering Islamic banking services and products. The Bank identified the development of Islamic banking in Oman as a key area for growth. It aims to retain existing conventional banking customers who may be seeking Islamic banking alternatives, as well as attracting new Islamic banking customers. In order to capitalise on opportunities in the Islamic banking sector and to diversify the Bank's existing revenue streams in Oman, in 2013 it launched the Islamic Banking Window, which operates under the brand name "Muzn". As at 30 June 2015, the Bank's Islamic banking operations assets amounted to RO 103.7 million, which accounted for 3.2 per cent. of the Bank's total assets. As at 30 June 2015, to accommodate the growth experienced since the launch of its Islamic banking window, the Bank has opened five dedicated Islamic banking branches. A sixth Islamic banking branch was opened on 17 August 2015. The majority of the Bank's Islamic banking customers are customers which have not previously had any accounts or conducted any other business with the Bank.

The Bank has a longstanding presence in Abu Dhabi. In order to benefit from the opportunities available as a result of the diversified UAE economy, particularly in light of the trade and business flows between the UAE and Oman, the Bank decided to expand its operations in the UAE. In 2013 the Bank obtained a UAE operating licence enabling it to offer conventional and Islamic banking services, and in late 2013, the Bank established its first branch in Dubai. The Bank is currently the only Omani Bank to have secured a conventional and Islamic banking licence to operate in the UAE. In the UAE, the Bank targets the trade and business corridors between Oman and the UAE, serving Omani mid-sized corporates and nationals based in the UAE and serving UAE national customers. The Bank has no immediate plans to open more branches in the UAE.

In light of political instability in Egypt, in 2011 the Bank decided to downsize its operations in the country. As at the date of this Prospectus, there is one branch operating in Egypt (and the future of this branch is under review by the Bank). See " - *Branch Network and Product Distribution*".

As at the date of this Prospectus, the Bank has presented its future strategy for the period between 2015 and 2019 to its Board of Directors and the Board of Directors has approved this strategy.

The Bank intends to achieve its long term strategic goal of being the bank of choice for both individual and business customers within Oman by implementing the following strategic themes, which are part of its future strategy for the period between 2015 and 2019:

Deliver superior customer experience

The Bank considers the delivery of a consistently superior customer service to be one of its top priorities as it believes this is a key factor in differentiating the Bank from its competitors and, accordingly, vital to maintaining its sustainable competitive advantage. The Bank's measures of superior customer service include customer satisfaction levels, loyalty and retention, as well as a consistently high market share.

Identify, penetrate and develop new and existing market and customer segments

Business and financing structures have changed significantly over the past 10 to 20 years in the Middle East providing the Bank with opportunities to develop new and existing markets and customer segments. The Bank's operations are split into sub-divisions to provide specialised and expert services to different types of corporate customer. For example, the Government has recently implemented policies to encourage the development of the SME sector in Oman, which has presented opportunities for the expansion of the Bank's SME operations. As the economy further develops and diversifies, the need to continue to identify and penetrate growing and emerging segments will intensify and offer the Bank competitive opportunities to develop its operations and services.

Establish a performance based culture

In order to build a high performance culture within the Bank, it has identified key parameters by which to measure its performance. These parameters include operating profit, return on average assets, return on average equity, as well as financial efficiency metrics such as cost to income ratios.

Banking group and divisional targets, as well as employee key performance indicators are aligned towards these strategic drivers of financial performance. The Bank considers an effective performance management system to be more than a means of assessing individual employee performance. It considers a performance based culture to be an effective method of executing the Bank's competitive strategy.

Rejuvenate brand appeal

A strong brand identity is critical for a bank operating in a highly competitive market. The Bank is focused on developing its brand to ensure it remains relevant and appealing to its customers. In light of recent demographic changes in Oman, the Bank's brands are being developed to appeal to, for example, young people by focusing on technology driven channels such as online and mobile banking and, accordingly, the Bank refreshed its brand identity in the second quarter of 2015.

As part of the rejuvenation of the Bank's brand, the Bank introduced the "Chairman's Speaker Series", a series of quarterly interactive lectures, given by leading individuals from the finance and business sectors as well as leading individuals from other backgrounds. It provides a platform to bridge the gap between Oman's more accomplished professionals and senior government officials and less traditional professionals, entrepreneurs and leaders from different backgrounds, by providing an interactive forum to learn and share ideas, experiences and aspirations as well as develop innovative propositions.

The introduction of this platform follows the launch of a Mobile Banking app at the beginning of 2015 that offers a range of features including EZ pay, a unique service that enables customers to register their mobile number with the Bank to receive and transfer funds from their mobile instead of their bank account.

In line with its commitment to simplify everyday banking for its customers, the Bank partnered with MasterCard in July 2015 to launch a pilot project to introduce "**NBO Beam**" contactless payment technology in Oman ahead of a nationwide rollout by December 2015.

Leverage and optimise distribution

The Bank's geographic presence across Oman and in the UAE provides retail and corporate customers with a convenient and easy way to access Bank branch services. The Bank is focused on the rationalisation and development of its branch network in order to meet existing and future customer needs. See " - *Branch Network and Product Distribution*". The Bank will also continue to develop flexible and more cost effective distribution channels. For example, the Bank intends to diversify revenue streams by utilising its existing retail branch network to strengthen its corporate and SME offerings by providing corporate and SME customer service representatives within branches.

Optimise cost and resource structure

The Bank focuses on improving operational efficiency so that it can operate at a lower cost level without adversely affecting revenue generation. The objective is to seek efficiencies in revenue generation, structuring and resources allocation whilst allowing the Bank to offer superior customer service to its targeted segments.

"One Bank"

Customers may be potential buyers of products and services from the Bank's operating segments across the three jurisdictions in which it operates. A "One Bank" culture has the potential to become a source of sustainable competitive advantage for the Bank. Initiatives including employee training are being implemented to ensure that the Bank's staff consider their actions in the context of the entire Bank. Giving employees a greater knowledge of Bank-wide operations will also enhance cross-selling opportunities.

Leverage UAE presence

In order to benefit from the trade and business flows between Oman and the UAE, the Bank has expanded its operations in the UAE. The Bank also targets mid-sized corporates based in Dubai and offers wealth management services primarily for Omani nationals residing in the country, as well as offering services to UAE national customers. See "*Branch Network and Product Distribution*".

Leverage the Bank's banking alliance

The Bank operates as an alliance bank of Commercial Bank, an alliance which also includes financial institutions operating in Turkey and the UAE, which provides the Bank with opportunities for cross border lending cooperation. Opportunities for cross-selling and sharing knowledge about industries and banking practices can result in potential competitive advantages for the alliance banks. See "*Competition and Competitive Strengths - its role as a strategic partner of Commercial Bank* ".

Develop project financing

Domestic project financing activities in Oman are continuing to develop as businesses engage in a wider variety of financing options than were traditionally available. Whilst there has been a recent slowdown in the demand for project financing in Oman due to declining oil prices, these declining oil prices are expected to create new opportunities as the Government focuses on diversifying into other sectors. This diversification may drive future demand for project financing in Oman. The Bank continues to engage with existing and potential private sector and Government customers in order to assist with the financing of major projects.

An example of this strategy is the Bank's close association with Duqm, an emerging industrial and port town on the coast of Oman. The Duqm frontier town project, which was completed in 2014, was solely financed by the Bank. In 2014, the Bank also played a key role in the Sohar Refinery re-financing and expansion project.

Maintain and develop relationships with the Government and Government-related entities

The Bank's strategy also involves the development of relationships with the Government and Government-related entities, which are the primary source of low cost deposits in Oman. The Bank has a dedicated Government banking division to maintain and improve its relationships with the Government and its related entities. The Bank has introduced card acquiring infrastructure (including card terminals and networks which effect payments by customers) in certain offices of the Government and Government-related entities, which enable the Bank to process payment card transactions on behalf of such offices. Such card transactions provide the Bank with an additional source of low cost deposits as the funds received in relation to these transactions are held by the Bank, in the form of current account deposits, until the transactions are processed and the funds are credited to the nominated account of the Government or relevant Government-related entity.

Competition and Competitive Strengths

The Bank is subject to competition in Oman from both locally incorporated and foreign banks. As at 30 June 2015, there were 16 commercial banks operating in Oman, of which seven were locally incorporated and nine were branches of foreign banks (source: Central Bank Quarterly Statistical Bulletin June 2015).

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

The Bank believes that its competitive strengths are:

- ***its profitability, efficiency and sound asset quality have kept pace with its growth***. The Bank's financial performance has been consistently strong in recent years. For the six month period ended 30 June 2015, the Bank's return on average assets was 1.8 per cent. (compared to 1.5 per cent. for the six month period ended 30 June 2014), its return on equity was 15.7 per cent. for the six month period ended 30 June 2015 (compared to 14.7 per cent. for the six month period ended 30 June 2014). For the six month period ended 30 June 2015, the cost to income ratio was 44.3 per cent. (compared to 47.6 per cent. for the six month period ended 30 June 2014) and as at 30 June 2015, its non-performing loan ratio was 1.9 per cent. (compared to 2.0 per cent. as at 30 June 2014). The Bank's strong financial performance helps to strengthen its reputation in the market, which attracts new customers and motivates staff;

- ***its strong relations with Government-related entities has enabled substantial growth of low cost deposits in Oman***. The levels of low cost deposits provided by Government-related entities has contributed to the Bank's low cost deposits consistently representing between approximately 46 per cent. and 64 per cent. of total deposits between 31 December 2012 and 30 June 2015. This significant proportion of low cost deposits from Government-related Entities has resulted in lower cost of funds for the Bank. In turn, this enables the Bank to compete effectively with competitors on pricing in respect of loans;

- ***its presence in the UAE presents opportunities to diversify***. The UAE's diversified economy presents the Bank with an opportunity to grow in a jurisdiction which enjoys economic and market synergies with Oman. The Bank's corporate loan book in the UAE increased by RO 57.3 million to RO 141.2 million as at 30 June 2015 from RO 83.9 million as at 30 June 2014, an increase of 68.3 per cent. The Central Bank has restricted other Omani banks from obtaining a banking licence in the UAE. Accordingly, the Bank's UAE banking licence is an important advantage against its domestic competitors;

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

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

- ***its Islamic banking window***. The successful introduction of the Bank's "Muzn" Islamic banking window ensures that the Bank can offer a greater range of relevant products and services to meet customer needs. As at 30 June 2015 the Islamic banking division had RO 84.9 million in loans and advances and RO 89.4 million in deposits compared to RO 68.4 million in loans and advances and RO 77.1 million in deposits as at 31 December 2014. This is a growth area for the Bank and helps the Bank to attract new customers.

Capital Structure

As at 30 June 2015 the Bank's major shareholders were:

	Percentage of total Bank shares
Commercial Bank	34.9
Suhail Bahwan Group	14.7
Civil Service Employees' Pension Fund	10.7
Ministry of Defence Pension Fund	7.7
Public Authority of Social Insurance	6.5

Commercial Bank

Commercial Bank is the second largest bank in Qatar and is listed on the Doha Securities Market. Commercial Bank has expanded in the GCC through the acquisition of strategic interests in several regional financial institutions (such as United Arab Bank PJSC). The Bank benefits from Commercial Bank's retail banking strengths and cross-border syndicated and club deals involving both the Bank and Commercial Bank. Commercial Bank acquired its stake in the Bank in 2005 and signed a three-year renewable contract to manage the Bank. The contract was in force until 2011, however, Commercial Bank continues to have a major role in the strategic directions of the Bank and is represented on the Bank's Board of Directors.

As at 30 June 2015, Commercial Bank's total assets amounted to QAR 102,690 million (RO 10,865 million), while its shareholder equity amounted to QAR 17,127 million (RO 1,812 million) (using an exchange rate of 1 QAR = RO 0.1058).

Commercial Bank performance and capital ratios	30 June 2015	30 June 2014
Return on average assets	1.9	2.0
Return on average equity	11.0	11.9
Net interest margin	2.5	2.5
Tier 1 capital ratio	10.9	10.5
Total capital ratio	14.7	15.2

As at 30 June 2015, Commercial Bank had been assigned: a Long-term Issuer Default Rating of 'A+' (stable outlook), a Short-term Issuer Default Rating of 'F1', a Viability Rating of 'bbb', a Support Rating of '1' and a Support Rating Floor of 'A+' by Fitch; a Bank Deposits rating of 'A1/P-1', a Baseline Credit Assessment of 'baa2', an Adjusted Baseline Credit Assessment of 'baa2' and a Senior Unsecured MTN rating of '(P)A1' and a Subordinate MTN rating of '(P)Baa1' with a 'stable' outlook by Moody's Cyprus; and an Issuer Credit Rating of 'A-/Negative/A-2' by Standard & Poor's Ratings Services.

Suhail Bahwan Group Holding LLC (SBG)

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

Pension funds

Oman pension funds collectively hold 24.7 per cent. of the Bank's shares. These are classified as indirect shareholding by the Government. The pension funds are cash rich and are also major depositors and holders of the subordinated debt issued by the Bank.

Business Activities

For financial reporting purposes, the Bank's operations are split between the Retail Banking Group and the Wholesale Banking Group.

The Retail Banking Group includes the following divisions

- retail products, including offering of mortgages, personal loans and credit cards;
- liabilities, bancassurance and private banking;
- "Sadara" wealth management services;
- "Tijarati" SME banking services; and
- distribution, sales and business development.

The Wholesale Banking Group includes the following divisions

- corporate banking, which includes Government banking, large corporate banking, business banking (serving mid-sized corporate entities) and wholesale distribution (which manages transaction banking);
- investment banking, which comprises asset management, corporate finance and advisory services, brokerage and research units; and
- treasury and international banking.

The Bank's "Muzn" Islamic finance operations are conducted through a separate Islamic Banking Division, which operates as a window, and the operations of the UAE and Egypt branches are conducted through their respective operations divisions.

For management purposes, the Bank's business activities are currently organised within the following operating segments:

- ***retail banking:*** offering products and services to individual customers to meet their everyday banking needs;
- ***corporate banking:*** delivering a variety of products and services to corporate customers that include lending, accepting deposits, trade finance and foreign exchange;
- ***investment banking:*** offering investment products such as asset management, corporate advisory and brokerage services to retail customers as well as high net worth individuals, corporates and institutional clients;
- ***treasury and international banking:*** treasury provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk. International banking offers services such as the issuance of guarantees, risk participation and syndications;
- ***Islamic banking:*** offering Shari'a-compliant products and services to retail, corporate and Treasury and international banking clients; and
- ***head office:*** which accounts for residual income received by the Bank which cannot be attributed to a business line and costs incurred by the Bank's central functions, which are managed on a Bank- wide basis and are not allocated to individual operating segments.

The retail banking operating segment accounts for the entire Retail Banking Group and the Wholesale Banking Group includes the corporate banking, investment banking and treasury and international banking operating segments. For a summary of certain segmental financial information for the six month period ended 30 June 2015 and for the twelve months ended 31 December 2014 and 31 December 2013 please see "*Segmental Information*" in the Financial Review section of this Prospectus.

Retail Banking Group

As at 30 June 2015, the Bank's retail banking assets amounted to RO 1,032.5 million and accounted for 31.7 per cent. of the Bank's total assets (compared to RO 987.4 million and 33.2 per cent. for the year ended 31 December 2014). As at 30 June 2015, the Bank provided banking services to approximately 405,000 retail customers.

Although the Bank's retail banking products and services are targeted at both Omani nationals and expatriates, the Bank has primarily positioned itself as the bank of choice for Omani national retail customers. As at 30 June 2015, the Bank's retail customer portfolio was composed of approximately 60 per cent. Omani nationals and approximately 40 per cent. expatriates. The Bank considers that the key selling points for its retail clients are the physical distribution and reach of its branch network, the means of product distribution across Oman, and the breadth of services and products offered by it.

The Bank is actively reducing its retail customer servicing costs, where possible, by offering alternatives to the traditional branch network including internet banking, ATMs and CCDMs, telephone banking and mobile banking. See " *- Branch Network and Product Distribution*".

The principal retail client products and services offered by the Bank include:

Current, savings and term deposit accounts

The Bank offers a wide range of deposit products in local and foreign currencies including savings accounts (interest-bearing and non-interest-bearing), current accounts, corporate salary accounts, call deposits and fixed deposits. Its "*Al Kanz*"-branded non-interest-bearing savings accounts comprise accounts with savings incentives for "*Al Kanz*" account holders such as the opportunity to participate in periodic draws with cash prizes being rewarded to the winning retail customers. As of 30 June 2015, time deposits for the Bank's retail banking group amounted to RO 97.8 million, savings deposits amounted to RO 592.6 million, while current and call accounts for the retail banking division amounted to RO 106.4 million.

Lending

The Bank offers two main loan products to retail customers: general purpose unsecured loans; and secured housing loans.

General purpose unsecured loans are provided to suit the needs of Omani customers, such as the purchase of goods, cars, travel and educational services. General purpose loans are supported by salary transfers to the Bank and are regarded as salary related unsecured loans. As at 30 June 2015, these salary related unsecured loans amounted to RO 740.2 million and accounted for 29.4 per cent. of the Bank's total loans and advances.

Secured housing loans are provided by the Bank to assist retail customers with the purchase of residential land for development, the purchase of existing residential property, the construction and maintenance of residential property and the refinancing of existing housing loans. As at 30 June 2015, the housing loans portfolio amounted to RO 286.9 million and accounted for 11.4 per cent. of the Bank's loans and advances. The Bank's internal cap on real estate exposure is equal to the statutory limit of 15 per cent.

Credit and debit cards

The Bank offers retail customers a variety of branded credit and debit cards in association with Diners Club, MasterCard and Visa. This range of cards includes the brands "Infinite" (with complimentary Diners Card), "Gold", "Platinum" and "Dana". Credit card interest rates are regulated by the Central Bank and are approximately 18 per cent. per annum, with credit card holders also being charged an annual card fee. The Bank is focused on increasing credit card usage among its retail customers, for example, through the introduction of credit card rewards points programmes such as its "**MyChoice**" rewards programme.

"Sadara" wealth management services

Sadara wealth management services are designed to offer an enhanced customer service to the Bank's high net worth retail customers. Sadara customers must demonstrate a minimum deposit of U.S.$100,000 (or equivalent) or earn a minimum monthly salary of U.S.$11,500 (or equivalent). Sadara customers have access to tailor made investment products and preferential services. The Sadara Gold account provides customers with a streamlined route to trading on the gold market, through the utilisation of the Bank's trading accounts with international banks. The Afaaq credit card provides Sadara customers with a comprehensive lifestyle programme, including offering discounts at premium outlets, concierge services and travel desk facilities.

Private investment banking

Since 2012, the Bank has also offered private banking services including access to exclusive investment products and international mutual funds to customers with a minimum of U.S.$1 million in available funds.

"Mazaya" banking

Mazaya banking services were introduced in early 2014 to offer services to affluent or emerging high net worth individuals. Mazaya offers customers personalised banking and investment services. The Mazaya services are designed to develop lifetime loyalty from its customer base.

"MyChoice Rewards" loyalty program

In 2014, the Bank launched an innovative loyalty program which rewards retail customers for their credit and debit card usage. This is the first type of loyalty program offered to retail banking customers in Oman. The loyalty program is designed to encourage customer behaviour patterns which are favourable to the Bank, such as rewarding customers for utilising cheaper distribution channels. Customers are able to earn points on certain transactions and in return are offered discounts on, for example, airline bookings, car rentals and hotel bookings.

"Tijarati" SME banking

With the Omani economy growing, and following the Government's recent focus on supporting and developing the SME sector, the Bank has focused on developing products, brand, channels and services for SME customers. In 2013, the Bank introduced an SME banking division offering products and services including collateral-backed and unsecured offerings under the "Tijarati" brand. The Bank also provides SME customers with advisory services to complement the financial products it offers.

Wholesale Banking Group

The Bank's corporate, investment banking and treasury and international banking divisions operate under the umbrella, Wholesale Banking Group. For financial reporting purposes, these divisions are organised on a different basis.

Corporate Banking Division

For the six month period ended 30 June 2015, the Bank's corporate banking assets amounted to RO 1,360 million and accounted for 41.8 per cent. of the Bank's total assets (compared to RO 1,292.6 million and 43.4 per cent. for the year ended 31 December 2014).

As at 30 June 2015, the Bank provided banking services to approximately 19,000 large and mid-sized corporate customers.

The Corporate Banking division seeks to deliver financial solutions and corporate credit facilities tailored to meet the needs of every type of business and industry customer. A team of experienced account relationship managers serve the Bank's corporate customers across the Bank's branch network.

The Bank's corporate banking operations are split into the following sub-divisions:

- ***Large corporate banking***: which provides services and products tailored to appeal to multinational and large corporate customers. Large corporates may be grouped into segments depending on, for example, size, location and industry;

- ***Government banking***: which provides customised services and solutions to the Government, Government-related entities, sovereign wealth funds and pension funds within Oman;

- ***Mid-sized corporate banking***: which caters to mid-sized corporate entities between large corporates and SMEs. The Bank re-launched its mid-sized corporate offering in 2012 with the implementation of a specific mid-sized corporate banking sub-division. The Bank offers tailor-made services to mid-sector companies whose banking requirements differ from those of larger corporates;

- ***Transaction banking***: which offers customised transaction solutions to corporate customers covering the entire business cycle, from the procurement phase, through product processing, to post-sales; and

- ***Remedial Management Division*** ("***RMD***"): reports to the operations division and pursues delinquent corporate accounts and manages the Bank's impaired financial asset management. The RMD also monitors "special mention" significant corporate accounts. The RMD pursues delinquent account rehabilitation, including the restructuring of accounts to ensure that assets can be returned as fully performing accounts where possible. The RMD also pursues legal collection activities where necessary. See "*Risk Management – Credit Risk*" and "*Risk Management - Corporate Credit Risk*".

Criteria for Large, Mid-corporate and SME

Criteria	SME	Mid-corporate	Large Corporate
Facility	Less than RO 0.5 million	RO 0.5 million to RO 4 million	Above RO 4 million
Turnover......................................	Less than RO 1.5 million	RO 1.5 million to RO 5 million	Above RO 5 million

Corporate products and services

The principal corporate client products and services offered by the Bank include:

- ***Working capital finance***: revolving working capital facilities in the form of overdrafts, receivables financing, inventory financing and short-term loans denominated in Omani Rial and in a number of major currencies;

- ***Term loans***: fixed and floating rate term loans, typically with a maturity of at least one year, in Omani Rial and other major currencies for the acquisition of capital assets, as well as other corporate purposes;

- ***Short-term loans***: short-term secured and unsecured loans are offered to corporate customers for specific purposes with maturities of up to three months;

- ***Syndicated loans***: the Bank has significant experience in arranging, structuring, placing and syndicating multi-currency loan facilities to finance projects across a broad spectrum of customers and sectors, including oil and gas, aviation, ships and tugs, port services, energy and manufacturing; and

- ***Trade finance***: The Bank's trade finance team offers corporate customers trade financing services and products including the provision of letters of guarantee, acceptances, foreign documentary bills and export credit. It has a wide network of correspondent banks across the world through which letters of credit can be issued or confirmed. The Bank's trade finance products and services include the following:

    - ***Letters of credit***: letters of credit can be issued by the Bank on behalf of its customers, ensuring the relevant beneficiaries that customers obligations will be satisfied when due;

    - ***Letters of guarantee***: letters of guarantee are irrevocable obligations to pay a sum of money on demand in the event of non-performance of an obligation by a third party. The Bank issues a number of types of letters of guarantee, including tender/bid bonds, performance bonds and guarantees, payment and advance payment guarantees, financial guarantees and risk participation guarantees;

    - ***Acceptances***: the Bank offers acceptances, which involve the Bank undertaking to make payments against bills of exchange;

- ***Bills discounting****:* the Bank extends loans against bills of exchange, with the loans to be repaid on the dates specified in the bills; and

- ***Advances against trust receipts****:* advances against trust receipts are advances of a pre-agreed tenor, not exceeding one year, used by customers to finance the purchase of goods, which are then held on trust for the Bank and the sale proceeds of which are used to repay the advance.

Investment Banking Division

For the six month period ended 30 June 2015, the Bank's investment banking assets (which comprise the Bank's proprietary investments) amounted to RO 54.1 million and accounted for 1.7 per cent. of the Bank's total assets (compared to RO 39.3 million and 1.3 per cent. for the year ended 31 December 2014).

The Bank's Investment Banking Division provides institutions and businesses with independent financial advice, in addition to transaction execution assistance across various investment products and services.

The principal investment banking services offered by the Bank include:

Asset Management

The Bank's Asset Management unit manages the domestic portfolios of major local pension funds, Government and Government-related entities, corporates and high net worth individual customers. It also manages institutional portfolios in international markets across various asset classes. The unit also manages customer portfolios on a non-discretionary basis. The Asset Management unit advises the Bank's institutional clients on their regional and international fixed income portfolios.

The Asset Management unit has managed pension fund assets in the local equity market since 1996. Assets under discretionary portfolio management by the Bank are managed under significantly different investment guidelines and risk-return parameters, depending upon the type of client. Due to the Bank's established presence in the local equity markets, the Asset Management unit has the requisite experience in managing assets successfully during positive and negative market conditions. This has made the Bank an asset manager of choice for institutional investors seeking external portfolio managers in Oman.

Corporate Finance & Advisory

The Bank offers corporate and execution delivery advisory services to corporate, Government and Government-related Entity customers. The Bank assists local and regional companies in accessing the Omani market. The Bank provides advisory services to customers relating to the management of equity public offerings, debt security offerings, rights issues and equity private placements.

The Bank has acted as a collecting bank for a number of local equity public offerings. The Bank also assists customers with the distribution of securities throughout Oman, the UAE and Qatar. The Bank offers custody and administration services for funds established in Oman and GCC clients investing in Oman.

Brokerage

The Bank's brokerage desk on the Muscat Securities Market is one of the longest standing and employs licensed brokers with strong market trading experience. The Brokerage unit manages brokerage transactions for both local and international customers.

Treasury and International Banking division

As at 30 June 2015, the Bank's treasury and international banking assets (mainly comprising inter-bank and money market placements) amounted to RO 68.5 million and accounted for 2.1 per cent. of the Bank's total assets (compared to RO 57.2 million and 1.9 per cent. for the year ended 31 December 2014). The Bank's Treasury Division manages the funding and liquidity requirements of the Bank, manages the Bank's deposits and offers a range of derivative products to Omani corporate, Government and Government-related entities, as well as to the Bank's international clients and investors. The Treasury Division has a sales team which structures and sells treasury and foreign exchange hedging instruments and offers a range of products to cater to the evolving financial needs of the Bank's clients. The Bank does not trade these products for its own account.

The Bank has established correspondent relationships with international banks and undertakes risk participation, both funded and un-funded through primary and secondary market deals.

The principal treasury services offered by the Bank include:

Foreign Exchange

The Bank's treasury operations are arranged into the following:

- *Foreign Exchange and Derivatives Sales Desk:* which offers foreign exchange, commodities, interest rates and derivative solutions to clients These products are designed to manage a customer's financial risk through offering forwards, swaps, options and other customised product offerings. The Bank provides customers with regular market updates on topics related to macroeconomics and financial markets. The Bank does not trade these products on its own account but it hedges risks arising from its international transactions;

- *Money Market Desk:* which manages the Bank's liquidity and is actively involved in lending and borrowing operations with both local and international banks. This desk also manages the bank's investment in Government development bonds and certificates of deposits; and

- *Interbank Desk:* which plays a key role in mitigating the Bank's market risks arising due to customer's foreign currency and derivative transactions through hedging activities.

Government Treasury Services

The Bank is a primary dealer, as well as an over-the-counter agent, for the Government bonds market. The Central Bank regularly issues medium term bonds denominated in Omani Rials on behalf of the Government. As at 30 June 2015, the Bank holds approximately RO 110.9 million of these medium term Government bonds.

Islamic Banking

For the six month period ended 30 June 2015, the Bank's Islamic banking assets amounted to RO 103.7 million and accounted for 3.2 per cent. of the Bank's total assets (compared to RO 90.2 million and 3.0 per cent. as at 31 December 2014).

In 2013, the Bank launched the "Muzn" Islamic Banking Window, through which it offers retail and corporate Shari'a-compliant financial services and products to retail and corporate customers. Since its launch, the Bank has introduced Shari'a compliant retail banking channels such as ATMs, debit cards and internet banking facilities. Under the Central Bank's Islamic Banking Regulatory Framework, any Islamic Window shall only operate through separate Islamic Banking-only branches and they shall be dedicated to offering Islamic products and services only. All activities conducted through the "Muzn" Islamic Banking Window are independent and separate from the Bank's conventional banking operations. As at 30 June 2015, the Bank has opened five dedicated Islamic banking branches. The majority of the Bank's Islamic banking customers are customers which have not previously had any accounts or conducted any other business with the Bank. A sixth Islamic banking branch was opened after 30 June 2015.

The Bank has established a separate Islamic Risk Committee and Asset & Liability Committee (see "*Directors, Senior Management and Employees—Management Committees*"), to review the Bank's Islamic banking activities and provide necessary guidance. The Bank's Shari'a Supervisory Board reviews and approves all Islamic banking products prior to their launch and monitors compliance with Shari'a principles (see " *— Board Committees*").

Commercial Banking Group

On an operational level, the Bank formed a separate group called the Commercial Banking Group in January 2015, which carved out Tijarati SME banking from the Retail Banking Group and Mid-Corporate banking from the Wholesale Banking Group. Apart from this, Islamic banking and the international business in UAE and Egypt also report to the Head of the Commercial Banking Group on various governance matters.

This was done in order to bring about improved focus on the customer bases within these divisions which make up the Commercial Banking Group, whose needs were very different to the Retail Banking Group and the Wholesale Banking Group which they were previously part of.

Set out below is a summary of certain financial information for the six month period 30 June 2015 pertaining to the divisions under the Commercial Banking Group.

For the six-month period ended 30 June 2015	SME	Mid-Corporate	UAE	Egypt	Islamic Banking	Total
			RO'000			
Net interest income	1,058	1,520	2,333	25	1,577	6,513
Operating income	1,412	1,865	3,471	506	1,633	8,887
Operating profit	1,007	1,738	1,929	351	679	5,704
Total assets	26,335	77,571	200,309	21,143	103,682	429,040
Total liabilities and equity	**39,056**	**44,791**	**200,309**	**21,143**	**103,682**	**408,981**

Branch Network and Product Distribution

The Bank's services and products are offered through a range of channels including:

Branches

The Bank has an extensive network of 70 branches operating in Oman (as at 30 June 2015), as well as two branches operating in the UAE and one branch in Egypt. The Bank has also obtained regulatory approval to open an administrative office in Jebel Ali, UAE. The Bank's branch network continues to be the principal channel through which retail and corporate customers conduct their banking business.

The Bank's UAE branches are based in Abu Dhabi and Dubai. The Bank is the only Omani bank to be granted a full conventional and Islamic finance licence to operate in the UAE.

In view of the political instability in Egypt in 2011, the Board decided to downsize the Bank's operations in the country. Four branches have closed and there is one branch operating in Egypt as at the date of this Prospectus. The future of this branch is currently under review.

As at 30 June 2015, the Bank's network of 70 branches operating in Oman includes five dedicated Islamic banking branches and one branch dedicated to serving corporate customers. Eleven of the Bank's branches include dedicated centres for Sadara customers. The Bank also uses the retail branch network to offer services to corporate and SME customers. See " - *Leverage and optimise distribution*".

The Bank's central operations are responsible for the bulk processing of transactions, and management controls and oversight, as well as the supervision of the Bank's operational controls.

Other distribution channels

The Bank's distribution channels have been designed to enable efficient and superior service delivery to all its banking customers. Besides the physical distribution of branches, the Bank has the following alternate channels of distribution:

- *Call Centre*: the Bank's call centre operations are located in Muscat and commenced in 2000. As at the date of this Prospectus, the Bank employs forty staff in the call centre. The call centre operates on a 24 hour basis and is equipped with the latest technology to serve both retail and corporate customers. In 2014, an outbound call team was established to focus on cross-selling and marketing;

- *Direct Sales Agents*: Direct Sales Agents target sales by offering bundled and tailor-made products and services to existing and potential customers. As at the date of this Prospectus, the Bank employs 66 Direct Sales Agents in Oman;

- *Internet Banking*: the Bank was the first in Oman to offer internet banking services in 2000 and it provides online banking services to its corporate and retail customers. The Bank's retail internet banking service (Net@Bank) and corporate internet banking service (@SAMA) include local and international payment transfers, balance enquiries, account statements and segment- specific services;

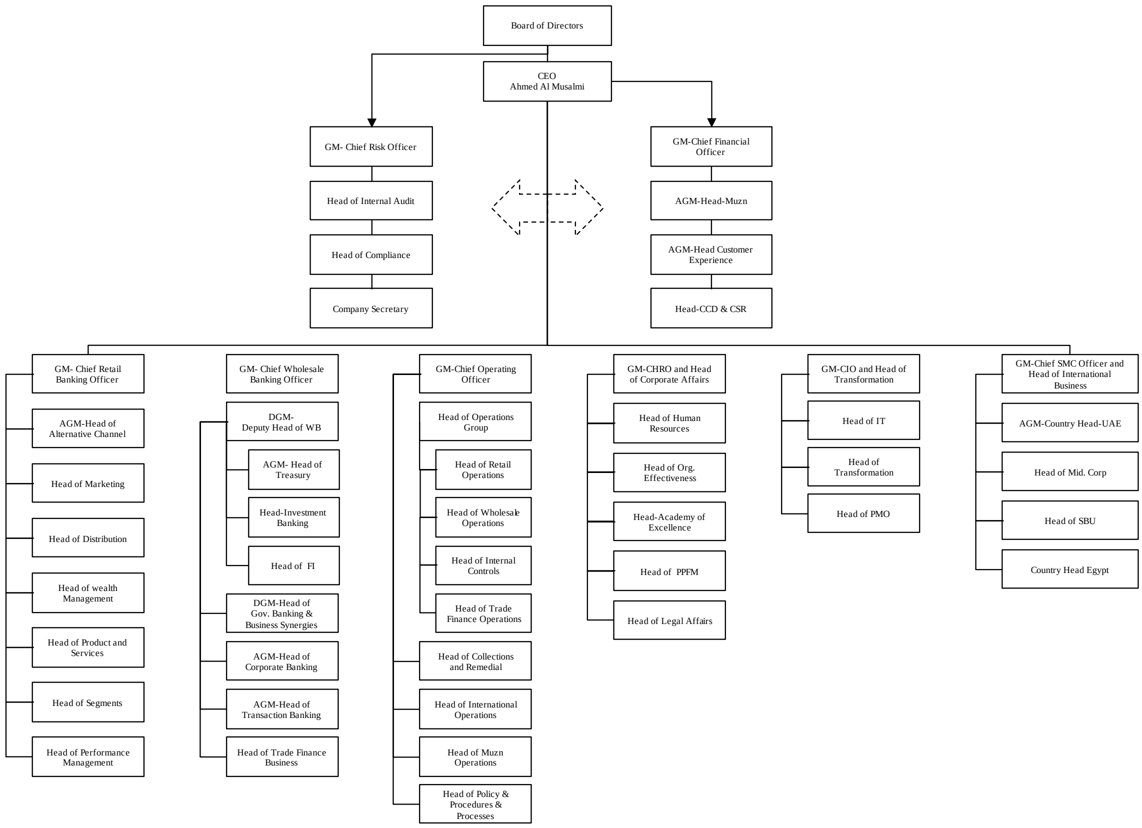
- *ATMs and CCDMs*: As at the date of this Prospectus, the Bank has a network of 186 ATMs and CCDMs across Oman which operate on a 24 hour basis; and

- *Mobile Banking*: The Bank implemented mobile banking services in 2010. Customers may elect to receive SMS text message alerts for transactions without charge. In 2015, the Bank introduced iOS and Android mobile phone apps to facilitate mobile banking.

These alternate distribution channels are particularly important to the **b**ank as its customers become more reliant on technology and less reliant on branches.

Directors, Senior Management and Employees

Overview



The Bank's board of directors (the "**Board**") is responsible for the overall direction, supervision and control of the business of the Bank. The Board has delegated responsibility for overall executive management to the Bank's senior management team under the leadership of the Chief Executive Officer (the "**CEO**"). The principal role of the Board is to oversee implementation of the Bank's strategic initiatives and its functioning within the agreed framework in accordance with relevant statutory and regulatory structures. The CEO and other members of senior management are responsible for the conduct of the Bank's business affairs and day-to-day management. The CEO regularly reports back to the Board.

The Board meets at least four times a year and is required to have a minimum of three members and a maximum of eleven members. As at the date of this Prospectus, the Board has eleven members, all of whom are non-executive members and ten of whom are "independent" in accordance with the Capital Markets Authority definition. The majority of the Directors are required to attend for there to be a quorate Board meeting. A Director may appoint another Director to represent and vote for him in his absence.

Decisions of the Board are, with limited exceptions, made by majority votes of those present (in person or by proxy) at the meeting. In the event of a split decision, the Chairman holds the casting vote.

Each Director is appointed for a three year term. Upon expiry of the term, each Director must present himself to the general meeting of shareholders for re-election. The election or re-election of Board members occurs at the Bank's annual general meeting, pursuant to Omani regulations, in a process overseen by the Omani Capital Markets Authority. The current Board members were elected or re-elected at the Bank's latest annual general meeting held in March 2014 for a term of three years.

As at the date of this Prospectus, the composition of the Board is as follows:

Name of Director	**Position**	**Year of Appointment**	**Date of Appointment Expiry**	**Representing**
Mr. Mohammed Mahfoodh Al Ardhi	Chairman	2014	2017	Rimal Investment Projects LLC
Sheikh Abdullah Ali Al Thani	Deputy Chairman	2014	2017	The Commercial Bank
Sayyidah Rawan Ahmed Al Said	Director	2014	2017	Herself
Mr. Andrewa Charles Stevens.................	Director	2014	2017	Himself
Mr. Suresh M Shivdasani.........................	Director	2014	2017	Suhail Bahwan Group (Holding)
Mr. Omar Suhail Bahwan	Director	2014	2017	Himself
Mr. Saif Said Al Yazidi	Director	2014	2017	Himself
H.E.Adbul Rahman bin Hamad Al Attiyah..	Director	2014	2017	Commercial Bank
Mr. Faisal Abdullah Al Farsi	Director	2014	2017	Public Authority for Social Insurance
Mr. Hamad Mohammed Al Wuhaibi	Director	2014	2017	Ministry of Defence Pension Fund
Mr. Mohammed Ismail Al Emadi	Director	2014	2017	The Commercial Bank

The business address of all members of the Board of Directors is Bank Al Markazi Street, Muscat, Sultanate of Oman. No member of the Board has any actual or potential conflict of interest between their duties to the Bank and their private interests and/or duties. No members of the Board hold any shareholdings in the Bank.

The Bank's Code of Conduct (the "**Code**") covers the conduct of members of the Board. The Code binds signatories to the highest standards of professionalism and due diligence in the performance of their duties. It also covers conflicts of interest, disclosure and the confidentiality of insider information.

Members of the Board are bound by specific regulations relating to insider trading and are required to disclose details of their shareholdings in the Bank.

Certain members of the Board, their families and companies of which they are principal owners are customers of the Bank in the ordinary course of business. The transactions with these parties are made on the same terms, including interest rates, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk (see "*Selected Financial Information - Related Party Transactions*").

Biographies of the Board

Mr. Mohammed Mahfoodh Al Ardhi, Chairman

Mr. Mohammed Mahfoodh Al Ardhi is also the Chairman of the Executive Committee of the Board. He is currently the Executive Chairman of Investcorp and a Director of the International Advisory Board of The Brookings Institute, Washington DC, United States of America and a member of the Board of Trustees of Eisenhower Fellowships Philadelphia, USA.

A retired Air Vice Marshal by profession, Mr. Mohammed Mahfoodh Al Ardhi joined the Royal Air Force of Oman (RAFO) in 1978, and was subsequently appointed as Chief of the Omani Air Force. In 2000, he was awarded the "Order of Oman" by His Majesty Sultan Qaboos bin Said Al-Said.

Mr. Al Ardhi holds a Bachelor of Science Degree in Military Science from Royal Air Force Staff College in Bracknell, England and a Masters in Public Policy from John F. Kennedy School of Government, Harvard University USA.

Sheikh Abdullah Ali Al Thani, Deputy Chairman

Sheikh Abdullah Ali Al Thani has been a Director of the Bank since July 2005. He is also the Chairman of Commercial Bank and a Director of United Arab Bank P.J.S.C. He is the owner of Vista Trading Company and a partner in Dar Al Manar, Domopan Qatar, Integrated Intelligence Services Company and Al Aqili Furnishings.

Sheikh Abdullah Bin Ali Bin Jabor Al Thani holds a BA in Social Science from Qatar University.

Sayyidah Rawan Ahmed Al Said, Director

Sayyidah Rawan Ahmed Al Said has been a Director of the Bank since April 2005. She is also Chairperson of the Audit Committee and a member of the Executive Committee of the Board. She has twenty-five years of experience in the investment field, both in public and private sectors. She is currently the Vice Chairperson and CEO of Takaful Oman Insurance SAOG. Prior to this, she occupied the position of CEO at ONIC Holding Group and also Managing Director & Group CE. She also held the position of Deputy CEO of Investment at the State General Reserve Fund of Oman. She is on the Board of a number of reputed companies and financial institutions in Oman and across the GCC. Sayyidah Rawan 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. In 2011, Sayyidah Rawan was awarded the Business Professional (BizPro) Leader Award. In 2012, she was ranked fourteenth in Forbes Middle East for the 'Most Powerful Arab Business Women in Listed Companies'.

Sayyidah Rawan holds a M.Sc in Economics & Finance from Loughborough University, United Kingdom. She also holds a Post Graduate Diploma in Investment Analysis from Stirling University, United Kingdom and a BA in Economics & Political Science from the American University of Cairo.

Mr. Andrew Charles Stevens, Director

Mr. Andrew Charles Stevens has been a Director of the Bank since July 2005. He is also a member of the Executive Committee and Credit Committees of the Board. He is an advisor to the Board of Directors of the Commercial Bank (Q.S.C.), Director of the Board of Alternatifbank A.Ş., Turkey and a Director of the Board of United Arab Bank (P.J.S.C.). Other key senior positions assumed by Mr. Stevens include President/Chairman of Orient Limited, Vice Chairman of CBQ Finance Ltd and Director of Qatar Insurance Company International LLC. He is also a member of Visa's International Senior Client Council. He previously worked at Standard Chartered Bank, serving in Ireland, Hong Kong, Bahrain and Uganda.

Mr. Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance.

Mr. Suresh M Shivdasani, Director

Mr. Suresh M Shivdasani has been a Director of the Bank since June 2010. He is also a member of the Risk Committee and Executive Committee of the Board. Mr. Shivdasani is Managing Director at Sohar International Urea and Chemical Industries S.A.O.C. and Advisor to the Chairman of SBG.

Mr. Shivdasani holds a B.Tech Degree in Electrical Engineering from the Indian Institute of Technology (IIT) Delhi- India, and a MBA Degree from McMaster University Canada.

Mr. Omar Suhail Bahwan, Director

Mr. Omar Suhail Bahwan has been a Director of the Bank since May 2013. Mr. Bahwan is a member of the Credit and Audit Committees of the Board. He is also the Director of Investments of Suhail Bahwan Group (Holding) LLC and a Director of Bahwan Engineering Co. LLC.

Mr. Bahwan holds a B.A. Degree in Economics and Politics from the School of Oriental and African Studies, London.

Mr. Saif Said Al Yazidi, Director

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. He is the Director of Investment at the Civil Service Employees Pension Fund. Mr. Al Yazidi has over seventeen 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. Al Yazidi holds a Bachelor Degree in Management Sciences and Accounting from Al Sadat Academy for Management Science in Egypt and a Masters in Business Administration (MBA) from Leeds Metropolitan Business School, United Kingdom.

His Excellency Abdul Rahman bin Hamad Al Attiyah, Director

HE Abdul Rahman bin Hamad Al Attiyah has been a Director of the Bank since November 2014, and is a member of the Board Risk Committee (BRC). He is Minister of State for the State of Qatar and has been a member of the Board of the Commercial Bank 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 the Republic of 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 Al Attiyah was the former Secretary-General of the Gulf Cooperation Council (GCC) from 2002 until 2011. HE Al Attiyah holds a Bachelor of Arts Degree in Political Science and Geography from the University of Miami, United States of America.

Mr. Faisal Abdullah Al Farsi, Director

Mr. 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.

Mr. Al Farsi holds a Bachelor Degree in General Administration from the National School of General Administration in Morocco in 1994 and a Master Degree in International Business Law from Hull University in the United Kingdom in 2003.

Mr. Hamad Mohammed Al Wuhaibi, Director

Mr. Hamad Mohammed Al Wuhaibi has been a Director of the Bank since March 2014. He is the Chairperson of the Credit Committee of the Board. He has fifteen 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) charterholder.

Mr. Mohammed Ismail Al Emadi, Director

Mr. Mohammed Ismail Mandani Al Emadi has been a Director of the Bank since November 2014 and is also the Chairperson of the Board Risk Committee (BRC) and is a member of the Board Audit Committee (BAC). He is also a member of the Board of Commercial Bank and a Director of the Board of Alternatifbank A.Ş., Turkey and has over thirty 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.

Board Committees

The Bank has the following Board Committees:

Board Audit Committee (BAC)

The BAC comprises of four Board members, two of whom are independent (being the majority as required by the law). The BAC meets at least four times a year. The BAC's Charter, which specifies the responsibilities and authorities of the Bank's audit function, is approved on an annual basis by the Board.

The BAC's Charter specifies that the committee is responsible for assisting the Board in the discharge of its regulatory oversight obligations on financial and accounting matters. It monitors the appropriateness and integrity of the published financial statements and annual report of the Bank on behalf of the Board, including the review of significant reporting judgments and accounting contained in them. The BAC approves the terms of engagement of external auditors, receives the auditors' reports, agrees the scope of the external audit and ensures the effectiveness of the Bank's audit process in consultation with the external auditors. The BAC's recommendations regarding the appointment of external auditors are presented to the Board for formal approval at the Board's annual general meeting. It reports back to the Board on the audits undertaken by the external auditors and the Bank's internal auditors, the adequacy of disclosure of information and the appropriateness and quality of the Bank's finance and accounting management systems. The BAC is also responsible for directing and supervising the activities of the Bank's internal audit function.

Credit Committee of the Board (CCB)

The CCB comprises five members of the Board and meets as and when there is a business need, which is typically once per month. The CCB is responsible for overseeing the risk management framework for controlling credit risk arising from the operation of the Bank's business segments. The responsibilities of the CCB include reviewing and approving specific transactions up to the Bank's permitted risk limits. This includes the approval of the Bank's underwriting exposures and sales of the Bank's participations. It also monitors risk assets by analysing portfolio trends such as higher risk assets and exposures and monitoring the management of the Bank's recovery strategies for problem loans and considering the adequacy of the Bank's provisioning framework. On at least a quarterly basis, the CCB reviews managements reports of Bank-wide portfolio risk trends, such as increased risk assets and exposures.

Board Risk Committee (BRC)

The BRC comprises four members of the Board and meets at least four times a year. The BRC's Terms of Reference set out the responsibilities of the committee. The main responsibilities of the BRC include the identification and review of Bank risks, as well as the establishment and on-going monitoring of risk policy, risk limits and risk management.

The BRC formulates the overall risk management strategy for the Bank, including the implementation of the Risk Charter, which is presented to the Board for approval on an annual basis. The key responsibilities of the BRC include setting policies relating to all risk issues and maintaining oversight of Bank risks through the Management Risk Committee. The BRC is required to establish an appropriate credit risk environment. This involves considering the strategic risks facing the Bank and recommending proposals to mitigate such risks to the Board. The BRC is also required to monitor and manage the Bank's operational risk, interest rate risk, liquidity risk, market risks (including foreign exchange), as well as a reputational, legal and accounting risk, and their impact on the Bank's financial performance. It also approves credit loss write-offs which are over the limits prescribed for senior management approval. The BRC is also responsible for monitoring the management of the Bank's recovery strategies for problem loans, as well as the adequacy of provisioning parameters. It regularly reviews stress scenarios to measure the impact of unusual market conditions and monitors variances between the actual volatility in portfolio values and levels predicted by the risk measures. The BRC also conducts an annual review of all asset and liability product strategies which include, but are not restricted to, all retail credit and deposit products, treasury and investment products and any other non-standard products relating to corporate banking. The

BRC establishes risk tolerance levels and portfolio limits including limits associated with industry sector, geography, asset quality and others, as appropriate.

The BRC has direct oversight over specific credit policy issues including the development and ongoing monitoring of credit rating models, country limits, concentration issues, loan review mechanism and classification policy for loans and provisioning policy and the approval of new product strategies, which have credit implications for the Bank. It also conducts periodic reviews of the Bank's credit risk rating methodology and the appropriateness of risk ratings.

Executive Committee of the Board (EXCOB)

The EXCOB comprises of four members of the Board and meets at least four times per year. The EXCOB's Terms of Reference, which is approved by the Board on an annual basis set out the responsibilities of the committee.

The EXCOB is responsible for the development of the Bank's long term strategy and the furtherance of the Board's stated goals (see " - *Strategy*"), as well as the review of the Bank's performance compared to those goals. Their analysis is based on the prior, current and projected economic, market and regulatory environment. It reviews the Bank's annual financial budgets and business plans and submits them for review by the Board. The EXCOB is also responsible for oversight of the Bank's investment banking operations.

The EXCOB analyses the Bank's proposals for capital raising and presents recommendations to the Board for approval. It also produces the Bank's dividend policy and recommends dividend distribution levels to the Board. It is also responsible for managing Bank-wide compensation and benefits policies and presents recommendations to the Board for approval.

The Shari'a Supervisory Board (SSB)

The appointment of the SSB was approved at the Bank's Extraordinary General Meeting in June 2012. It is responsible for the review and approval of the Bank's policies, products and processes to ensure their compliance with Shari'a principles. The identification of non-compliant policies, products and processes are reported in writing to the Board. The SSB is also responsible for the development of Shari'a compliant alternative products. The SSB is responsible to the approval of the annual Shari'a Audit Plan. The SSB prepares the annual Shari'a Audit and Compliance Report of "Muzn" Islamic Banking Services prior to the issuance of the Bank's Annual Report.

The SSB meets at least four times a year. The SSB is comprised of a minimum of three members, one of which is elected as the Chairman. In the event that Chairman is unable to attend a meeting, the other two members shall elect one of them to act as alternate chairman to preside over the meeting. Any meeting of the SSB requires a quorum of two members. Decisions of the SSB are by way of a simple majority.

The Head of the Bank's Shari'a Department acts as Secretary of the SSB and records and retains minutes of the SSB meetings.

Biographies of SSB members

Sheikh Dr. Mohamed Bin Ali Elgari (Member and Chairman)

Education: 1986 PhD in Economics from the University of California, United States of America

Dr. Elgari is Professor of Islamic Economic at King Abdulaziz University, Jeddah, Saudi Arabia and Former Director of the Center for Research in Islamic Economics, in the same university. He is an Expert at the Islamic Jurisprudence Academy of the OIC and the Islamic Jurisprudence Academy of the Islamic World League and a member of the Shari'a Council of AAOFI. He is member of editorial board of several academic publications in the field of Islamic Finance and Jurisprudence among them, Journal of the Jurisprudence Academy (of the IWL), Journal of Islamic Economic Studies (IDB), Journal of Islamic Economic (IAIE, London), and the advisory board of Harvard Series in Islamic Law, Harvard Law School. He authored several books in Islamic finance and published tens of articles on the subject. Dr. Elgari is the recipient of the Islamic Development Bank prize in Islamic Banking and Finance for the year 1424H (2004).

Positions Held: Member of Shari'a supervisory boards for Noor Islamic Bank, Amanah (HSBC) Central & Regional Committees, Standard Chartered Bank in Pakistan, United Arab Bank in the UAE *and* Navis Capital Partners in Malaysia.

Dr. Mohammed Daud Bakar (Member)

Education: 1988 Degree in Shari'a from the University of Kuwait, Kuwait, 1993 PhD in Islamic Law from the University of St. Andrews, United Kingdom and 2002 Degree in Jurisprudence from the University of Malaya, Malaysia.

Dr. Mohd Daud Bakar's area of specialisation includes Islamic Legal Theory, Islamic Banking and Finance and Islamic Law of Zakah. Dr. Bakar has published more than 30 articles in academic journals. In 2005

Dr. Bakar received the Islamic Banker Award from the Association of Islamic Banking Institutions, Malaysia. Dr. Bakar provides Shari'a structuring and advisory services to various Islamic Financial institutions.

Positions Held: Chairman of the Central Shari'a Advisory Council of the Central Bank of Malaysia, Securities Commission of Malaysia, and Labuan Financial Services Authority. Member of Shari'a supervisory boards for Amundi Asset Management, France, Noor Islamic Bank, the UAE, BNP Paribas, Bahrain, Bank of London and The Middle East, United Kingdom and Islamic Bank of Asia, Singapore.

Dr. Khalid Said Humaid Al Amri (Non-voting member)

Education: 2013 PhD Risk Management and Insurance (Major) and Finance (2nd Major) from Temple University – Fox School of Business, Philadelphia, USA and 2009 MSc. in Actuarial Science from the Boston University, USA.

Dr. Al Amri's areas of specialisation include Islamic Finance, Banking Efficiency, Takaful Insurance, Financial Stability, Operational Risk, Enterprise Risk Management (ERM), Corporate Social Responsibility (CSR), and Executive Compensation. Dr. Al Amri is an assistant professor at Sultan Qaboos University, Muscat, Oman and a board audit committee member for a Takaful company in Oman.

Senior Management

In addition to the Board members, the day-to-day management of the Bank's business is conducted by the Bank's senior management.

The business address of each member of the senior management is in Muscat, Oman. No member of the senior management has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or duties.

Biographies of the Senior Management

Ahmed Al-Musalmi – Chief Executive Officer

Mr. Ahmed Al-Musalmi is the Chief Executive Officer ("**CEO**") of the Bank.

He was appointed CEO in May 2014, having served as Deputy Chief Executive Officer for the previous three years, and General Manager and Chief Operating Officer prior to this. Mr. Al-Musalmi also spent more than six years with the Bank at the start of his career.

Mr. Al-Musalmi's roles prior to re-joining the Bank include senior leadership positions at organisations including National Bank of Abu Dhabi and Majan International Bank.

Mr. Al-Musalmi sits on the boards of a number of prominent companies including Oman Takaful, Oman Electricity Trans. Co. and Oman Integrated Tourism Fund. He is also a committee member of the Bank Deposit Insurance Scheme at the Central Bank.

Mr. Al-Musalmi is a graduate of the Harvard Business School, United States of America Advanced Management Program. He also holds a Masters of Business Administration (MBA) with distinction from the University of Luton in the United Kingdom. His academic and professional qualifications also include the International Diploma in Financial Services, and he is a Chartered Market Analyst with Financial Analyst Designate, Chartered Portfolio Manager and Chartered Wealth Manager. He is a fellow of the American Academy of Financial Management-United States of America. He has attended a number of advanced programs including an intensive high performance leadership program at the International Institute for Management Development (IMD) business school in Switzerland.

Humayun Kabir - General Manager (Wholesale Banking - General Manager)

Mr. Kabir joined the Bank in 2008. He has also served as the General Manager of the Retail Banking Group and Chief Financial Officer of the Bank prior to his present assignment. Mr. Kabir sits on the Bank's Asset & Liability Committee, Management Credit Committee, and Management Risk Committee and is the Chairman of the Business Technology Committee.

Mr. Kabir has more than twenty years of experience in management, sales and marketing, finance, technology and operations with organisations like ABN Amro Bank Canada, Royal Bank of Canada, Saudi American Bank, Ernst & Young and Grant Thornton International.

Mr. Kabir is also a member of the Board of Directors of Kunooz Oman SAOC.

A Canadian citizen, he is a Fellow of the Institute of Chartered Accountants in England & Wales and holds an MBA in General Management from the Ivey Business School, University of Western Ontario, Canada.

Ananth Venkat - Chief Financial Officer

Mr. Ananth Venkat is Chief Financial Officer ("**CFO**") of the Bank.

Mr. Venkat was appointed as the Bank's CFO in 2013 following more than two decades spent working with leading financial institutions across the Middle East and Africa.

Before joining the Bank, Mr. Venkat served as Chief Financial Officer of RAKBANK in the UAE. Prior to this, Mr. Venkat worked at Saudi Hollandi Bank in Saudi Arabia. His career has included senior leadership positions at Barclays Africa, where he also served as a board member of several Barclays subsidiaries in Sub Saharan Africa and Ahli United Bank in Qatar. He began his career in India as a Financial Consultant with AF Ferguson & Co., before relocating to Africa.

Mr. Venkat holds a Bachelor of Commerce Degree from Madurai University in India. He is an Associate Member of the Institute of Chartered Accountants of India and has completed many specialist finance and leadership courses.

Hamood Al Aisri- Chief Internal Auditor

Mr. Hamood was appointed as the Bank's Chief Internal Auditor in November 2014. He joined the Bank in 1996 as an auditor and spent over fifteen years in different roles in internal audit with last role as Deputy Head of audit prior to assuming the role of Financial Controller. He was the Bank's Financial Controller for over two years prior to becoming the Bank's Chief Internal Auditor.

Mr. Hamood is a Chartered Accountant and has attended different courses on audit and management.

Nasser Al Rashdi - Chief SME Officer and Head of International Business

Mr. Nasser Al Rashdi joined the Bank in June 1993 as the Bank's first management trainee. Mr. Al Rashdi has held many a senior leadership roles in the Bank. Prior to becoming the Chief SME Officer and Head of International Business, Mr. Al Rashdi was the Bank's Chief Internal Auditor from October 2010 to November 2014, Mr. Al Rashdi was the Bank's Chief Risk Officer from July 2008 to October 2010 and a member of various management committees, such as the Asset and Liability Committee and the Management Risk Committee.

Mr. Al Rashdi holds a Business and Management Engineering Degree (1992) with distinction from Université Catholique de Mons in Belgium. He also attended an intensive Advance Development Program at the London Business School.

Salma Al Jaaidi - General Manager (Chief Risk Officer)

Salma Al Jaaidi joined the Bank in 2003 in the Risk Group. Prior to becoming Chief Risk Officer she was the Deputy Chief Risk Officer. She has a Master's Degree in Business Administration from the University of Hull, United Kingdom (through the Gulf College). Her career has spanned over twenty-nine years with various leading financial institutions such as Standard Chartered and Majan International Bank.

Faizal Eledath - Chief Information Officer

Mr. Faizal Eledath is Chief Information Officer of the Bank, a position he has held since October 2012. IDG, the leading technology, media, events and research company has twice named Mr. Eledath among the region's top twenty chief information officers.

Before joining the Bank, Mr. Eledath served as Chief Information Officer of Dubai Bank, an Islamic bank in the UAE that later became part of Emirates Islamic Bank. Prior to this, he was Vice President of Information Technology Solutions at Mashreq Bank in the UAE, with responsibility for all channels, including branch systems, call centres, internet banking, ATMs, credit card systems and CRM systems. Mr Eledath began his career in 1992 as a Senior Systems Analyst at Oman Computer Services.

Mr. Eledath holds a Bachelor of Engineering Degree in Computer Science from Bharathiar University, India, and a Master of Science Degree in Computer Science from the University of Alabama at Birmingham, USA. Alongside his scientific education, Mr. Eledath is a Master in Business Administration from Southern New Hampshire University, USA, and has attended executive education programmes at Harvard Business School on subjects including launching new ventures and the small business life cycle.

John Chang –Retail and Private Banking (General Manager)

Mr John Chang is a Malaysian National and a senior consumer banking professional with extensive experience in Singapore, Malaysia, South Asia, Africa, Qatar, Kuwait and the UAE. In his career of around three decades, he has held senior retail banking positions with leading financial institutions such as Noor Bank PJSC, Abu Dhabi Finance, Burgan Bank – Kuwait and Commercial Bank in the GCC. His international experience includes holding various senior level positions at Standard Chartered Bank in Singapore, Malaysia, UAE, Ghana, Bangladesh between 1984 to 2004.

Mr. Chang has completed his MBA from The City University, London, United Kingdom and an Advanced Management Program from INSEAD, France.

Nasser Al Hajri - General Manager - Chief Human Resources Officer

Nasser Al Hajri joined the Bank in August 2009. Mr. Al Hajri is a former president at the Project Management Institute in Oman and a former board member for the Project Management Institute in the Arabian Gulf. Prior to joining the Bank, Mr. Al Hajri also held a senior management position in Sohar Industrial Port Company in the area of HR, Finance and Administration along with Technical Affairs of the company. In September 2013, Mr. Al Hajri was awarded the "HR Leadership Award" at the Asian HR Leadership Summit.

Mr. Al Hajri is a member in College of Finance & Banking Academic Advisory Board, a Professional HR member in the Chartered Institute of Personnel and Development (CIPD), a fellow member of Arabian Society for HR Management (ASHRM) and a fellow member of Project Management Institute (PMI), USA.

Mr. Al Hajri holds a Masters Degree in Business Administration from the University of Hull, United Kingdom and is an engineering graduate specialising in Electrical Engineering and Biomedical Engineering from the University of Toledo in Ohio State, USA.

Management Committees

The following are the key delegated committees of the Bank's senior management:

Management Risk Committee (MRC)

The MRC is responsible for reviewing and approving the Bank's key risk management policies. It provides recommendations to the Board Risk Committee ("**BRC**") and to other Board committees, as appropriate, on all risk policy and portfolio issues.

The MRC makes Bank-wide risk strategy recommendations for the consideration of the BRC, such as suggested credit strategy changes, the development of the Bank's risk policy framework, changes to the risk tolerance levels and portfolio limits (with reference to industry sectors, geography and asset quality) and the development of risk policies relating to interest rate and liquidity gaps, hedging strategies and foreign exchange ratio targets. It also oversees the development of the Bank's Risk Charter and makes recommendations to the BRC relating to amending the Risk Charter. The MRC is also responsible for overseeing the annual and ongoing reviews of the Bank's asset and liability products within the Bank's risk policy framework. It undertakes regular stress scenario reviews to measure the impact of unusual market conditions and adjusts the Bank's stress scenario models, as necessary.

The MRC is also responsible for the ongoing monitoring and correction of the Bank's:

- regulatory and legal compliance, including anti-money laundering policies;
- credit portfolio in line with the regulatory requirements in the jurisdictions in which the Bank operates and monitoring the Bank's credit policy issues, such as country limits, concentration issues, the Bank's loan review mechanism and the classification policies for loans and provisioning; and
- external and internal high and medium-risk audit issues.

Management Credit Committee (MCC)

The MCC is responsible for overseeing the risk management framework for controlling credit risk and approving transactions with retail and corporate customers. The MCC also presents transaction approvals to the CCB for credit exposures to corporate, retail and financial institution customers, including underwriting commitments exceeding its authority level. The MCC meets at least once every fortnight.

Asset & Liability Committee (ALCO)

The ALCO is responsible for managing the Bank's asset and liability management and market risk issues, including the formulation of the Bank's key financial indicators and ratios, setting the thresholds for management of the Bank's balance sheet risks (such as market risk and liquidity risk) and monitoring and analysing the sensitivity of the Bank's funding mismatches, capital ratios and currency positions. The ALCO monitors and manages the Bank's balance sheet projections, business division plans and the resultant net interest income margins and growth. The ALCO meets on a monthly basis. The Bank has also established a separate Islamic banking ALCO to oversee Islamic asset management and liability management.

Investment Committee

The Investment Committee is responsible for managing the Bank's proprietary portfolio to achieve optimal returns whilst complying with regulatory limits and the Bank's internal investment policies.

The Investment Committee reviews portfolio performance and ensures that the portfolio adheres to the Bank's Proprietary Portfolio Policy Guidelines and the Central Bank limits on the Bank's proprietary investments in local as well as foreign securities across various asset classes. These limits are based on the Bank's net worth. The Investment Committee has the authority to approve investments in securities within the limits set in the Investment Policy of the Bank. The Investment Policy of the Bank defines the investment objectives of the Bank and provides internal limits for each asset class in addition to limits imposed by Central Bank regulations and other applicable laws. It encompasses all regulatory limits and internal limits across securities, sectors and asset classes with the aim of reaching optimal risk adjusted returns over the long term. The day to day management of the Bank's proprietary portfolio is undertaken by the Bank's Investment Banking sub-division.

Investment Committee meetings are convened on a quarterly basis to discuss the portfolio performance and to appraise them of other relevant issues. These include discussions and decisions on investments/divestments in the portfolio, policy issues, among others.

Within the Investment Policy, guidelines have been framed which provide for the internal limits on each asset class in addition to the limits imposed by Central Bank regulations and other applicable laws.

Islamic Risk Committee (IRC)

The IRC is responsible for the management of risk related issues in connection with the Bank's Islamic finance operations. The IRC provides recommendations on all risk policy and portfolio issues to the BRC and to other committees, as appropriate.

Operational Risk Management Committee (ORMC)

The ORMC is responsible for the management of the Bank's operational policies and procedures. The ORMC oversees the management of the Bank's operational risk exposures in line with the Operational Risk Management Framework which has been approved by the BRC and MRC. The ORMC sets the Bank's operational risk standards and monitors and assesses internal and external operational risk issues which it reports to the BRC and/or MRC, along with suggested corrective and risk mitigation actions for approval by the relevant committee. The ORMC provides the Bank's management with a forum to monitor and manage operational risk control lapses, such as fraud or regulatory non-compliance and to formulate remedial actions to prevent future lapses.

Fiduciary Oversight Committee (FOC)

The FOC is responsible for supervising the proper exercise of fiduciary powers within the Bank, as well as assessing the adequacy of the Bank's ethical standards, strategic plans, policies and control procedures, management, staffing, systems and facilities. The FOC provides guidance relating to the types of fiduciary services offered or to be offered by the Bank

Business Continuity Management Committee (BCMC)

The BCMC is responsible for supervising the Bank's business continuity framework which allows prompt action in response to disruptive events to ensure the continuity of operations..

Employees

The total number of the Bank's employees as at 30 June 2015 was at 1,426 compared to 1,368 as at 31 December 2014 and 1,370 as at 31 December 2013. This increase in the number of employees in 2015 and 2014 is principally due to the appointment of further staff to service the Bank's branch network, including the recent Islamic banking branches and UAE branches. The Bank is committed to the training and development of new and existing staff in order to ensure that the Bank continues to be supported by the skills required for its planned growth. This includes the establishment of both internal and external training programmes for all staff members. The Bank is in compliance with current Omanisation policy issued by Central Bank (see "*Overview of the Sultanate Of Oman*"). As at 30 June 2015, Oman nationals accounted for 91.7 per cent. of the Bank's employees.

Property

The Bank's principal fixed assets include its Head Office building in Oman, other administrative office buildings in Oman and Egypt and one piece of freehold land owned by the Bank, which will be the site of its new Head Office building. The Bank is in the process of constructing this building, which is expected to be completed by 2017. The Bank will own rather than lease this new building. The net book value of fixed assets was RO 29.7 million as at 30 June 2015 (compared to RO 21.2 million as at 30 June 2014).

Information Technology

The Bank's Information Technology ("**IT**") Division is responsible for the Bank's IT strategy and the delivery of all IT services throughout the Bank. The Bank's IT strategy is focused on providing reliable information systems to the Bank's customers and employees in a secure environment whilst supporting the development of the Bank's business and operations.

The IT Division focuses on providing a convenient and efficient banking service. For its internal operations, the IT Division focuses on providing effective methods and solutions and processes for promoting and delivering services to its customers.

Recent IT upgrades made by the Bank include:

- Launch of new mobile banking platform and web portal, which are in line with the Bank's digital strategy of engaging customers through technology and offering them innovative services;
- Introduction of customer relationship management (CRM) system for providing a superior retail customer experience and strengthening the relationship with the customers;
- Launched the following innovative "first-in-market" products and services: "NBO Augmented Reality" application, which allows customers to view their real-world environment on a mobile device supplemented by information about the Bank, such as the location of the nearest branch; "Tap-N-Go" near-field communication (NFC) based payment cards, which allow customers to make contactless payments and "ZAP Salary", which allow users, such as small business owners, to quickly process staff salaries using bar code technology;
- Improving customer security by introducing debit cards with "3D Secure" capability, which require users making online purchases and transactions to enter a password to confirm their identity with the card issuer;
- Extension of the Bank's "Corporate Loan Origination" system to UAE and SME businesses to improve the turnaround time (TAT) for customer credit applications;
- Participation as pilot Bank in the Central Bank's "OMANNET EMV Certification" system, a security system introduced by the Central Bank for card transactions in Oman;
- Automation of various operational processes such as standing orders and clean payments for enhancing operational efficiency;
- Upgrading technology infrastructure to improve scalability, security and business continuity;
- Introduction of new multi-functional ATMs and cash and cheque deposit machines (CCDMs) which allow customers to deposit as well as withdraw funds; and
- Implemented new operational systems which allow for the launch of new products and services across different lines of businesses.

Insurance

The Bank maintains insurance policies and coverage that it deems appropriate. This includes a financial institution's blanket bond covering standard risk including electronic equipment and professional indemnity cover. The Bank maintains standard property insurance for all premises and electronic equipment.

The Bank reviews insurance coverage on an on-going basis and believes its current coverage to be in accordance with industry practice in Oman.

Litigation

In the ordinary course of its business, the Bank may be subject to governmental, legal and arbitration proceedings. The Bank has an established protocol for dealing with such claims or proceedings. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. As at the date of this Prospectus, although the Bank has certain unresolved legal claims, these are not expected to have any significant impact on the financial performance of the Bank and no material provision has been made regarding any outstanding legal proceedings.

Risk Management

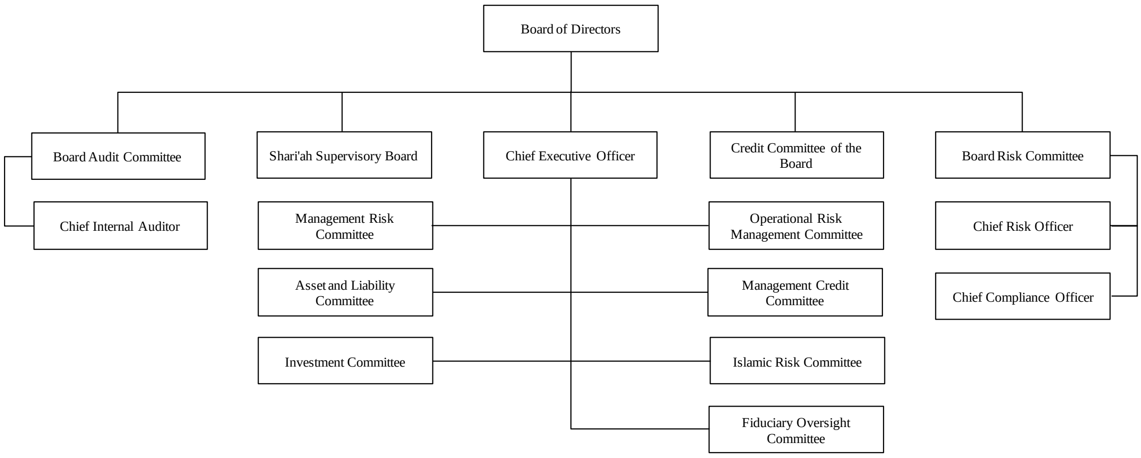
All of the Bank's revenue-generating activities involve risk-taking, as well as the associated creation of stakeholder value for the Bank. The Bank's aim is to achieve an appropriate balance between risk and return to minimise potential adverse effects on the Bank's financial performance. Risk is also inherent in many internal business processes and systems and as a result of external factors.

The primary objective is to safeguard the Bank from the various risks it is exposed to. The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and compliance with relevant limits through reliance on information systems.

The principal risks facing the Bank's business are credit risk, liquidity risk, market risk (including foreign exchange risk, interest rate risk and profit rate risk) and operational risk (including regulatory and legal risks) and strategic risk. The Bank's risk management policies and procedures are designed to identify and analyse these risks, prescribe appropriate risk limitations, monitor the level and incidence of such risks on an ongoing basis and prescribe appropriate remedial action.

The Bank's governance structure is ultimately supervised by the Board. The Board has established a number of Board committees and management committees to co-ordinate the day-to-day risk management of the Bank. See "*Directors, Senior Management and Employees—Board Committees*" and "*Management Committees*".

The following diagram sets out the Bank's risk management structure.



Guiding principles for risk management activities

The Bank's guiding principles for risk management are as follows:

- *Approval*: all commercial activities which commit the Bank to deliver risk sensitive products and any business proposals require approval by authorised individuals/levels prior to commitment;
- *Independence*: clear separation between commercial (the business) and risk management functions;
- *Transparency*: risk management structures, policies and procedures are transparent and are based on consistent and comprehensive principles, in written form, and clearly communicated;
- *One obligor*: decision authority is determined by the total amount of facilities (one obligor total) and/or (when applicable) capital at risk approved for all entities that form a coherent group based on shareholding and/or management control;

- *Committees*: decisions regarding policy, product, portfolio, or large (or high risk) exposures are taken by appropriate committees duly constituted and empowered by the Board or any other sets of functionaries as determined by the nature and quantum of exposures authorised by the Board or the Board Risk Committee;

- *Conflicts of interest*: members of committees are required to disclose their business relations to ensure that there is no conflict of interest;

- *Approval Authority*: authorities are delegated by the Board of Directors through Board Risk Committee to the CEO which is required to delegate these authorities to the various Management Committees responsible for Risk Management. The CEO will also delegate specific credit authorities to qualified officers of the Bank based on the delegate's experience, credit credentials and qualifications;

- *Risk proposals* are not approved without at least two authorised individuals forming an agreement within the framework set by an authorised committee;

- *Risk and reward*: risk and reward from a transaction are borne by the same business unit;

- *Business responsibility*: business units are responsible for the selection of clients and for managing all of the business activities with such clients within approved limits; and

- *Source of internal policies:* these guiding principles are dictated by the policies and guidelines from the Central Bank and Capital Markets Authority.

The key risks facing the Bank are:

Credit risk

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

Retail credit risk

The Bank's Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by the Board Risk Committee. The lending criteria for these programs are regularly reviewed and revised, if required, based on an 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 approved as per the delegated authorities.

A review of the Bank's Retail Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the preceding month's report is presented to the Board Risk Committee.

Salient areas covered in the review include:

- portfolio review;

- management summary of delinquency and non-performing asset trends (which includes product-wise delinquency analysis, vintage analysis and delinquencies across various credit criteria);

- projects undertaken / fulfilled during the month; and

- recoveries.

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency, and to enhance the recovery methodologies of the retail portfolio. The Bank has reworked its strategy of lending through adoption of stricter lending criteria and continuous monitoring of the portfolio and is in the process of implementing a loan origination system, credit scoring module and collections solution to enhance its retail credit risk framework.

Corporate credit risk

The Bank's Corporate Credit Risk Division is responsible for the independent assessment and control of the risks related to all corporate (both large and mid-sized) and financial institutions exposures. The Corporate Credit Risk Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any, are highlighted. The Bank follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Bank has implemented a customised Moody's risk analyst model for risk rating corporate borrowers. The Bank's Corporate Credit Risk Division also provides advice and guidance to business units, for example, the Remedial Management Division, with a view to promoting best practices throughout the Bank in the management of credit risk.

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

A comprehensive review of the Bank's corporate credit portfolio is conducted on a quarterly basis and provided to the senior management and the Board Risk Committee. Salient areas covered in the review include:

- exposures downgraded/negatively migrated;
- weighted average credit grade profile;
- portfolio concentration / performance;
- position of restructured exposures;
- position of past due exposures;
- exposures secured by equity;
- exposures to real estate and leasing sectors;
- syndicated exposures;
- new relationships;
- exposures to senior members and non-resident borrowers;
- exposures to countries / financial institutions; and
- clean lending and name lending exposures.

Discussions of the Bank's impairment provisions and credit risk mitigation are provided in "*Financial Review - Impairment provisions*" and "- *Credit risk mitigation*".

Liquidity risk

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

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

The Bank manages the liquidity risk based on the Central Bank guidelines and the Liquidity and Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. The Bank's liquidity risk position is monitored regularly thorough analysis of various reports, such as, maturity of assets and liabilities, liquidity lines, early warning indicators and stock ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and Bank-specific events in line with Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the Bank's management and also discussed at the Board Risk Committee.

Market risk

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

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

Equity risk

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

Interest rate risk

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

The methods for interest rate sensitivity analysis are:

- Maturity gap analysis (which measures the interest rate sensitivity of earnings); and
- Duration (which measures the interest rate sensitivity of capital).

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

Currency risk

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

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

Operational Risk

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

Further, the Bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set off thresholds will be reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

The Bank has a business continuity framework which allows prompt action in response to any disruptive events to ensure continuity of operations. The Bank has formulated business continuity plans to ensure uninterrupted provision of services to customers during operational disruptions. The Bank's Business Continuity Management Committee routinely ensures business continuity frameworks are aligned with business needs. The Bank's critical systems, applications and individual business units are regularly tested from its disaster recovery sites.

Legal Risk

Legal risk is the risk of losses occurring due to legal or regulatory action that precludes performance by the Bank or its counterparty under the terms of its contractual agreements. The Bank aims to mitigate this risk through the use of properly reviewed documentation and be seeking appropriate legal advice when appropriate. The Bank has a dedicated Legal Division which deals with both routine and more complex legal issues. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in Oman or overseas, as appropriate.

Compliance Risk

The Bank has been proactive in managing its compliance risk. The Board and senior management endeavour to ensure the Bank's operations and business conduct are consistent with the laws and regulations of Oman and the other markets it operates in. These include, but are not limited to, laws and regulations issued by the Central Bank and the CMA, as well as internationally accepted best practices. The Bank fosters a culture of compliance which is seen not only as a requirement of law but also as a good business practice.

The Bank's Compliance Division reviews the Bank's policies, procedures, services and products to ensure compliance with applicable laws and regulations and internationally accepted best practices.

The Bank remains committed to combating money laundering and terrorism financing by improving control measures as the regulatory environment becomes more challenging. The Bank has in place comprehensive policies and procedures to deal with the prevention of money laundering and terrorism financing. In 2012 the Bank implemented an anti-money laundering IT system which has enhanced the Bank's ability to detect and report suspicious transactions. The Bank also provides training to staff to ensure that they are able to effectively implement the Bank's anti-money laundering and anti-terrorism finance policies and procedures. Employees are required to undertake centralised, on-the-job and E-learning training programmes, as appropriate.

Recent Developments

The following information has been extracted without material adjustment from the unaudited condensed consolidated interim financial statements of the Bank as at and for the nine months ended 30 September 2015, which alongside the review report in respect thereof, are set out in full between F-1 and F-24. The statements have been presented in Omani Riyals and, to present a consistent approach and for convenience only, in United States dollars using an exchange rate of U.S.$1=R.O. 0.3850:

Condensed Statement of Financial Position

	As at 30 September 2015	**As at 30 September 2015**	**As at 31 December 2014**	**As at 31 December 2014**
	RO'000	*USD'000*	*RO'000*	*USD'000*
Assets				
Cash and balances with Central Banks..	325,220	844,727	288,832	750,213
Due from banks and other money market placements (net)	137,242	356,473	144,933	376,449
Loans, advances and financing activities for customers (net).........	2,535,832	6,586,577	2,316,813	6,017,696
Financial investments..	165,340	429,455	147,524	383,179
Premises and equipment	32,347	84,018	23,204	60,270
Deferred tax asset...	620	1,610	436	1,133
Other assets..	64,412	167,304	54,352	141,174
Total assets	**3,261,013**	**8,470,164**	**2,976,094**	**7,730,114**
Liabilities...				
Due to banks and other money market deposits	131, 444	341,413	102,188	265,423
Customers' deposits and unrestricted investment accounts	2,396,632	6,225,018	2,177,742	5,656,473
Euro medium term notes	199,611	518,470	195,223	507,073
Other liabilities	80,937	210,226	69,761	181,197
Taxation...	5,419	14,076	6,051	15,717
Total liabilities...	**2,814,043**	**7,309,203**	**2,550,965**	**6,625,883**
Subordinated debt..	**62,100**	**161,299**	**63,600**	**165,195**
Equity				
Share capital	134,071	348,236	121,883	316,579
Share premium...	34,465	89,520	34,465	89,520
Legal reserve..	43,380	112,675	43,380	112,675
General reserve	4,419	11,478	4,419	11,478
Other non-distributable reserves	40,849	106,101	41,322	107,330
Proposed cash dividend..	-	-	20,720	53,818
Proposed stock dividend	-	-	12,188	31,657
Retained earnings...	127,686	331,652	83,152	215,979
Total equity	**384,870**	**999,662**	**361,529**	**939,036**
Total liabilities, subordinated debt and equity	**3,261,013**	**8,470,164**	**2,976,094**	**7,730,114**

Interim Condensed Statement of Comprehensive Income

	For the nine month period ended 30 September 2015	**For the nine month period ended 30 September 2015**	**For the nine month period ended 30 September 2014**	**For the nine month period ended 30 September 2014**
	RO'000	*USD'000*	*RO'000*	*USD'000*
Net interest income and net income from Islamic financing and Investment activities	69,243	179,852	59,926	155,652

Other operating income	28,317	73,551	24,006	62,353
Operating income	97,560	253,403	83,932	218,005
Operating expenses	(43,380)	(112,676)	(39,028)	(101,371)
Profit from operations before impairment losses and tax	54,180	140,727	44,904	116,634
Total impairment losses (net)	(4,773)	(12,397)	(2,409)	(6,257)
Profit before tax	49,407	128,330	42,495	110,377
Taxation	(6,373)	(16,553)	(5,442)	(14,135)
Profit for the period	**43,034**	**111,777**	**37,053**	**96,242**

The following is the summary of the results of operations for the nine month period ended 30 September 2015:

Operating Income

Total income for this period grew 16 per cent. when compared to the corresponding period in 2014. In addition, net operating income grew during the period by 21 per cent. to RO 54.2 million, reflecting higher income growth when compared to the growth in operating costs.

Interest income

Net interest income from conventional banking and revenues from Islamic financing activities increased by 16 per cent. to RO 69.2 million due to 9.5 per cent. growth in loans and advances as well as a reduction in interest expenditure resulting from an improvement in the composition of the deposit base.

Other operating income

Total non-interest income increased by 18 per cent. to RO 28.3 million. This was primarily due to higher commission income and higher arrangement/documentation fees during the period.

Operating expenses

Operating expenses amounted to RO 43.4 million, representing an 11 per cent. increase over the corresponding period in 2014. This is largely due to an increase in the Bank's staff and administration costs, the increased costs of branding and other IT infrastructure projects in the Oman and UAE (including for the Bank's Muzn Islamic banking window).

Net Profit

The Bank's net profit for the nine months ended 30 September 2015 amounted to RO 43.0 million, compared to RO 37.0 million for the same period last year. This represented a 16 per cent. increase in net profits over the corresponding period last year and was primarily due to the Bank's income growth during the period.

Loans, advances and financing activities for customers (net)

Net loans, advances and financing activities amounted to RO 2,536 million, representing an increase of 9.5 per cent. when compared to 31 December 2014. In addition customer deposits amounted to RO 2,397 million, representing an increase of 10.1 per cent. when compared to 31 December 2014.

Impairment provisions

Net impairment on assets increased to RO 4.8 million, representing a 98 per cent. increase when compared to the same period during 2014. This increase is primarily due to an increase in the General and Specific provisions required to be made for the Bank's portfolio of Corporate and Retail loans (which is, in part, driven by the growth of the Bank's corporate and retail loans).

Capital adequacy and ratios

Prior to accounting for the interim profit of RO 43 million for the period, the Bank's total capital adequacy as at 30 September 2015 stood at 13.6 per cent., with core equity ratio at 11.4 per cent. This continues to be in excess of the Central Bank's minimum regulatory requirements (12.625 per cent. total capital adequacy and 7.625 per cent. core equity).

In addition, the Bank's:

- coverage ratio increased to 155 per cent. as at 30 September 2015 when compared to 142 per cent. as at 31 December 2014;
- cost to income ratio for the period to 30 September 2015 improved to 44.5 per cent. when compared to 46.5 per cent. for the same period in 2014; and
- Return on equity for the period to 30 September 2015 improved to 15.6 per cent. in September 2015 when compared to 14.8 per cent. for the same period in 2014.

OVERVIEW OF THE SULTANATE OF OMAN

Introduction

Oman is the second largest country by geographical area among the states of the GCC region, after Saudi Arabia. It is spread over 309,500 square kilometres of coastline (source: Oman National Centre for Statistics and Information (NCSI) data published December 2014) and has a 2,092 kilometre (source: Oxford Business Group's Report: Oman 2014 ("**OBG's 2014 Oman Report**"). It is strategically placed at the mouth of the Arabian Gulf. It is divided into eleven main governorates (Muscat, Musandam, Al Buraimi, Al Dakhiliyah, Al Batinah North, Al Batinah South, Al Sharqiyah North, Al Sharqiyah South, Al Dhahirah, Al Wusta and Dhofar). The governorate of Musandam is an exclave of Oman, separated from the rest of Oman by the United Arab Emirates. The governorates are subdivided into a total of 59 provinces or Wilayats. Muscat is the political and business capital. Other prominent cities are Salalah, Sohar, Sur, Nizwa and Khasab. Arabic is the national and official language, but use of English is widespread, especially in business transactions.

His Majesty Sultan Qaboos bin Said Al-Said rules the country through Sultani decrees. His Majesty the Sultan enacted the Basic Statute of the State in 1996, also called the Basic Law, which codifies some of the basic rights of both citizens and the government and effectively serves as the Constitution of Oman. The administrative system of the state comprises the Diwan of Royal Court, the Council of Ministers and the Council of Oman (Majlis Oman). The Council of Oman is a consultative council of two chambers. The upper chamber, the State Council (or the Majlis Al Dawla), has advisory powers only and its members are appointed by His Majesty the Sultan. Members of the lower chamber, the Consultative council (or the Majlis Al Shura), are elected for a term of four years. The most recent elections were held in October 2011 with the next elections planned for October 2015 (source: OBG's 2014 Oman Report). Both the Majlis Al Shura and the Majlis Al Dawla were given greater powers in 2011 in line with His Majesty's pledge to make historic constitutional changes.

As of 12 August 2015, the population of Oman was recorded to be approximately 4.19 million, with Omani nationals comprising 2.35 million (56 per cent.) and expatriates comprising 1.84 million (44 per cent.) of the overall figure (*source: **NCSI** data published 12 August 2015*).This represents an increase in population of 34 per cent. compared to the 2010 Oman census, which reported a population of 2.77 million. This growth in population is due to an increase in the expatriate population as well as an increase in birth rates. The population of Oman is relatively young. The United States Central Intelligence Agency World Factbook dated 22 June 2014 indicated that the population's median age was 24.9 years. A key target of government policy is providing adequate employment opportunities for its young national population.

Oman pursues an independent foreign policy with the aim of fostering good relations with its neighbours and other countries and has a non-confrontational and pragmatic approach to foreign relations. Oman has been a member of the United Nations since 1971. Oman became a member of the International Monetary Fund and the International Bank for Reconstruction and Development in 1971. Oman became a member of the World Trade Organisation in 2001.

Oman joined the Arab League in 1971 and the Organisation of the Islamic Conference in 1972. It became a member of the Non-Aligned Movement in 1973. It is a founder member of the GCC, which also includes Saudi Arabia, Kuwait, Bahrain, the UAE and Qatar. It chaired the GCC in 1996 and 2001. While Oman is not a member of the Organisation of Petroleum Exporting Countries, as the other members of the GCC are, Oman is a member of the GCC's Permanent Committee for Petroleum Cooperation.

Oman's current economic focus is on long-term planning. It is in the process of implementing its eighth five-year economic development plan of strategy, which commenced in 2011. Since 1996, the five-year plans have been designed to achieve "Vision 2020" (adopted in June 1995), which is the Government's economic planning strategy outlining Oman's long term target of economic diversification, away from reliance on hydrocarbons, and towards, among other strategies, labour sector development (*source: OBG's 2014 Oman Report*).

Ratings

The most recent long-term foreign and local currency sovereign rating assigned to Oman by Moody's Investors Service Pte. Ltd. ("**Moody's")** is 'A1' and by Standard & Poor's Credit Market Services Europe

("**S&P**") is 'A-/ A-2'. In February 2015, Moody's changed its outlook on Oman from stable to negative, due to the sharp fall in oil prices in the global market. S&P's outlook on Oman remains stable.

Each of Moody's and S&P is established in the European Union and is registered under the CRA Regulation.

Economic Overview

Oman's real GDP grew at an average rate of 11.3 per cent. during the five year period from 2010 to 2014. In addition to the hydrocarbon sector, which contributed 47.2 per cent. of Oman's real GDP in 2014, the principal sectors which contributed to Oman's GDP in 2014 were: services (including sectors such as wholesale and retail trade and public administration and defence) (37.9 per cent.), non-petroleum industrial activities (including sectors such as mining and manufacturing) (16.9 per cent.), and agriculture and fishing (1.2 per cent.) (source: *Central Bank Annual Report 2014*). The recent drop in oil prices may contribute to an increase in the Government's fiscal deficit. This may have a negative impact on the Government's spending**.**

The average inflation rate, based on the Consumer Price Index (**"CPI"**) for Oman during the three year period from 2010 to 2012 was 3.4 per cent. Inflation in Oman continued to be low in 2013. In 2014 the average CPI stood at 1.0 per cent compared to 1.1 per cent in 2013. The moderate increase in CPI was driven by domestic and external factors including growth in the nominal GDP, decline in world food and metal prices and the stability in house rents and prices of other household materials (source: *Central Bank Annual Report 2014*).

Annual Indicators

The following table sets out the major macroeconomic indicators for Oman for the years indicated.

	2010	**2011**	**2012**	**2013***	**2014****
Real GDP (OMR millions)	22,548	26,122	29,353	30,061	31,451
GDP Growth rate (%)	21.2	15.9	12.4	2.4	4.6
CPI Inflation Rate (%)	4.2	3.3	2.8	1.1	1.1

* Provisional.
** Preliminary
(source: Central Bank Annual Report 2014)

THE SULTANATE OF OMAN BANKING SYSTEM AND PRUDENTIAL REGULATIONS

Overview

The Oman banking system comprises commercial banks, specialised banks (such as Oman Housing Bank, as highlighted below), Islamic banks and windows, non-bank finance and leasing companies and money exchange establishments. As at 31 December 2014, the number of commercial banks stood at 16, of which 7 were locally incorporated and 9 were branches of foreign banks. The locally incorporated conventional commercial banks are the Bank, BankMuscat SAOG, HSBC Bank Oman SAOG, Oman Arab Bank SAOC, Bank Dhofar SAOG, Bank Sohar SAOG and Ahli Bank SAOG (source: Central Bank Annual Report 2014). The largest bank by a significant margin is BankMuscat SAOG, which had approximately RO 9.7 billion in assets as of 31 December 2014.

The Oman banking system is fairly concentrated, with the three largest local banks (BankMuscat SAOG, the Bank and Bank Dhofar) accounting for approximately two thirds of total credit in the banking system (source: Central Bank Annual Report 2014).

As at 30 June 2015, commercial banks in Oman had total assets of RO 27.4 billion compared to RO 24.8 billion as of 31 December 2014, total deposits of RO 18.5 billion compared to RO 17.3 billion as of 31 December 2014 and total credit of RO 17.8 billion compared to RO 16.9 million as of 31 December 2014 (source: Central Bank Quarterly Report June 2015 and Central Bank Annual Report 2014).

The Oman banking system includes two Government owned specialised banks, namely, Oman Housing Bank and Oman Development Bank which were established by the government to provide long term financing to low and middle income nationals as well as to providing loans to development projects including agriculture, fisheries, livestock, tourism and traditional craftsmanship. Interest rates on loans advanced by the two specialised banks are subsidised by the Government. As at 31 December 2014, Oman Housing Bank and Oman Development Bank operated with a network of 23 branches (source: Central Bank Annual Report 2014).

Also, prominent in the sector is a group of six non-bank financial services providers, commonly referred to as 'Leasing companies'. Leasing companies are regulated by the Central Bank and engage in leasing, hire purchase, debt factoring and similar asset based financing in Oman. The core business of leasing companies in Oman is financing the purchase of vehicles and other assets, primarily by small and medium sized enterprises as well as retail and corporate customers. As of 31 December 2014, leasing companies in Oman operated with a network of 38 branches (source: Central Bank Annual Report 2014).

Islamic Banking

In December 2012, the Oman Banking Law was amended by Sultani Decree 69/2012 (promulgated on 6 December 2012) to allow the Central Bank to licence the conduct of banks in Oman to carry out Islamic banking business through either fully fledged Islamic banks or windows of conventional banks. Oman is the last of the GCC countries to introduce Islamic banking.

The objective behind the introduction of Islamic banking in Oman was to diversify and widen the pool of banking products available to retail and corporate customers. Along with the amendment of the Banking Law, the Islamic Banking Regulatory Framework ("**IBRF**") was issued to provide detailed and comprehensive guidance on all aspects of Islamic banking. For example, the IBRF sets out the requirements for obtaining an Islamic banking license from the Central Bank, the various accounting and reporting standards that Islamic banks licensed by the Central Bank are required to comply with as well as the supervisory role of the Central Bank in relation to the various Islamic banking practices and products.

The introduction of Islamic banking in Oman is an important milestone as it adds a number of new entrants to the banking system enhancing the competitive environment in terms of efficiency and innovation as well as providing customers with the benefit of choosing between conventional and Islamic banking products. As of 31 December 2014, there were two full-fledged locally incorporated Islamic banks, namely, Bank Nizwa SAOG and Al Izz Islamic Bank SAOG. Bank Nizwa SAOG commenced operations in December 2012 and Al Izz Islamic Bank SAOG commenced operations towards the end of 2013. A number of conventional banks, including the Bank, Bank Muscat SAOG and Bank Dhofar SAOG have established windows for Islamic banking.

As at 30 June 2015, Islamic banks and windows in Oman had provided financing to the value of RO 1.4 billion compared to RO 1,050 million in 31 December 2014 and had total deposits of RO 1.2 billion compared to RO 689 million in December 2014 whilst capital and total assets stood at RO 1.8 billion compared to RO 1,371 million in December 2014 and which constituted approximately 6.3 per cent. of the banking system assets (source: Central Bank Quarterly Report June 2015 and Central Bank Annual Report 2014).

International banks

The Oman Foreign Capital Investment Law (promulgated by Sultani Decree No. 102/1994, (as amended)) mandates that foreign companies can take no more than a 70 per cent. stake in a locally incorporated firm. Local operation through 100 per cent. foreign branches is permitted in many sectors including the banking sector. The foreign banks operating in Oman through branches include Standard Chartered Bank, Habib Bank, Bank Melli Iran, Bank Saderat Iran, Bank of Baroda, State Bank of India, National Bank of Abu Dhabi, Bank Beirut and Qatar National Bank (source: Central Bank Annual Report 2014).

Recent Developments and Trends

On 1 July 2015, Bank Dhofar SAOG and Bank Sohar SAOG announced that they had entered into a non-binding agreement on a proposed merger and agreed to proceed with due diligence, subject to receiving regulatory approval.

Bank Regulation in Oman

The Central Bank of Oman

The Central Bank was established in the beginning of 1974 and was a result of the steady evolution of the monetary system in Oman, coupled with the vast economic development in the country. The two monetary authorities which preceded the establishment of the Central Bank were the Muscat Currency Authority and the Oman Currency Board.

The Central Bank acts as the depository agency for the Government and is responsible for regulating and supervising Oman's commercial banks, specialised banks and finance and leasing companies. Money exchange companies are also regulated by the Central Bank. Amongst its other responsibilities, the Central Bank is responsible for making advance payments to the Government in respect of temporary deficiencies in current revenues and further manages loans on behalf of the government. Additionally, the Central Bank is responsible for accepting deposits from banks operating in Oman and other foreign central banks. In particular, the Central Bank accepts two types of deposits from commercial banks, namely those deposits required by the Banking Law and voluntary deposits deposited by commercial banks (source: Central Bank website data obtained on 31 December 2014). The Central Bank is also responsible for advancing credit to local banks and engaging in investment activities through trading in investment products. In addition to the above mentioned functions, the Central Bank acts as a clearing house for all banks operating in Oman and is responsible for issuing the national currency and supervising its circulation and value.

Omani banks are subject to the Banking Law, promulgated by Sultani Decree 114/2000 (as amended) and banking regulations issued by the Central Bank. Banks are also required to comply with (amongst other laws of general application) the Commercial Companies Law promulgated by Sultani Decree 4/1974 (as amended), the Law of Commerce promulgated by Sultani Decree 55/1990 (as amended), the Oman Labour Law promulgated by Sultani Decree 35/2003 (as amended), the Capital Markets Law promulgated by Sultani Decree 80/98 (as amended) and the Social Insurance Law promulgated by Sultani Decree 72/199, (as amended).

Banking Laws and Regulations

Several regulatory and supervisory initiatives have been implemented by the Central Bank to develop a competitive and sound banking system. Bringing about greater financial inclusion, developing sound risk management systems, and broadening of prudential norms have been the core of the recent regulatory and supervisory directives issued by the Central Bank. Below is a summary of the main Oman banking laws and regulations:

Capital Requirements

Pursuant to Central Bank Circular BM 1019 issued on 10 April 2007, a minimum paid up capital requirement of RO 100 million is required to establish a new local commercial bank and a minimum paid up capital requirement of RO 20 million is required to establish a foreign bank in Oman. Existing banks (such as the Bank) are required to meet this requirement progressively.

Capital Adequacy

In line with international best practices, the Central Bank issued two concept papers titled 'Regulatory Capital under Basel III' and 'Composition of Capital Disclosure Requirements' (Central Bank Circular No BM 1114 issued on 17 November 2013). The two concept papers are based on the rules issued by the Basel Committee on Banking Supervision and provide for guidelines on regulatory capital and disclosure requirements under Basel III. The guidelines set out in the concept papers emphasize the importance of insuring that risk exposures of a bank are backed by an adequate amount of high quality capital which absorbs losses on a going concern basis.

The guidelines issued by the Central Bank require banks operating in Oman to have a robust capital adequacy framework which comprises of a Total Capital Adequacy ratio of 12 per cent. of risk weighted assets. Of this, Common Equity Tier 1 capital should be maintained at a level of a minimum of 7 per cent. and Tier 1 capital at a minimum of 9 per cent. of risk weighted assets, with effect from 31 December 2013. In addition to the minimum Total Capital Adequacy ratio, commencing on 1 January 2014, a Capital Conservation Buffer of 2.5 per cent. of risk weighted assets, comprised of Common Equity Tier 1 have to be achieved in four equal instalments of 0.625 per cent. Banks in Oman must fully comply with the Capital Conservation Buffer requirement by 1 January 2017. Instruments issued in excess of the Basel III limits for recognition will be phased out by 31 December 2022. Furthermore, the Basel Committee on Banking Supervision has developed the Liquidity Coverage Ratio ("**LCR**") to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario lasting thirty calendar days. Further, the Basel Committee provides for another ratio, namely the Net Stable Funding Ratio, which supplements the LCR and has a time horizon of one year. Effective 1 January 2015, the standard LCR is set at a minimum of 60 per cent.; the ratio will gradually increase by 10 per cent. each year until it reaches 100 per cent. by 2019.

Lending Ratio

Pursuant to Central Bank Circular BM 1051 issued on 23 December 2008, no licensed bank in Oman is permitted to lend (whether by loans, discounts, advances or overdrafts whether secured on unsecured) when such lending in aggregate exceeds 87.5 per cent. of the bank's deposits. Deposits of the bank are determined as the sum of a bank's total demand deposits, saving deposits, time deposits, margin accounts, net amounts due to head office or the bank's own branches abroad, net amount due to other banks abroad and capital funds.

Reserves against Deposits

Pursuant to Article 62 of the Banking Law all banks operating in Oman are required to maintain a deposit with the Central Bank, in an amount, which when added to the aggregate amount of currency and coin, foreign and domestic, held by such bank shall be: i) not more than 40 per cent. of the total daily amount of all demand and saving deposits made with such bank within Oman; and ii) not more than 30 per cent. of the total daily amount of all time deposits with such bank within Oman. Pursuant to Central Bank Circular BM 1050 issued on 23 December 2008, the percentage of the total amount of reserves against time, savings and demand deposits is currently 5 per cent.

Lending Limits

Diversification of risks is a key precept in banking. Past experiences indicate that substantial loan losses were triggered by credit concentration to connected counterparties or related parties. Besides individual exposures, credit concentrations also involve excessive exposure to sectors, industries and countries leading to risk implications in the loan books of banks (Central Bank Circular BM 1024 issued on 22 September 2007). To maintain financial stability, the Central Bank has issued a number of limits and rules with the objective of limiting potential losses arising out of excessive concentration of credit risk:

Loans to a single borrower: pursuant to Article 68(b) of the Banking Law the total direct or contingent obligation to any licensed bank by any borrower, other than the Government of the Sultanate of Oman, shall not exceed 15 per cent. of the total net worth of such licensed bank. Article 5 of the Banking Law defines net worth as the aggregate amount of the assets less liabilities, other than capital and surplus of a licensed banks and shall include the aggregate of assets and liabilities both within and outside Oman.

Lending to non-residents: the credit exposure to non-residents and placement of bank funds abroad has been re-examined by the Central Bank due to the risks associated with such exposures. Accordingly, the Central Bank has reviewed some of the existing regulatory norms with regard to cross border exposures of banks and certain modifications have been made with regards to the limits placed on the aggregate credit exposures to non-residents and their related parties. In particular, pursuant to a Central Bank Circular BM 1120 issued on 31 March 2014, a bank operating in Oman must not lend:

- more than 2.5 per cent. of its local net worth to a non-resident borrower and its related parties. Local net worth of a licensed bank is the total regulatory capital reduced by exceptional investments under Article 65(e) of the Banking Law and reduced by the assigned capital for overseas subsidiaries, associates or affiliates mandated for deduction from capital as per specific Central Bank directions (source: Central Bank Circular BM 988 issued on 31 May 2005);

- more than 20 per cent. of its local net worth in aggregate to all non-resident borrowers (other than banks) and their related parties; and

- more than 30 per cent. of its local net worth in aggregate to all non-resident borrowers (including banks) and their related parties. Further, any single credit exposure of U.S.$ 5 million or above to a non-resident borrower other than a non-resident bank shall only be undertaken through syndication.

Banks were also instructed in 2014 to take effective measures in regards to the Foreign Accounts Tax Compliance Act ("**FATCA**") to identify their target customers and obtain their consent for making the necessary disclosures.

Loans to SMEs: In an effort to develop the SME sector in Oman, the Government and the Central Bank took measures towards encouraging prospective entrepreneurs, recognising key areas for SME finance and supporting public-private cooperation. The Central Bank directive to banks is to implement a liberal lending policy for SMEs and to achieve a minimum of 5 per cent. of their total credit allocation to SMEs by 31 December 2015 (source: Central Bank Circular BM 108 issued on 6 May 2013 and Circular 1123 issued on 14 September 2014).

Loans to directors and senior management: pursuant to Article 68(b) of the Banking Law the total direct or contingent obligation to any licensed bank by a senior member in the management of the licensed bank and any related parties shall not exceed 10 per cent. of the amount of net worth of such bank. The aggregate of lending to all senior members and any related parties shall not exceed 35 per cent. of the amount of the net worth of the licensed bank.

In addition to imposing a limit on the aggregate lending to directors and senior management, the Central Bank requires banks to remove members of senior management who have doubtful or classified loans with the bank (Central Bank Circular BM 985 issued on 15 February 2005).

Loans secured by real estate: in accordance with Article 67(d) of the Banking Law a bank operating in Oman is not permitted to make any loan secured by real estate when either the total value of real estate held by the bank, or the aggregate of the outstanding of loans against which the such securities are held, whichever is lower, other than the real estate held by the bank in the bank's capacity as a trustee, executer, administrator, receiver or assignee pursuant to Article 66(a) of the Banking Law, exceeds or by the making if such loan will exceed, 60 per cent. of the net worth of such licensed bank within Oman or 60 per cent. of all time and saving deposits other than government and inter-bank deposits of such licensed banks, whichever is greater.

Ceiling on Personal loans and Mortgages: pursuant to Central Bank Circular BM 1109 issued on 23 May 2013 and in light of the rise in personal loan indebtedness, the ceiling imposed on the aggregate of personal loans banks may advance was reduced from 40 per cent. to 35 per cent. of total credit whilst mortgages continued to have a ceiling of 15 per cent. of total credit effective from 30 June 2014.

Bank Credit and Statistics Bureau

Pursuant to Central Bank Regulation BM/53/9/2011 issued on 11 January 2011 the board of governors of the Central Bank adopted a Bank Credit and Statistics Bureau (BCSB). The BCSB is a centralised statistical bureau maintained by the Central Bank. Amongst other things, the primary function of the BCSB is to collect and synthesise financial information on current and prospective borrowers, guarantors and account holders as well as connected counter parties of licensed banks. The BCSB is responsible for providing reports to licensed banks with the objective of facilitating the smooth functioning of the credit market. Banks and finance companies operating in Oman must report credit and financial information of any current or prospective borrower or guarantor and its related parties on a monthly basis.

Loan Loss Provisioning

The Central Bank has directed banks to have appropriate systems to classify loans on the basis of well-defined credit weaknesses and to have robust provisioning in place. Pursuant to Central Bank Circular BM 977 issued on 25 September 2004 non-performing loans should be classified as either standard, special mention, substandard, doubtful or loss depending on the number of days the credit has been due.

The Central Bank circular provides that any proposed settlement for less than full value of delinquent debt of directors or management requires the prior approval of the Central Bank. Loans in arrears for more than 90 days are classified as non-performing. Of these, banks have to provide 25 per cent., 50 per cent. and 100 per cent. against loans classified as sub-standard, doubtful and losses, respectively. In addition to specific provisions for classified loans, banks are required to create general loan loss provisions, at a minimum of 1 per cent. of their loans which are categorised as "Standard" and "Special Mention". Further, a minimum general loss provision of 2 per cent. of personal loans categorised as "Standard" and "Special Mention" must be maintained by all banks operating in Oman.

Bank Deposit Insurance Scheme

Pursuant to Sultani Decree No 9/1995 a Bank Deposit Insurance Scheme was established by the Central Bank. The objectives of establishing the Bank Deposit Insurance Scheme are to provide a comprehensive deposit insurance cover, sustain public confidence in the financial soundness of the banking system and to assist banks in financial difficulty. Deposits placed by a natural or juristic person with any bank operating in Oman are protected by the Deposit Insurance Scheme up to an amount of RO 20,000, whichever is lower. The deposits covered by the scheme include saving deposits, current deposits, temporary deposits, time deposits, government deposits and any other deposits of the same nature.

Banks in Oman are required to register with the Bank Deposit Insurance Scheme and to pay an annual insurance premium of 0.03 per cent. of annual average deposits to the Central Bank to support this system.

Loan and Interest Rate Ceilings

As a result of the rising level of individual loan indebtedness the Central Bank imposed an aggregate quantitative ceiling on personal loans and mortgages. A debt service ratio has been capped at 50 per cent. of net salary receipts on personal loans and 60 per cent. on mortgages. Further, banks in Oman are only permitted to advance personal loans (other than mortgages) after 24 months of satisfactory conduct of an existing loan or after 50 per cent. of an existing loan is repaid (Central Bank Circular 1094 issued on 23 May 2012).

In light of the global decline in interest rate trends, the Central Bank decided to reduce the interest rate ceiling on personal loans and mortgages from 7 per cent. to 6 per cent., effective from October 2013. The Central Bank requires banks in Oman to treat the 6 per cent. ceiling as the maximum and not an entitlement. Banks in Oman are encouraged to offer competitive rates consistent with international market forces and to ensure the flow of credit to all sectors including agriculture, industry as well as to small to medium enterprises (Central Bank Circular BM 1112 issued on 2 October 2013).

Maturity Mismatch Ceiling

Pursuant to Circular BM 955 issued on 7 May 2003, cumulative gaps in Omani Rial, US Dollars and other currencies may not exceed 15 per cent. of a bank's cumulative liabilities in each of the five designated time bands (up to one month, 1-3 months, 3-6 months, 6-9 months and 9-12 months). Banks may fix their own limits on mismatches for time bands greater than one year.

Investment Criteria

Article 65 of the Banking Law sets out the general credit and investment powers of banks as follows. A domestic bank may:

- purchase, sell, accept or negotiate: items and bonds, notes, debentures, treasury bills, bonds issued by the Government, written securities guaranteed by the government and tangible and intangible property. In accordance with Central Bank Circular BM 938 issued on 13 May 2002 the total aggregate value of a bank's investment in the Government development bonds do not exceed 30 per cent. of the bank's net worth;

- receive upon deposit or for safekeeping, money, securities, papers of any kind or any other personal property;

- open accounts with the Central Bank, and utilise the Central Bank as a clearing house;

- open accounts with other local or overseas banks;

- purchase, hold and sell for its own account bonds, notes, debentures and other evidences of an obligation for the payment of money **provided that** such obligations are not in default at the time of acquisition by the bank and that the aggregate value of such investments does not exceed 10 per cent. of the net worth of the licensed bank and that any investment in a particular security does not exceed 5 per cent. of the net worth of the bank. Investments in companies domiciled outside Oman should not exceed 23 per cent. of the 10 per cent. ceiling mentioned above;

- purchase, hold and sell for its own account securities issued or guaranteed by the Government or any foreign government **provided that** such securities are publicly traded and have a maturity period of not more than 90 days. Investment in shares and securities if the corporation is formed by the Government should not exceed 5 per cent. of the net worth of the bank;

- purchase, hold and sell for its own account shares and securities of corporations domiciled in or outside Oman **provided that** such investment if made in related companies or other licensed banks has been approved by the Central Bank, and that any such investment in a particular security does not exceed 5 per cent. of the shares of such corporation and that all such investments by the bank do not exceed 20 per cent. of the net worth of the licensed bank. Further, investment in companies domiciled outside Oman should not exceed 25 per cent. of the 20 per cent. ceiling mentioned above; and

- purchase, hold and sell for its own account, foreign currency or other monetary assets in the form of cash, bullion, gold and any other metal utilised as a monetary asset.

Banks operating in Oman are required to strictly adhere to the investment limitations provided for in Article 65 of the Banking Law. The Central Bank expects banks to be reasonably conservative in investment decisions and to appropriately balance any risks associated with such investments. In addition, the Central Bank directs banks to implement a comprehensive investment policy approved by the bank's board of directors and to submit such policy to the Central Bank (Central Bank Circular BM 958 issued on 5 August 2003).

Foreign Exchange Trading

Pursuant to Central Bank Circular BM 341 issued on 10 March 1982, banks are permitted to take total foreign exchange positions, defined as the aggregate of all overbought and oversold position, of up to 40 per cent. of the bank's capital and reserves with Oman. The limit applies to all foreign currencies without exception. Banks in Oman are required to submit data to the Central Bank which shows their foreign exchange positions on a monthly basis. Specialised banks and leasing companies are not permitted to take positions in foreign exchange.

Other Banking Law Requirements

The Banking Law imposes, among other things, the following requirements:

Regular reports: Pursuant to Article 72 of the Banking Law, each licensed bank must submit to the Central Bank an annual report, audited by independent auditors, and certain interim reports and monthly reports as prescribed from time to time by the regulations of the Central Bank. These reports must be accurate and must include, but not be limited to, information reflecting the financial condition both within and outside Oman of that bank, showing in detail the assets and liabilities of the bank, the amount of domestic and foreign currency held by such bank and the amount, nature and maturities of all items and instruments, securities and other investments owned or held by such bank, to the extent that such information is related to the conduct of banking business, both within and outside Oman. In addition, licensed foreign banks must file copies of reports prepared within Oman for submission to banking authorities which have jurisdiction over the licensed foreign bank and which reflect the aggregate financial condition of all operations of the licensed bank.

Real and Personal Property and Secured Transactions: Pursuant to Article 66 of the Banking law, a bank operating in Oman may purchase, acquire or hold, lease or otherwise convey real and personal property which has been conveyed to it in satisfaction of debts previously contracted in the normal course of banking business, which it has acquired at sales under judgment decrees or as the result of foreclosure sales and mortgages. However, all real property acquired by the bank or which has been transferred to it in these ways must be sold or otherwise disposed of by the bank within 12 months of the date of acquisition.

Omanisation of Personnel in Banking Sector

With the objective of raising job opportunities for Omanis, the Central Bank requires all banks operating in Oman to achieve an Omanisation ratio of at least 90 per cent. By December 2015 all banks operating in Oman must achieve an Omanisation ratio of 65 per cent. in relation to their Senior Management. This ratio is increased to 75 per cent. by December 2016. As regards to Middle Management, a ratio of 90 per cent. must be achieved by all banks by December 2016. Foreign banks may be exempt from achieving the Omanisation quota in relation to their chief executive officer and/ or country managers. All banks operating in Oman are required to provide adequate training to Omani employees (Central Bank Circular BM 1105 dated 31 March 2013).

TAXATION

The following is a general description of certain Oman and European Union tax considerations relating to the Capital Securities. It does not purport to be a complete analysis of all tax considerations relating to the Capital Securities and does not constitute legal or tax advice. Prospective purchasers of Capital Securities should consult their tax advisers as to the consequences under the tax laws of the countries of their respective citizenship, residence or domicile of acquiring, holding and disposing of Capital Securities and receiving payments under the Capital Securities. This overview is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Omani Tax Law

Payment of all amounts payable by the Bank to the holders of Capital Securities in respect of the Capital Securities themselves may be made free and clear of withholding or other taxes imposed by Oman or by any authority thereof or therein having power to tax.

EU Savings Tax Directive

EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires each EU Member State to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident in, or certain other types of entity established in, that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise.

A number of non-EU countries and territories including Switzerland have adopted similar measures to the Savings Directive.

The Council of the European Union formally adopted a Council Directive amending the Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "**interest payment**" to cover income that is equivalent to interest.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a directive for a common financial transactions tax (the "**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Capital Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Capital Securities should however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the

Capital Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Capital Securities are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "**foreign financial institution**", or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. Person or should otherwise be treated as holding a "**United States account**" of the Bank (a "**Recalcitrant Holder**"). The Bank is classified as an FFI.

The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a 1 IGA jurisdiction generally would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

The Bank and financial institutions through which payments on the Capital Securities are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Capital Securities is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Capital Securities are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Capital Securities by the Bank, any paying agent or the common depositary, given that each of the entities in the payment chain between the Bank and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Capital Securities. The documentation expressly contemplates the possibility that the Capital Securities may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Capital Securities will only be printed in remote circumstances.

If an amount in respect of FATCA Withholding were to be deducted or withheld from interest, principal or other payments made in respect of the Capital Securities, neither the Bank nor any paying agent nor any other person would, pursuant to the conditions of the Capital Securities, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their

tax advisers on how these rules may apply to the Bank and to payments they may receive in connection with the Capital Securities.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the "**Subscription Agreement**") dated 16 November 2015 between the Bank and the Managers, the Bank has agreed to issue U.S.$300,000,000 in aggregate principal amount of the Capital Securities and subject to certain conditions, Citigroup Global Markets Limited, Credit Agricole Corporate and Investment Bank, First Gulf Bank P.S.J.C., Merrill Lynch International, National Bank of Abu Dhabi P.J.S.C. and Standard Charteted Bank have jointly and severally agreed to subscribe or procure subscribers for the Capital Securities at the issue price of 100 per cent. of the principal amount of Capital Securities less certain commissions as described below.

The Managers will be paid certain commissions in respect of their services for managing the issue and offering of the Capital Securities. To the extent permitted by law, the Bank and the Managers may agree that commissions or fees may be paid to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the Capital Securities purchased by such intermediary and/or its customers. Any disclosure and other obligations in relation to the payment of such commission to such intermediary are solely the responsibility of the relevant intermediary and none of the Bank, the Managers or any of their affiliates, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever for compliance with such obligations. Each customer of any such private bank and/or intermediary is responsible for determining for itself whether an investment in the Capital Securities is consistent with its investment objectives.

Any such agreement will extend to those matters stated under "*Form of the Capital Securities*" and "*Terms and Conditions of the Capital Securities*". In the Subscription Agreement, the Bank has agreed to reimburse the Managers for certain of their expenses in connection with the issue of Capital Securities and to indemnify the Managers against certain liabilities incurred by them in connection therewith.

United States

Each Manager has represented and agreed that the Capital Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Capital Securities constituting part of its allotment except in accordance with Rule 903 of Regulation S under the Securities Act.

Terms used in the above paragraph have the meanings given to them in Regulation S.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Capital Securities in circumstances in which Section 21(1) of the FSMA does not or would not, if the Bank was not an authorised person, apply to the Bank; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Capital Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Capital Securities other than: (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a "**prospectus**" as defined in the Companies (Winding Up and Miscellaneous Provisions)

Ordinance (Cap. 32) of Hong Kong (the "**CO**") or which do not constitute an offer to the public within the meaning of the CO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Capital Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to any Capital Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

Japan

The Capital Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and each Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Capital Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws and regulations of Japan.

Singapore

Each Manager has represented and agreed that the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore, and the Capital Securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**"). Accordingly, the Capital Securities may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Capital Securities be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Capital Securities are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Capital Securities pursuant to an offer under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations.

The United Arab Emirates (excluding Dubai International Financial Centre)

Each Manager has represented and agreed that the Capital Securities have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Capital Securities to any person in the Dubai International Financial Centre unless such offer is:

(a) an "**Exempt Offer**" in accordance with the Markets Rules (MKT Module) of the Dubai Financial Services Authority (the "**DFSA**"); and

(b) made only to persons who meet the "**Professional Client**" criteria set out in Rule 2.3.2 of the Conduct of Business Module.

State of Kuwait

Each Manager has represented and agreed that the Capital Securities have not been and will not be offered, sold, promoted or advertised by it in Kuwait other than in compliance with Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities. No private or public offering of the Capital Securities is being made in Kuwait, and no agreement relating to the sale of the Capital Securities will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Capital Securities in Kuwait.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Capital Securities. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Capital Securities pursuant to an offering should note that the offer of Capital Securities is an offer to "Sophisticated Investors" (as defined in Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**")) for the purposes of Article 9 of the KSA Regulations. Each Manager has represented and agreed that the offer of the Capital Securities will only be directed at Sophisticated Investors.

The offer of Capital Securities shall not therefore constitute a "**public offer**" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Capital Securities as a Sophisticated Investor may not offer or sell those Capital Securities to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Capital Securities are offered or sold to a "**Sophisticated Investor**"; (b) the price to be paid for the Capital Securities in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Kingdom of Bahrain

Each Manager has represented and agreed that it has not offered, and will not offer, Capital Securities to (i) the Public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001 of the laws of the Kingdom of Bahrain)); or (ii) any person in the Kingdom of Bahrain who is not an "accredited investor".

For this purpose, an "**accredited investor**" means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Capital Securities in the State of Qatar, including the Qatar Financial Centre, except: (a) in compliance with all applicable laws and regulations of the State of Qatar including the Qatar Financial Centre; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Sultanate of Oman

Each Manager has represented and agreed that:

(a) this Prospectus has not been filed with or registered as a prospectus with the Capital Market Authority of the Sultanate of Oman pursuant to Article 3 of the Capital Market Authority Law SD 80/98 ("**Article 3**"), and will not be offered or sold as an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (SD 4/74, as amended) or Article 3; and

(b) the Capital Securities have not been and will not be offered, sold or delivered, and no invitation to subscribe for or to purchase the Capital Securities has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in the Sultanate of Oman to any person in Oman other than an entity duly licensed by the Capital Market Authority of the Sultanate of Oman to market non-Omani securities in Oman and then only in accordance with all applicable laws and regulations, including Article 139 of the Executive Regulations of the Capital Markets Law (Decision No. 1/2009, as amended).

General

Each Manager has agreed that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Capital Securities or possesses or distributes the Prospectus and neither the Bank nor any of the other Managers shall have any responsibility therefor.

Neither the Bank nor any of the Managers represents that Capital Securities may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. Persons into whose possession this Prospectus or the Capital Securities may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of Capital Securities.

GENERAL INFORMATION

Authorisation

The issue of Capital Securities by the Bank and its entry into the Transaction Documents was duly authorised by a resolution of the Bank's directors on 10 May 2015.

Approval of the Prospectus, Admission to Trading and Listing of Capital Securities

Application has been made to the Irish Stock Exchange for the Capital Securities to be admitted to the Official List and trading on the Main Securities Market. The listing of the Capital Securities is expected to be granted on or before 18 November 2015. The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Capital Securities to the Official List of the Irish Stock Exchange and trading on its regulated market. The total expenses relating to the admission to trading of the Capital Securities on the Main Securities Market are expected to amount to approximately €6,540.

Documents Available

For the life of the Capital Securities, hard copies of the following documents will, when published, be available for inspection from the registered office of each of the Bank and from the specified offices of the Paying Agents for the time being in London and Luxembourg:

(a) the Memorandum and Articles of Association (with an English translation thereof) of the Bank;

(b) the unaudited interim financial statements of the Bank in respect of the nine months ended 30 September 2015, together with the review report prepared in connection therewith;

(c) the unaudited interim financial statements of the Bank in respect of the six months ended 30 June 2015, together with the review report prepared in connection therewith;

(d) the audited annual financial statements of the Bank in respect of the financial years ended 31 December 2014 and 2013, in each case together with the audit reports prepared in connection therewith;

(e) the Deed of Covenant and the Agency Agreement (which contains the forms of the Global Certificate and the Individual Certificate); and

(f) a copy of this Prospectus.

The Prospectus is available for viewing on the website of the Central Bank of Ireland (http://www.centralbank.ie).

Clearing Systems

The Capital Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 132192189 and ISIN XS1321921899.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1 210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, *société anonyme*, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Bank since 30 September 2015 and there has been no material adverse change in the prospects of the Bank since 31 December 2014.

Litigation

The Bank is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Bank.

Auditors

The auditors of the Bank are Messrs. KPMG ("**KPMG**"). KPMG were appointed as auditors of the Bank in the annual general meeting held on 26 March 2014. KPMG have no material interest in the Bank. KPMG is regulated in the Sultanate of Oman by the Ministry of Commerce and Industry which has issued KPMG with a licence to practice as auditors. There is no professional institute of auditors in the Sultanate of Oman and, accordingly, KPMG is not a member of a professional body in the Sultanate of Oman. All of KPMG audit partners are members of the institutes from where they received their professional qualification.

Managers Transacting with the Bank

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Bank and their affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for those transactions.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Capital Securities. Any such short positions could adversely affect future trading prices of Capital Securities. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

INDEX TO FINANCIAL STATEMENTS

Review report in respect of the unaudited interim financial statements of the Bank as at and for the nine months ended 30 September 2015	F-1
Unaudited interim financial statements of the Bank as at and for the nine months ended 30 September 2015	F-2
Review report in respect of the unaudited interim financial statements of the Bank as at and for the six months ended 30 June 2015	F-25
Unaudited interim financial statements of the Bank as at and for the six months ended 30 June 2015	F-26
Auditors' report in respect of the audited financial statements of the Bank as at and for the financial year ended 31 December 2014	F-49
Audited financial statements of the Bank as at and for the financial year ended 31 December 2014	F-50
Auditors' report in respect of the audited financial statements of the Bank as at and for the financial year ended 31 December 2013	F-103
Audited financial statements of the Bank as at and for the financial year ended 31 December 2013	F-104

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

Review Report to the Board of Directors of National Bank of Oman SAOG

The Chairman
Board of Directors
National Bank of Oman SAOG
PO Box 751, PC 112 Ruwi
Muscat, Sultanate of Oman

Introduction
We have reviewed the accompanying unaudited condensed statement of financial position of National Bank of Oman SAOG ("the Bank") as at 30 September 2015, and the related condensed statements of comprehensive income for the three month and nine month periods ended 30 September 2015, changes in equity and cash flows for the nine months period then ended, and other explanatory notes, set out on pages 3 to 23 ("interim financial information").

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting' and the minimum disclosure requirements issued by the Capital Market Authority. Our responsibility is to express a conclusion on the unaudited condensed interim financial information based on our review.

Scope of review
We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Bank is not:

i) prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting'; and

ii) in compliance, in all material respects, with the minimum disclosure requirements issued by the Capital Market Authority.

18 October 2015

KPMG

C.R. No. 1/30936/6

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 September 2015 (UNAUDITED)

PO Box 751 PC 112 Ruwi Sultanate of Oman.

SR.NO	INDEX	PAGE NO
1	CHAIRMAN REPORT	1
2	AUDITORS' REVIEW REPORT	2
3	INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION	3
4	INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME	4
5	INTERIM CONDENSED STATEMENT OF CASH FLOWS	5
6	INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY	6
7	NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION	7-23

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
30 September 2015 (Un-audited)

	Notes	**30-09-2015**	30-09-2014	Audited 31-12-2014
		RO'000	RO'000	RO'000
Assets				
Cash and balances with Central Banks	3	**325,220**	691,596	288,832
Due from banks and other money market placements (net)	4	**137,242**	217,614	144,933
Loans, advances and financing activities for customers (net)	5	**2,535,832**	2,259,778	2,316,813
Financial investments	6	**165,340**	141,090	147,524
Premises and equipment	7	**32,347**	22,425	23,204
Deferred tax asset	12	**620**	398	436
Other assets	8	**64,412**	52,080	54,352
Total assets		**3,261,013**	3,384,981	2,976,094
Liabilities				
Due to banks and other money market deposits		**131,444**	157,040	102,188
Customers' deposits and unrestricted investment accounts	9	**2,396,632**	2,721,317	2,177,742
Euro medium term notes	10	**199,611**	-	195,223
Other liabilities	11	**80,937**	70,830	69,761
Taxation	12	**5,419**	5,546	6,051
Total liabilities		**2,814,043**	2,954,733	2,550,965
Subordinated debt	13	**62,100**	79,700	63,600
Equity				
Share capital		**134,071**	121,883	121,883
Share premium		**34,465**	34,465	34,465
Legal reserve		**43,380**	39,586	43,380
General reserve		**4,419**	4,419	4,419
Other non-distributable reserves	14	**40,849**	46,936	41,322
Proposed cash dividend		**-**	-	20,720
Proposed stock dividend		**-**	-	12,188
Retained earnings		**127,686**	103,259	83,152
Total equity		**384,870**	350,548	361,529
Total liabilities, subordinated debt and equity		**3,261,013**	3,384,981	2,976,094

The interim condensed financial statements were authorised for issue on 18 October 2015 in accordance with a resolution of the Board of Directors.

....
Chairman

....
Chief Executive Officer

The attached notes 1 to 26 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
30 September 2015 (Un-audited)

	Notes	Nine months ended 30 Sep 2015 RO'000	Nine months ended 30 Sep 2014 RO'000	Three months ended 30 Sep 2015 RO'000	Three months ended 30 Sep 2014 RO'000
Interest income	16	**90,271**	87,502	**30,924**	30,110
Interest expense	17	**(23,326)**	(28,647)	**(7,771)**	(9,238)
Net interest income		**66,945**	58,855	**23,153**	20,872
Income from Islamic financing and Investment activities		**2,714**	1,258	**872**	685
Unrestricted investment account holders' share of profit		**(416)**	(187)	**(151)**	(82)
Net Income from Islamic financing and Investment activities		**2,298**	1,071	**721**	603
Net interest income and net income from Islamic financing and Investment activities		**69,243**	59,926	**23,874**	21,475
Other operating income	18	**28,317**	24,006	**9,308**	8,320
OPERATING INCOME		**97,560**	83,932	**33,182**	29,795
Staff costs		**(26,073)**	(23,528)	**(9,080)**	(8,121)
Other operating expenses	19	**(15,015)**	(13,277)	**(5,041)**	(4,677)
Depreciation	7	**(2,292)**	(2,223)	**(744)**	(770)
OPERATING EXPENSES		**(43,380)**	(39,028)	**(14,865)**	(13,568)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		**54,180**	44,904	**18,317**	16,227
Credit loss expense – customer loans	5	**(11,975)**	(9,550)	**(3,873)**	(1,975)
Recoveries and releases from provision for credit losses		**7,269**	7,208	**2,683**	1,976
Others		**(67)**	(67)	**2**	(168)
TOTAL IMPAIRMENT LOSSES (NET)		**(4,773)**	(2,409)	**(1,188)**	(167)
PROFIT BEFORE TAX		**49,407**	42,495	**17,129**	16,060
Taxation	12	**(6,373)**	(5,442)	**(2,158)**	(2,056)
PROFIT FOR THE PERIOD		**43,034**	37,053	**14,971**	14,004
OTHER COMPREHENSIVE INCOME					
Items that are or may be reclassified subsequently to profit or loss					
Net movement on available for sale investments		**972**	2,093	**(1,002)**	1,847
Tax effect of net results on available for sale financial investments		**55**	(62)	**21**	(28)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**1,027**	2,031	**(981)**	1,819
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**44,061**	39,084	**13,990**	15,823
Earnings per share annualized:					
Basic and diluted, profit for the period attributable to equity holders		**0.043**	0.037	**0.044**	0.041

The attached notes 1 to 26 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

30 September 2015 (Un-audited)

	Notes	*Nine months ended 30 Sep*	
		2015	2014
		RO'000	RO'000
Profit before taxation		**49,407**	42,495
Adjustments for:			
Depreciation	**7**	**2,292**	2,223
Provision for credit losses (net)		**10,659**	7,369
Provision / (write back) for credit loss expenses bank loans (net)		**49**	13
Impairment on available for sale investments		**18**	54
Profit on sale of equipment (net)		**(4)**	(6)
Profit on sale of investments		**(189)**	(2,177)
Investment income		**(3,248)**	(3,077)
Operating profit before changes in operating assets and liabilities		**58,984**	46,894
(Increase)/decrease in due from and other money market deposits		**(28,177)**	12,325
Increase/(decrease) in due to and other money market placements		**38,977**	(105,874)
Increase in loans and advances to customers		**(229,678)**	(198,948)
Increase in other assets		**(10,060)**	26,061
Increase in customer deposits		**218,890**	542,158
Euro Medium Term Notes		**4,388**	-
Increase/(decrease) in other liabilities		**11,176**	(6,682)
Cash from operations		**64,500**	315,934
Tax paid		**(7,134)**	(5,414)
Net cash from operating activities		**57,366**	310,520
Investing activities			
Purchase of investments		**(44,076)**	(18,728)
Proceeds from sale of investments		**27,403**	14,468
Purchase of premises and equipment	**7**	**(11,506)**	(4,604)
Disposal of premises and equipment		**54**	59
Translation difference in premises & equipment and Tax		**21**	(13)
Interest on Government Development Bond and T-Bills		**2,084**	1,987
Dividend income	**18**	**1,164**	1,090
Net cash used in investing activities		**(24,856)**	(5,741)
Financing activities			
Payment of dividend		**(20,720)**	(16,620)
Repayment of Subordinated debt		**(1,500)**	-
Net cash used in financing activities		**(22,220)**	(16,620)
Increase in cash and cash equivalents		**10,290**	288,159
Cash and cash equivalents at the beginning of the period		**313,135**	479,315
Cash and cash equivalents at the end of the period		**323,425**	767,474
Representing:			
Cash and balances with Central Bank	**3**	**324,720**	691,096
Deposits and balances with other banks and financial institutions (net)		**(1,295)**	76,378
		323,425	767,474

The attached explanatory notes 1 to 26 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
Period ended 30 September 2015 (Un-audited)

(RO'000)	*Share capital*	*Share premium*	*Legal reserve **	*General reserve*	*Other non-distributable reserves**	*Proposed cash dividend*	*Proposed stock dividend*	*Retained earnings*	*Total*
Balance at 1 January 2014	110,803	34,465	39,586	4,419	44,905	16,620	11,080	66,206	328,084
Total comprehensive income for the period	-	-	-	-	2,031	-	-	37,053	39,084
Dividend paid during the period	-	-	-	-	-	(16,620)	-	-	(16,620)
Issue of Shares	11,080	-	-	-	-	-	(11,080)	-	-
Balance at 30 September 2014	**121,883**	**34,465**	**39,586**	**4,419**	**46,936**	**-**	**-**	**103,259**	**350,548**
Balance at 1 October 2014	121,883	34,465	39,586	4,419	46,936	-	-	103,259	350,548
Total comprehensive income for the period	-	-	-	-	(2,234)	-	-	13,215	10,981
Transfer to subordinated debt reserve	-	-	-	-	12,720	-	-	(12,720)	-
Transfer to retained earnings	-	-	-	-	(16,100)	-	-	16,100	-
Transfer to legal reserve	-	-	3,794	-	-	-	-	(3,794)	-
Transfer to proposed stock dividend	-	-	-	-	-	-	12,188	(12,188)	-
Transfer to proposed cash dividend	-	-	-	-	-	20,720	-	(20,720)	-
Balance at 31 December 2014	**121,883**	**34,465**	**43,380**	**4,419**	**41,322**	**20,720**	**12,188**	**83,152**	**361,529**
Balance at 1 January 2015	**121,883**	**34,465**	**43,380**	**4,419**	**41,322**	**20,720**	**12,188**	**83,152**	**361,529**
Total comprehensive income for the period	-	-	-	-	**1,027**	-		**43,034**	**44,061**
Transfer to retained earnings					**(1,500)**			**1,500**	-
Dividend paid during the period	-	-	-	-	-	**(20,720)**		-	**(20,720)**
Issue of shares	**12,188**	-	-	-	-	-	**(12,188)**	-	-
Balance at 30 September 2015	**134,071**	**34,465**	**43,380**	**4,419**	**40,849**	**-**	**-**	**127,686**	**384,870**

*Transfers to legal reserve and subordinated debt reserve are made on an annual basis.

The attached notes 1 to 26 form part of the interim condensed financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The bank employed 1,463 employees as of 30 September 2015 (30 September 2014 – 1,367 employees / 31 December 2014 – 1,368 employees).

2 SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements of the bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2014.

The condensed interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the Nine months ended 30 September 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

The condensed interim financial statements are prepared in Rial Omani, rounded to the nearest thousands, except as 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 interim condensed financial statements are prepared under the historical cost convention, modified to include revaluation of freehold land and buildings, measurement of derivative financial instruments and investments, either through profit and loss account or through other comprehensive Income, at fair value.

3 CASH AND BALANCES WITH CENTRAL BANKS

	30/09/2015	*30/09/2014*	*31/12/2014*
	RO'000	*RO'000*	*RO'000*
Cash	**60,894**	73,760	47,834
Treasury bills	**30,666**	-	-
Certificate of deposit with Central Banks	**-**	530,000	8,000
Other balances with Central Banks	**233,160**	87,336	232,498
Cash and cash equivalents	**324,720**	691,096	288,332
Capital deposit with Central Bank of Oman	**500**	500	500
Cash and balances with Central Banks	**325,220**	691,596	288,832

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

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

	30/09/2015	*30/09/2014*	*31/12/2014*
	RO'000	*RO'000*	*RO'000*
Loans and advances to banks	**34,501**	30,396	24,721
Placements with bank	**71,514**	158,122	71,842
Demand balances	**31,400**	29,248	48,494
Due from banks and other money market placements	**137,415**	217,766	145,057
Less: allowance for credit losses	**(173)**	(152)	(124)
Net due from banks and other money market placements	**137,242**	217,614	144,933

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

	30/09/2015 RO'000	*30/09/2014 RO'000*	*31/12/2014 RO'000*
Corporate loans	**1,405,425**	1,244,716	1,289,808
Personal loans	**1,139,284**	1,033,216	1,046,172
Overdrafts	**77,212**	64,492	59,781
Gross loans and advances	**2,621,921**	2,342,424	2,395,761
Less: Allowance for credit losses and reserved interest	**(86,089)**	(82,646)	(78,948)
Net loans and advances	**2,535,832**	2,259,778	2,316,813

Gross loans and advances include RO 33.7 million due from related parties at 30 September 2015 (30 September 2014 – RO 28.5 million, 31 December 2014 – RO 13.0 million).

The movement in the provision for impairment of loans and advances presented as loan loss provisions and reserved interest is set out below:

Allowance for credit losses	***9 months ended 30/09/2015 RO'000***	*9 months ended 30/09/2014 RO'000*	*12 months ended 31/12/2014 RO'000*
Balance at beginning of period / year	**69,197**	67,752	67,752
Provided during the period / year	**11,975**	9,550	12,299
Recovered/ released during the period / year	**(1,034)**	(1,997)	(2,665)
Written off during the period / year	**(5,267)**	(5,059)	(8,097)
Translation difference	**(130)**	(80)	(92)
Balance at end of period / year	**74,741**	70,166	69,197

Reserved interest	***9 months ended 30/09/2015 RO'000***	*9 months ended 30/09/2014 RO'000*	*12 months ended 31/12/2014 RO'000*
Balance at beginning of period / year	**9,751**	20,890	20,890
Reserved during the period / year	**2,171**	2,741	3,185
Recovered/ released during the period / year	**(282)**	(184)	(223)
Written off during the period / year	**(284)**	(10,964)	(14,099)
Translation difference	**(8)**	(3)	(2)
Balance at end of period / year	**11,348**	12,480	9,751

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.

As of 30 September 2015 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 59.5 million, (30 September 2014 – RO 61.5 million and 31 December 2014 – RO 58.5 million).

6 FINANCIAL INVESTMENTS

	Carrying value 30/09/2015 RO'000	Carrying value 30/09/2014 RO'000	Carrying value 31/12/2014 RO'000
A. Held for trading			
Quoted investments- Oman			
Government Development Bonds	**62,571**	26,935	39,292
Equities	**-**	141	-
	62,571	27,076	39,292
Quoted investments- Foreign			
Equities	**-**	237	-
	-	237	-
Total held for trading	**62,571**	27,313	39,292
B. Available for sale			
Quoted investments- Oman			
Banking and investment sector	**540**	515	490
Manufacturing sector	**169**	1,165	822
Service sector	**33,184**	19,652	19,696
Government Development Bonds	**43,379**	75,341	68,952
	77,272	96,673	89,960
Quoted investments- Foreign			
Banking and investment sector	**1,998**	395	1,790
Service sector	**3,758**	-	702
	5,756	395	2,492
Unquoted investments			
Banking and investment sector	**8,868**	11,292	10,133
Manufacturing sector	**3,483**	3,483	3,483
Service sector	**109**	175	175
	12,460	14,950	13,791
Total available for sale	**95,488**	112,018	106,243
C. Held to maturity			
Quoted investments- Overseas			
Manufacturing sector	**-**	1,759	-
Banking Sector	**1,985**	-	1,989
Government Development Bonds	**5,296**	-	-
Total Held to maturity	**7,281**	1,759	1,989
TOTAL FINANCIAL INVESTMENTS	**165,340**	141,090	147,524

Details of significant investments

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

	Bank's portfolio %	*Carrying value RO'000*
30 September 2015		
Government Development Bonds-Oman	**64.1**	**105,950**
30 September 2014		
Government Development Bonds-Oman	72.5	102,276
31 December 2014		
Government Development Bonds-Oman	73.4	108,244

7 PREMISES AND EQUIPMENT

	Freehold Land, buildings and leasehold improvements RO'000	*Motor vehicles, furniture and equipment RO'000*	*Capital work in progress RO'000*	*Total RO'000*
Reconciliation of carrying amount:				
Balance at 1 January 2015, net of accumulated depreciation	11,940	5,420	5,844	23,204
Additions	161	824	10,521	11,506
Disposal	-	(4)	(46)	(50)
Transfers	296	831	(1,127)	-
Translation difference	(21)	-	-	(21)
Depreciation	(555)	(1,737)	-	(2,292)
Balance at 30 September 2015, net of accumulated depreciation	**11,821**	**5,334**	**15,192**	**32,347**
At cost / valuation	26,356	29,211	15,192	70,759
Accumulated depreciation	(14,534)	(23,877)	-	(38,411)
Net carrying value at 30 September 2015	**11,822**	**5,334**	**15,192**	**32,348**
Net carrying value at 30 September 2014	12,124	5,765	4,536	22,425

8 OTHER ASSETS

	30/09/2015 RO'000	*30/09/2014 RO'000*	*31/12/2014 RO'000*
Interest receivable and others	**15,573**	15,798	13,524
Positive fair value of derivatives (note 25)	**12,856**	5,676	9,029
Customers' indebtedness for acceptances (note 11)	**35,983**	30,606	31,799
	64,412	52,080	54,352

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	30/09/2015 RO'000	*30/09/2014 RO'000*	*31/12/2014 RO'000*
Current accounts	**772,390**	1,290,749	824,587
Savings accounts	**602,922**	555,979	563,729
Term deposits	**1,021,320**	874,589	789,426
	2,396,632	2,721,317	2,177,742

10 EURO MEDIUM TERM NOTES

The Bank in 2014 had Issued a 5-year, USD 500 million Regulation S, bond issuance 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 (Refer note 25).

11 OTHER LIABILITIES

	30/09/2015 RO'000	30/09/2014 RO'000	31/12/2014 RO'000
Interest payable and other accruals	**39,310**	35,046	32,401
Negative fair value of derivatives (note 25)	**5,644**	5,178	5,561
Liabilities under acceptances (note 8)	**35,983**	30,606	31,799
	80,937	70,830	69,761

12 TAXATION

	30/09/2015 RO'000	30/09/2014 RO'000	31/12/2014 RO'000
Statement of comprehensive income			
Current period/year	**6,373**	5,442	7,226

Reconciliation of tax expense

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 (with effect from 2007)

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

	30/09/2015 RO'000	30/09/2014 RO'000	31/12/2014 RO'000
Accounting profit	**49,407**	42,495	57,494
Tax at applicable rate	**5,929**	5,099	6,899
Non-deductible expenses	**61**	44	101
Tax exempt revenues	**(389)**	(351)	(398)
Others	**772**	650	624
	6,373	5,442	7,226

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2007.

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 2013.

	30/09/2015 RO'000	30/09/2014 RO'000	31/12/2014 RO'000
Tax liability			
Income tax and other taxes – Current year	**6,373**	5,442	7,226
Income tax and other taxes – Prior years	**(954)**	104	(1,175)
	5,419	5,546	6,051

12 TAXATION (continued)

Recognised deferred tax assets and liabilities	*30/09/2015 RO'000*	*30/09/2014 RO'000*	*31/12/2014 RO'000*
Deferred tax assets and liabilities are attributable to the following:			
Provisions	**609**	480	480
Available for sale investments	**11**	(82)	(44)
	620	398	436

Deferred tax is calculated at 12% (2014 – 12%).

13 SUBORDINATED DEBT

	30/09/2015 RO'000	*30/09/2014 RO'000*	*31/12/2014 RO'000*
At I January	**63,600**	79,700	79,700
Repaid during the period/year	**(1,500)**	-	(16,100)
	62,100	79,700	63,600

14 OTHER NON-DISTRIBUTABLE RESERVES

	Available for sale reserve RO '000	*Revaluation reserve RO '000*	*Subordinated debt reserve RO '000*	*Total RO '000*
At 1 January 2015	**2,596**	**3,766**	**34,960**	**41,322**
Net movement on available for sale investments	**972**	**-**	**-**	**972**
Tax effect of net results on available for sale financial investments	**55**	**-**	**-**	**55**
Transfer to retained earnings	**-**	**-**	**(1,500)**	**(1,500)**
At 30 September 2015	**3,623**	**3,766**	**33,460**	**40,849**
At 30 September 2014	4,830	3,766	38,340	46,936

(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.

(ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 13). The reserve is available for transfer back to retained earnings upon maturity of the subordinated debt.

15 CONTINGENT LIABILITIES AND COMMITMENTS

	30/09/2015	*30/09/2014*	*31/12/2014*
	RO'000	*RO'000*	*RO'000*
Guarantees	**436,691**	453,783	487,964
Documentary letters of credit	**104,563**	74,960	77,018
Undrawn commitment to lend	**162,287**	114,941	83,637
	703,541	643,684	648,619

Contingent liabilities include RO 0.1 million (30 September 2014 – RO 0.1 million and 31 December 2014– RO 0.1 million) relating to non-performing loans.

16 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 4.58% for the nine months period ended 30 September 2015 (30 September 2014 – 4.15% and 31 December 2014 – 4.20%).

17 INTEREST EXPENSE

For the six months period ended 30 September 2015, the average overall cost of funds was 1.18% (30 September 2014-1.33% and 31 December 2014 – 1.29%).

18 OTHER OPERATING INCOME

	9 months ended 30/09/2015 RO'000	*9 months ended 30/09/2014 RO'000*
Net gains from foreign exchange dealings	**3,920**	2,959
Fees and commissions	**13,011**	10,927
Net income from sale of investments	**189**	2,177
Income from bonds	**2,084**	1,987
Dividend income	**1,164**	1,090
Service charges	**6,497**	4,367
Miscellaneous income	**1,452**	499
	28,317	24,006

19 OTHER OPERATING EXPENSES

	9 months ended 30/09/2015 RO'000	*9 months ended 30/09/2014 RO'000*
Establishment costs	**4,467**	4,050
Operating and administration expenses	**10,548**	9,227
	15,015	13,277

20 ASSET LIABILITY MISMATCH

The asset liability mismatch is based on CBO circular BM 955 and given as follows:

30 September 2015

Maturities	***Assets***	***Equity, subordinated funds and liabilities***	***Mismatch***
	RO'000	***RO'000***	***RO'000***
0 - 3 month	**1,012,827**	**821,465**	**191,362**
3 - 12 month	**293,319**	**786,541**	**(493,222)**
1 – 5 years	**616,139**	**806,829**	**(190,690)**
More than 5 years	**1,338,728**	**846,178**	**492,550**
Total	**3,261,013**	**3,261,013**	**-**

30 September 2014

Maturities	*Assets*	*Equity, subordinated funds and liabilities*	*Mismatch*
	RO'000	*RO'000*	*RO'000*
0 - 3 month	1,427,069	1,140,964	286,105
3 - 12 month	263,371	747,995	(484,624)
1 – 5 years	490,809	576,840	(86,031)
More than 5 years	1,203,732	919,182	284,550
Total	3,384,981	3,384,981	-

31 December 2014

Maturities	*Assets*	*Equity, subordinated funds and liabilities*	*Mismatch*
	RO'000	*RO'000*	*RO'000*
0 - 3 month	894,887	767,323	127,564
3 - 12 month	311,848	728,875	(417,027)
1 – 5 years	546,819	688,202	(141,383)
More than 5 years	1,222,540	791,694	430,846
Total	2,976,094	2,976,094	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2015 (Unaudited)

21 RELATED PARTY TRANSACTIONS

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

	30/09/2015			*30/09/2014*		
	Principal shareholder RO'000	***Others RO'000***	***Total RO'000***	*Principal shareholder RO'000*	*Others RO'000*	*Total RO'000*
Loans and advances	**-**	**33,695**	**33,695**	-	28,506	28,506
Customers' deposits	**84,273**	**18,218**	**102,491**	139,784	28,535	168,319
Due from banks	**9,667**	**15,870**	**25,537**	53	12,705	12,758
Due to banks	**78**	**-**	**78**	632	-	632
Subordinated debt	**14,500**	**4,000**	**18,500**	14,503	5,500	20,003
Letters of credit, guarantees and acceptances	**318**	**2,828**	**3,146**	130	1,306	1,436
Standby revolving credit facility	**77,000**	**-**	**77,000**	77,000	-	77,000
Risk indemnities received	**500**	**-**	**500**	889	-	889
Investments	**1,990**	**-**	**1,990**	2,320	-	2,320

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

	30/09/2015			*30/09/2014*		
	Principal shareholder RO'000	***Others RO'000***	***Total RO'000***	*Principal shareholder RO'000*	*Others RO'000*	*Total RO'000*
Interest income	**21**	**686**	**707**	4	797	801
Commission income	**-**	**44**	**44**	-	36	36
Interest expense	**2,632**	**262**	**2,894**	3,762	502	4,264
Other expenses	**-**	**380**	**380**	-	686	686

Senior management compensation:	***9 months ended 30/09/2015 RO'000***	*9 months ended 30/09/2014 RO'000*
Salaries and other short term benefits		
- Fixed	**1,887**	1,734
- Discretionary	**1,811**	850
	3,698	2,584

22 SHAREHOLDERS

As of 30 September 2015, the shareholders of the bank who own 10% or more of the bank's shares:

	Number of shares '000	***% Holding***
The Commercial Bank of Qatar	**467,906**	**34.90**
Suhail Bahwan Group (Holdings) LLC	**197,678**	**14.74**
Civil Service Employees Pension Fund	**153,769**	**11.47**

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

23 SEGMENT REPORTING

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

- Retail banking offers various products and facilities to individual customers to meet everyday banking needs.
- Corporate banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance and foreign exchange.
- Investment banking offers investment products such as asset management, corporate advisory and brokerage services to retail customers as well as high net worth individuals and institutional clients.
- Treasury provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk.
- International banking offers services such as issuance of guarantee, risk participation, syndications, etc.
- Islamic banking offers Shari'a compliant Islamic products and services.

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

Segment information is as follows:

9 months ended	***Retail banking***	***Corporate banking***	***Investment banking***	***Treasury and international banking***	***Head office***	***Islamic Banking***	***Total***
30-Sep-15	***RO'000***	***RO'000***	***RO'000***	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Operating income	**40,167**	**37,702**	**1,956**	**3,801**	**11,489**	**2,445**	**97,560**
Net Profit / (loss)	**22,701**	**30,286**	**1,451**	**3,267**	**(15,209)**	**538**	**43,034**
Total assets	**1,052,029**	**1,437,029**	**59,390**	**47,850**	**564,131**	**100,584**	**3,261,013**

9 months ended	*Retail banking*	*Corporate banking*	*Investmen t banking*	*Treasury and international banking*	*Head office*	*Islamic Banking*	*Total*
30-Sep-14	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Operating income	40,142	34,089	4,099	2,983	1,493	1,126	83,932
Net Profit / (loss)	24,178	29,147	3,553	2,495	(22,026)	(294)	37,053
Total assets	981,524	1,252,408	38,813	89,044	963,545	59,647	3,384,981

23 SEGMENT REPORTING (Continued)

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

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis. Segment information by geography is as follows:

For the period ended 30 September 2015	***Oman***	***UAE***	***Egypt***	***Total***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	**87,910**	**4,988**	**87**	**92,985**
Interest income – internal	**217**	**34**	**40**	**291**
Other operating income – external	**25,940**	**1,908**	**469**	**28,317**
Other operating income – internal	**202**	**-**	**-**	**202**
Total	**114,269**	**6,930**	**596**	**121,795**
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	**22,806**	**884**	**52**	**23,742**
Interest costs – internal	**35**	**256**	**-**	**291**
Other operating expenses – external	**40,676**	**2,422**	**282**	**43,380**
Other operating expenses – internal	**29**	**173**	**-**	**202**
Credit loss expense - customer loan	**10,613**	**1,361**	**1**	**11,975**
Recoveries	**(6,209)**	**(457)**	**(603)**	**(7,269)**
Other Provisions	**67**	**-**	**-**	**67**
Taxation	**5,907**	**458**	**8**	**6,373**
Total	**73,924**	**5,097**	**(260)**	**78,761**
Segment profit for the year	**40,345**	**1,833**	**856**	**43,034**
Other information				
Segment assets	**2,957,815**	**281,934**	**21,264**	**3,261,013**
Segment capital expenses	**11,467**	**41**	**-**	**11,508**

23 SEGMENT REPORTING (Continued)

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

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis. Segment information by geography is as follows:

For the period ended 30 September 2014	***Oman***	***UAE***	***Egypt***	***Total***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	86,097	2,603	60	88,760
Interest income – internal	46	21	164	231
Other operating income – external	22,562	1,357	87	24,006
Other operating income – internal	105	-	-	105
Total	108,810	3,981	311	113,102
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	28,220	519	95	28,834
Interest costs – internal	44	64	124	231
Other operating expenses – external	36,664	1,866	498	39,028
Other operating expenses – internal	-	99	6	105
Credit loss expense - customer loan	9,242	307	1	9,550
Recoveries	(6,590)	(560)	(58)	(7,208)
Other Provisions	67	-	-	67
Taxation	5,090	337	15	5,442
Total	72,737	2,632	680	76,049
Segment profit for the year	36,073	1,349	(369)	37,053
Other information				
Segment assets	3,238,252	125,789	20,940	3,384,981
Segment capital expenses	336,855	940,849	3,326,650	4,604,354

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

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:

30 September 2015	*Level 1 RO'000*	*Level 2 RO'000*	*Total RO'000*
Investments – held for trading:			
Government development bonds	**62,571**	**-**	**62,571**
Quoted equities	**-**	**-**	**-**
Total	**62,571**	**-**	**62,571**
Investments - available for sale:			
Government development bonds	**43,379**	**-**	**43,379**
Quoted equities	**39,649**	**-**	**39,649**
Other unquoted equities	**-**	**12,460**	**12,460**
Total	**83,028**	**12,460**	**95,488**
Total financial assets	**145,599**	**12,460**	**158,059**

Financial instruments at level 2 are valued based on counter party valuation, quoted forward rates and yield curves.

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

30 September 2014	*Level 1 RO'000*	*Level 2 RO'000*	*Total RO'000*
Investments – held for trading:			
Government development bonds	26,935	-	26,935
Quoted equities	378	-	378
Total	27,313	-	27,313
Investments - available for sale:			
Government development bonds	75,341	-	75,341
Quoted equities	21,727	-	21,727
Other unquoted equities	-	14,950	14,950
Total	97,068	14,950	112,018
Total financial assets	124,381	14,950	139,331

31 December 2014	*Level 1 RO'000*	*Level 2 RO'000*	*Total RO'000*
Investments – held for trading:			
Government development bonds	39,292	-	39,292
Total	39,292	-	39,292
Investments - available for sale:			
Government development bonds	68,952	-	68,952
Quoted equities	23,500	-	23,500
Other unquoted equities	-	13,791	13,791
Total	92,452	13,791	106,243
Total financial assets	131,744	13,791	145,535

25 DERIVATIVES

				Notional amounts by term to maturity		
	Positive fair value (Note 8)	*Negative fair value (Note 11)*	*Notional amount total*	*Within 3 months*	*3 – 12 months*	*Above 1 Year*
30 September 2015	***RO'000***	***RO'000***	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Derivatives						
Fair value hedge	**7,111**	**-**	**192,500**	**-**	**-**	**192,500**
Interest rate swaps	**5,030**	**(5,030)**	**118,660**	**2,125**	**11,691**	**104,844**
Forward foreign exchange purchase contracts	**104**	**(200)**	**142,453**	**100,636**	**41,817**	**-**
Forward foreign exchange sales contracts	**392**	**(195)**	**142,452**	**99,000**	**43,452**	**-**
Currency options	**219**	**(219)**	**3,590**	**3,376**	**214**	**-**
Total	**12,856**	**(5,644)**	**599,655**	**205,137**	**97,174**	**297,344**
30 September 2014						
Derivatives						
Interest rate swaps	4,519	(4,519)	324,966	2,125	11,690	311,151
Forward foreign exchange purchase contracts	14	(526)	212,266	29,461	182,805	-
Forward foreign exchange sales contracts	1,143	(133)	212,266	29,911	182,355	-
Total	5,676	(5,178)	749,498	61,497	376,850	311,151
31 December 2014						
Derivatives						
Fair value hedge	2,723	-	192,500	-	-	192,500
Interest rate swaps	5,252	(5,252)	130,872	2,125	11,690	117,057
Forward foreign exchange purchase contracts	7	(164)	229,953	86,860	143,093	-
Forward foreign exchange sales contracts	1,047	(145)	229,953	86,718	143,235	-
Total	9,029	(5,561)	783,278	175,703	298,018	309,557

26 LIQUIDITY COVERAGE RATIO

		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		469,269
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	714,331	41,163
3	Stable deposits	605,408	30,270
4	Less stable deposits	108,923	10,892
5	Unsecured wholesale funding, of which:	867,602	332,544
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	867,602	332,544
7	Non-operational deposits (all counterparties)	0	0
8	Unsecured debt	0	0
9	Secured wholesale funding		0
10	Additional requirements, of which	31,482	3,148
11	Outflows related to derivative exposures and other collateral requirements	0	0
12	Outflows related to loss of funding on debt products	0	0
13	Credit and liquidity facilities	31,482	3,148
14	Other contractual funding obligations	0	0
15	Other contingent funding obligations	554,460	29,850
16	**TOTAL CASH OUTFLOWS**		406,705
Cash Inflows			
17	Secured lending (e.g. reverse repos)	0	0
18	Inflows from fully performing exposures	385,514	244,632
19	Other cash inflows	19,488	19,488
20	**TOTAL CASH INFLOWS**	405,001	264,120
			Total Adjusted Value
21	**TOTAL HQLA**		469,269
22	**TOTAL NET CASH OUTFLOWS**		142,586
23	**LIQUIDITY COVERAGE RATIO (%)**		329.11

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

Review Report to the Board of Directors of National Bank of Oman SAOG

The Chairman
Board of Directors
National Bank of Oman SAOG
PO Box 751, PC 112 Ruwi
Muscat, Sultanate of Oman

Introduction
We have reviewed the accompanying unaudited condensed statement of financial position of National Bank of Oman SAOG ("the Bank") as at 30 June 2015, and the related condensed statements of comprehensive income for the three month and six month periods ended 30 June 2015, changes in equity and cash flows for the six months period then ended, and other explanatory notes, set out on pages 3 to 23 ("interim financial information").

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting' and the minimum disclosure requirements issued by the Capital Market Authority. Our responsibility is to express a conclusion on the unaudited condensed interim financial information based on our review.

Scope of review
We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Bank is not:

i) prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting'; and

ii) in compliance, in all material respects, with the minimum disclosure requirements issued by the Capital Market Authority.

KPMG

15 July 2015 Paul Callaghan

C.R. No. 1/30936/6

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2015 (UNAUDITED)

PO Box 751 PC 112 Ruwi Sultanate of Oman.

SR.NO	INDEX	PAGE NO
1	CHAIRMAN REPORT	1
2	AUDITOR'S REVIEW REPORT	2
3	INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION	3
4	INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME	4
5	INTERIM CONDENSED STATEMENT OF CASH FLOWS	5
6	INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY	6
7	NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION	7-23

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

30 June 2015 (Un-audited)

	Notes	30-06-2015 RO'000	30-06-2014 RO'000	Audited 31-12-2014 RO'000
Assets				
Cash and balances with Central Banks	3	**398,179**	936,806	288,832
Due from banks and other money market placements (net)	4	**144,040**	135,404	144,933
Loans, advances and financing activities for customers (net)	5	**2,434,076**	2,221,680	2,316,813
Financial investments	6	**164,969**	129,090	147,524
Premises and equipment	7	**29,676**	21,149	23,204
Deferred tax asset	12	**600**	426	436
Other assets	8	**83,532**	73,942	54,352
Total assets		**3,255,072**	3,518,497	2,976,094
Liabilities				
Due to banks and other money market deposits		**62,109**	224,079	102,188
Customers' deposits and unrestricted investment accounts	9	**2,458,689**	2,788,924	2,177,742
Euro medium term notes	10	**195,908**	-	195,223
Other liabilities	11	**102,107**	87,577	69,761
Taxation	12	**3,279**	3,492	6,051
Total liabilities		**2,822,092**	3,104,072	2,550,965
Subordinated debt	13	**62,100**	79,700	63,600
Equity				
Share capital		**134,071**	121,883	121,883
Share premium		**34,465**	34,465	34,465
Legal reserve		**43,380**	39,586	43,380
General reserve		**4,419**	4,419	4,419
Other non-distributable reserves	14	**41,830**	45,117	41,322
Proposed cash dividend		-	-	20,720
Proposed stock dividend		-	-	12,188
Retained earnings		**112,715**	89,255	83,152
Total equity		**370,880**	334,725	361,529
Total liabilities, subordinated debt and equity		**3,255,072**	3,518,497	2,976,094

The interim condensed financial statements were authorised for issue on 15 July 2015 in accordance with a resolution of the Board of Directors.

Chairman

Chief Executive Officer

The attached notes 1 to 26 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
30 June 2015 (Un-audited)

	Notes	*Six months ended 30 June* 2015 RO'000	2014 RO'000	*Three months ended 30 June* 2015 RO'000	2014 RO'000
Interest income	16	**59,347**	57,392	**30,070**	28,735
Interest expense	17	**(15,555)**	(19,409)	**(7,918)**	(9,673)
Net interest income		**43,792**	37,983	**22,152**	19,062
Income from Islamic financing and Investment activities		**1,842**	573	**984**	356
Unrestricted investment account holders' share of profit		**(265)**	(105)	**(153)**	(65)
Net Income from Islamic financing and Investment activities		**1,577**	468	**831**	291
Net interest income and net income from Islamic financing and Investment activities		**45,369**	38,451	**22,983**	19,353
Other operating income	18	**19,009**	15,686	**9,937**	8,485
OPERATING INCOME		**64,378**	54,137	**32,920**	27,838
Staff costs		**(16,993)**	(15,407)	**(8,453)**	(7,817)
Other operating expenses	19	**(9,974)**	(8,600)	**(4,930)**	(4,328)
Depreciation	7	**(1,548)**	(1,453)	**(813)**	(709)
OPERATING EXPENSES		**(28,515)**	(25,460)	**(14,196)**	(12,854)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		**35,863**	28,677	**18,724**	14,984
Credit loss expense – customer loans	5	(8,102)	(7,575)	(3,043)	(3,831)
Recoveries and releases from provision for credit losses	5	4,586	5,232	2,114	3,538
Others		(69)	101	(52)	(21)
TOTAL IMPAIRMENT LOSSES (NET)		**(3,585)**	(2,242)	**(981)**	(314)
PROFIT BEFORE TAX		**32,278**	26,435	**17,743**	14,670
Taxation	12	**(4,215)**	(3,386)	**(2,318)**	(1,928)
PROFIT FOR THE PERIOD		**28,063**	23,049	**15,425**	12,742
OTHER COMPREHENSIVE INCOME					
Items that are or may be reclassified subsequently to profit or loss					
Net movement on available for sale investments		**1,974**	246	**1,989**	(538)
Tax effect of net results on available for sale financial investments		**34**	(34)	**(9)**	16
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**2,008**	212	**1,980**	(522)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**30,071**	23,261	**17,405**	12,220
Earnings per share annualized:					
Basic and diluted, profit for the period attributable to equity holders		**0.042**	0.035	**0.046**	0.038

The attached notes 1 to 26 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

30 June 2015 (Un-audited)

	Notes	Six months ended 30 June 2015 RO'000	2014 RO'000
Profit before taxation		**32,278**	26,435
Adjustments for:			
Depreciation	7	**1,548**	1,453
Provision for credit losses (net)		**7,444**	5,443
Provision / (write back) for credit loss expenses bank loans (net)		**68**	(121)
Impairment on available for sale investments		**1**	20
Profit on sale of equipment (net)		**(4)**	(7)
Loss/(profit) on sale of investments		**67**	(1,360)
Investment income		**(2,379)**	(2,226)
Operating profit before changes in operating assets and liabilities		**39,023**	29,637
Increase in due from and other money market deposits		**(24,870)**	(3,882)
Increase in due to and other money market placements		**(5,242)**	(26,947)
Increase in loans and advances to customers		**(124,707)**	(158,924)
Increase in other assets		**(29,310)**	4,199
Increase in customer deposits		**280,947**	609,765
Euro Medium Term Notes		**685**	-
Increase in other liabilities		**32,346**	10,065
Cash from operations		**168,872**	463,913
Tax paid		**(6,971)**	(5,411)
Net cash from operating activities		**161,901**	458,502
Investing activities			
Purchase of investments		**(16,649)**	(8,024)
Proceeds from sale of investments		**1,191**	13,133
Purchase of premises and equipment	7	**(8,053)**	(2,514)
Disposal of premises and equipment		**23**	14
Translation difference in premises & equipment & Tax		**(15)**	(11)
Interest on Govt. Development Bond and T-Bills		**1,390**	1,369
Dividend income	18	**989**	857
Net cash used in investing activities		**(21,124)**	4,824
Financing activities			
Payment of dividend		**(20,720)**	(16,620)
Repayment of Subordinated debt		**(1,500)**	-
Net cash used in financing activities		**(22,220)**	(16,620)
Increase in cash and cash equivalents		**118,557**	446,706
Cash and cash equivalents at the beginning of the period		**313,135**	479,315
Cash and cash equivalents at the end of the period		**431,692**	926,021
Representing:			
Cash and balances with Central Bank	3	**397,679**	936,306
Deposits and balances with other banks and financial institutions (net)		**34,013**	(10,285)
		431,692	926,021

The attached explanatory notes 1 to 26 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

Period ended 30 June 2015 (Un-audited)

(RO'000)	*Share capital*	*Share premium*	*Legal reserve **	*General reserve*	*Other non-distributable reserves**	*Proposed cash dividend*	*Proposed stock dividend*	*Retained earnings*	*Total*
Balance at 1 January 2014	110,803	34,465	39,586	4,419	44,905	16,620	11,080	66,206	328,084
Total comprehensive income for the period	-	-	-	-	212	-	-	23,049	23,261
Dividend paid during the period	-	-	-	-	-	(16,620)	-	-	(16,620)
Issue of Shares	11,080	-	-	-	-	-	(11,080)	-	-
Balance at 30 June 2014	121,883	34,465	39,586	4,419	45,117	-	-	89,255	334,725
Balance at 1 July 2014	121,883	34,465	39,586	4,419	45,117	-	-	89,255	334,725
Total comprehensive income for the period	-	-	-	-	(415)	-	-	27,219	26,804
Transfer to subordinated debt reserve	-	-	-	-	12,270	-	-	(12,270)	-
Transfer to retained earnings	-	-	-	-	(16,100)	-	-	16,100	-
Transfer to legal reserve	-	-	3,794	-	-	-	-	(3,794)	-
Transfer to proposed stock dividend	-	-	-	-	-	-	12,188	(12,188)	-
Transfer to proposed cash dividend	-	-	-	-	-	20,720	-	(20,720)	-
Balance at 31 December 2014	121,883	34,465	43,380	4,419	41,322	20,720	12,188	83,152	361,529
Balance at 1 January 2015	**121,883**	**34,465**	**43,380**	**4,419**	**41,322**	**20,720**	**12,188**	**83,152**	**361,529**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**2,008**	**-**	**-**	**28,063**	**30,071**
Transfer to retained earnings	**-**	**-**	**-**	**-**	**(1,500)**	**-**	**-**	**1,500**	**-**
Dividend paid during the period	**-**	**-**	**-**	**-**	**-**	**(20,720)**	**-**	**-**	**(20,720)**
Issue of shares	**12,188**	**-**	**-**	**-**	**-**	**-**	**(12,188)**	**-**	**-**
Balance at 30 June 2015	**134,071**	**34,465**	**43,380**	**4,419**	**41,830**	**-**	**-**	**112,715**	**370,880**

*Transfers to legal reserve and subordinated debt reserve are made on an annual basis.

The attached notes 1 to 26 form part of the interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (Un-audited)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The bank employed 1,426 employees as of 30 June 2015 (30 June 2014 – 1,393 employees / 31 December 2014 – 1,368 employees).

2 SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements of the bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2014.

The condensed interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the six months ended 30 June 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

The condensed interim financial statements are prepared in Rial Omani, rounded to the nearest thousands, except as 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 interim condensed financial statements are prepared under the historical cost convention, modified to include revaluation of freehold land and buildings, measurement of derivative financial instruments and investments, either through profit and loss account or through other comprehensive Income, at fair value.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	30/06/2015	*30/06/2014*	*31/12/2014*
	RO'000	*RO'000*	*RO'000*
Cash	**48,421**	41,753	47,834
Treasury bills	**47,123**	-	-
Certificate of deposit with Central Banks	**113,900**	850,000	8,000
Other balances with Central Banks	**188,235**	44,553	232,498
Cash and cash equivalents	**397,679**	936,306	288,332
Capital deposit with Central Bank of Oman	**500**	500	500
Cash and balances with Central Banks	**398,179**	936,806	288,832

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

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

	30/06/2015	*30/06/2014*	*31/12/2014*
	RO'000	*RO'000*	*RO'000*
Loans and advances to banks	**38,319**	3,502	24,721
Placements with bank	**72,519**	105,495	71,842
Demand balances	**33,394**	26,424	48,494
Due from banks and other money market placements	**144,232**	135,421	145,057
Less: allowance for credit losses	**(192)**	(17)	(124)
Net due from banks and other money market placements	**144,040**	135,404	144,933

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (Unaudited)

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

	30/06/2015 RO'000	30/06/2014 RO'000	31/12/2014 RO'000
Corporate loans	**1,337,642**	1,214,192	1,289,808
Personal loans	**1,109,243**	1,024,589	1,046,172
Overdrafts	**70,594**	65,139	59,781
Gross loans and advances	**2,517,479**	2,303,920	2,395,761
Less: Allowance for credit losses and reserved interest	**(83,403)**	(82,240)	(78,948)
Net loans and advances	**2,434,076**	2,221,680	2,316,813

Gross loans and advances include RO 32.4 million due from related parties at 30 June 2015 (30 June 2014 – RO 27.6 million, 31 December 2014 – RO 12.9 million).

The movement in the provision for impairment of loans and advances presented as loan loss provisions and reserved interest is set out below:

Allowance for credit losses	**6 months ended 30/06/2015 RO'000**	6 months ended 30/06/2014 RO'000	12 months ended 31/12/2014 RO'000
Balance at beginning of period / year	**69,197**	67,752	67,752
Provided during the period / year	**8,102**	7,575	12,299
Recovered/ released during the period / year	**(449)**	(1,973)	(2,665)
Written off during the period / year	**(4,079)**	(3,603)	(8,097)
Translation difference	**(118)**	(54)	(92)
Balance at end of period / year	**72,653**	69,697	69,197

Reserved interest	**6 months Ended 30/06/2015 RO'000**	6 months ended 30/06/2014 RO'000	12 months ended 31/12/2014 RO'000
Balance at beginning of period / year	**9,751**	20,890	20,890
Reserved during the period / year	**1,429**	2,415	3,185
Recovered/ released during the period / year	**(209)**	(159)	(223)
Written off during the period / year	**(216)**	(10,600)	(14,099)
Translation difference	**(5)**	(3)	(2)
Balance at end of period / year	**10,750**	12,543	9,751

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.

As of 30 June 2015 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 59.6 million, (30 June 2014 – RO 60.4 million and 31 December 2014 – RO 58 million).

6 FINANCIAL INVESTMENTS

	Carrying value 30/06/2015 RO'000	*Carrying value 30/06 /2014 RO'000*	*Carrying value 31/12/2014 RO'000*
A. Held for trading			
Quoted investments- Oman			
Government Development Bonds	**42,349**	26,638	39,292
Equities	**34**	119	-
	42,383	26,757	39,292
Quoted investments- Foreign			
Equities	**-**	300	-
	-	300	-
Total held for trading	**42,383**	27,057	39,292
B. Available for sale			
Quoted investments- Oman			
Banking and investment sector	**595**	634	490
Manufacturing sector	**385**	1,179	822
Service sector	**26,504**	15,145	19,696
Government Development Bonds	**68,528**	74,817	68,952
	96,012	91,775	89,960
Quoted investments- Foreign			
Banking and investment sector	**2,117**	523	1,790
Service sector	**3,750**	-	702
	5,867	523	2,492
Unquoted investments			
Banking and investment sector	**9,741**	4,291	10,133
Manufacturing sector	**3,483**	3,483	3,483
Service sector	**175**	196	175
	13,399	7,970	13,791
Total available for sale	**115,278**	100,268	106,243
C. Held to maturity			
Quoted investments- Overseas			
Manufacturing sector	**-**	1,765	-
Banking Sector	**1,985**	-	1,989
Government Development Bonds	**5,323**	-	-
Total Held to maturity	**7,308**	1,765	1,989
TOTAL FINANCIAL INVESTMENTS	**164,969**	129,090	147,524

Details of significant investments

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

	Bank's portfolio %	***Carrying value RO'000***
30 June 2015		
Government Development Bonds-Oman	**67.2**	**110,877**
30 June 2014		
Government Development Bonds-Oman	78.6	101,455
31 December 2014		
Government Development Bonds-Oman	73.4	108,244

7 PREMISES AND EQUIPMENT

	Freehold Land, buildings and leasehold improvements RO'000	*Motor vehicles, furniture and equipment RO'000*	*Capital work in progress RO'000*	*Total RO'000*
Reconciliation of carrying amount:				
Balance at 1 January 2015, net of accumulated depreciation	**11,940**	**5,420**	**5,844**	**23,204**
Additions	**146**	**592**	**7,315**	**8,053**
Disposal	**-**	**(5)**	**(14)**	**(19)**
Transfers	**295**	**804**	**(1,099)**	**-**
Translation difference	**(14)**	**-**	**-**	**(14)**
Depreciation	**(393)**	**(1,155)**	**-**	**(1,548)**
Balance at 30 June 2015, net of accumulated depreciation	**11,974**	**5,656**	**12,046**	**29,676**
At cost / valuation	26,345	28,960	12,046	67,351
Accumulated depreciation	(14,371)	(23,304)	-	(37,675)
Net carrying value at 30 June 2015	**11,974**	**5,656**	**12,046**	**29,676**
Net carrying value at 30 June 2014	12,215	4,425	4,509	21,149

8 OTHER ASSETS

	30/06/2015 RO'000	*30/06/2014 RO'000*	*31/12/2014 RO'000*
Interest receivable and others	**20,117**	24,831	13,524
Positive fair value of derivatives (note 25)	**8,789**	5,679	9,029
Customers' indebtedness for acceptances (note 11)	**54,626**	43,432	31,799
	83,532	73,942	54,352

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	30/06/2015 RO'000	*30/06/2014 RO'000*	*31/12/2014 RO'000*
Current accounts	**875,707**	1,301,453	824,587
Savings accounts	**603,112**	558,813	563,729
Term deposits	**979,870**	928,658	789,426
	2,458,689	2,788,924	2,177,742

10 EURO MEDIUM TERM NOTES

The Bank in 2014 had Issued a 5-year, USD 500 million Regulation S, bond issuance 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 (Refer note 25).

11 OTHER LIABILITIES

	30/06/2015 RO'000	*30/06/2014 RO'000*	*31/12/2014 RO'000*
Interest payable and other accruals	**42,481**	38,484	32,401
Negative fair value of derivatives (note 25)	**5,000**	5,661	5,561
Liabilities under acceptances (note 8)	**54,626**	43,432	31,799
	102,107	87,577	69,761

12 TAXATION

	30/06/2015 RO'000	*30/06/2014 RO'000*	*31/12/2014 RO'000*
Statement of comprehensive income			
Current period/year	**4,215**	3,386	7,226

Reconciliation of tax expense

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 (with effect from 2007)

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

	30/06/2015 RO'000	*30/06/2014 RO'000*	*31/12/2014 RO'000*
Accounting profit	**32,278**	26,435	57,494
Tax at applicable rate	**3,873**	3,172	6,899
Non-deductible expenses	**47**	51	101
Tax exempt revenues	**(337)**	(243)	(398)
Others	**632**	406	624
	4,215	3,386	7,226

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2007.

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 2013.

	30/06/2015 RO'000	*30/06/2014 RO'000*	*31/12/2014 RO'000*
Tax liability			
Income tax and other taxes – Current year	**4,215**	3,386	7,226
Income tax and other taxes – Prior years	**(936)**	106	(1,175)
	3,729	3,492	6,051

12 TAXATION (continued)

Recognised deferred tax assets and liabilities	***30/06/2015*** ***RO'000***	*30/06/2014* *RO'000*	*31/12/2014* *RO'000*
Deferred tax assets and liabilities are attributable to the following:			
Provisions	**610**	480	480
Available for sale investments	**(10)**	(54)	(44)
	600	426	436

Deferred tax is calculated at 12% (2014 – 12%).

13 SUBORDINATED DEBT

	30/06/2015 ***RO'000***	*30/06/2014* *RO'000*	*31/12/2014* *RO'000*
At I January	**63,600**	79,700	79,700
Repaid during the period/year	**(1,500)**	-	(16,100)
	62,100	79,700	63,600

14 OTHER NON-DISTRIBUTABLE RESERVES

	Available for sale reserve ***RO '000***	***Revaluation reserve*** ***RO '000***	***Subordinated debt reserve*** ***RO '000***	***Total*** ***RO '000***
At 1 January 2015	**2,596**	**3,766**	**34,960**	**41,322**
Net movement on available for sale investments	**1,974**	**-**	**-**	**1,974**
Tax effect of net results on available for sale financial investments	**34**	**-**	**-**	**34**
Transfer to retained earnings	**-**	**-**	**(1,500)**	**(1,500)**
At 30 June 2015	**4,604**	**3,766**	**33,460**	**41,830**
At 30 June 2014	3,011	3,766	38,340	45,117

(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.

(ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 13). The reserve is available for transfer back to retained earnings upon maturity of the subordinated debt.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (Unaudited)

15 CONTINGENT LIABILITIES AND COMMITMENTS

	30/06/2015	*30/06/2014*	*31/12/2014*
	RO'000	*RO'000*	*RO'000*
Guarantees	**414,958**	457,713	487,964
Documentary letters of credit	**86,541**	75,298	77,018
Undrawn commitment to lend	**135,205**	97,199	83,637
	636,704	630,210	648,619

Contingent liabilities include RO 0.1 million (30 June 2014 – RO 0.1 million and 31 December 2014– RO 0.1 million) relating to non-performing loans.

16 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 4.51% for the six months period ended 30 June 2015 (30 June 2014 – 4.19% and 31 December 2014 – 4.20%).

17 INTEREST EXPENSE

For the six months period ended 30 June 2015, the average overall cost of funds was 1.20% (30 June 2014-1.38% and 31 December 2014 – 1.29%).

18 OTHER OPERATING INCOME

	6 months ended 30/06/2015	*6 months ended 30/06/2014*
	RO'000	*RO'000*
Net gains from foreign exchange dealings	**2,705**	1,940
Fees and commissions	**8,836**	7,495
Net (loss) / income from sale of investments	**(67)**	1,360
Income from bonds	**1,390**	1,369
Dividend income	**989**	857
Service charges	**4,331**	2,368
Miscellaneous income	**825**	297
	19,009	15,686

19 OTHER OPERATING EXPENSES

	6 months ended 30/06/2015	*6 months ended 30/06/2014*
	RO'000	*RO'000*
Establishment costs	**3,054**	2,739
Operating and administration expenses	**6,920**	5,861
	9,974	8,600

20 ASSET LIABILITY MISMATCH

The asset liability mismatch is based on CBO circular BM 955 and given as follows:

30 June 2015

Maturities	*Assets*	*Equity, subordinated funds and liabilities*	*Mismatch*
	RO'000	*RO'000*	*RO'000*
0 - 3 month	**1,074,618**	**765,154**	**309,464**
3 - 12 month	**299,497**	**904,225**	**(604,728)**
1 – 5 years	**605,730**	**733,283**	**(127,553)**
More than 5 years	**1,275,227**	**852,410**	**422,817**
Total	**3,255,072**	**3,255,072**	**-**

30 June 2014

Maturities	*Assets*	*Equity, subordinated funds and liabilities*	*Mismatch*
	RO'000	*RO'000*	*RO'000*
0 - 3 month	1,555,011	957,642	597,369
3 - 12 month	246,584	899,593	(653,009)
1 – 5 years	536,707	762,241	(225,534)
More than 5 years	1,180,195	899,021	281,174
Total	3,518,497	3,518,497	-

31 December 2014

Maturities	*Assets*	*Equity, subordinated funds and liabilities*	*Mismatch*
	RO'000	*RO'000*	*RO'000*
0 - 3 month	894,887	767,323	127,564
3 - 12 month	311,848	728,875	(417,027)
1 – 5 years	546,819	688,202	(141,383)
More than 5 years	1,222,540	791,694	430,846
Total	2,976,094	2,976,094	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (Unaudited)

21 RELATED PARTY TRANSACTIONS

Other related parties transactions:

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

	30/06/2015			*30/06/2014*		
	Principal shareholder RO'000	***Others RO'000***	***Total RO'000***	*Principal shareholder RO'000*	*Others RO'000*	*Total RO'000*
Loans and advances	**-**	**32,429**	**32,429**	-	27,596	27,596
Customers' deposits	**106,524**	**25,543**	**132,067**	140,088	23,620	163,708
Due from banks	**3,880**	**26,843**	**30,723**	52	12,705	12,757
Due to banks	**19,500**	**-**	**19,500**	13,694	15,400	29,094
Subordinated debt	**14,500**	**4,000**	**18,500**	14,500	5,500	20,000
Letters of credit, guarantees and acceptances	**318**	**1,500**	**1,818**	98	1,051	1,149
Standby revolving credit facility	**77,000**	**-**	**77,000**	77,000	-	77,000
Risk indemnities received	**479**	**-**	**479**	962	667	1,629
Investments	**2,094**	**-**	**2,094**	2,172	165	2,337

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

	30/06/2015			*30/06/2014*		
	Principal shareholder RO'000	***Others RO'000***	***Total RO'000***	*Principal shareholder RO'000*	*Others RO'000*	*Total RO'000*
Interest income	**17**	**433**	**450**	4	548	552
Commission income	**-**	**26**	**26**	-	24	24
Interest expense	**1,834**	**171**	**2,005**	2,579	336	2,915
Other expenses	**-**	**208**	**208**	-	391	391

Senior management compensation:	***6 months ended 30/06/2015 RO'000***	*6 months ended 30/06/2014 RO'000*
Salaries and other short term benefits		
- Fixed	**1,234**	1,171
- Discretionary	**1,699**	738
	2,933	1,909

22 SHAREHOLDERS

As of 30 June 2015, the shareholders of the bank who own 10% or more of the bank's shares:

	Number of shares '000	***% Holding***
The Commercial Bank of Qatar	**467,906**	**34.90**
Suhail Bahwan Group (Holdings) LLC	**197,678**	**14.74**
Civil Service Employees Pension Fund	**143,852**	**10.73**

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (Unaudited)

23 SEGMENT REPORTING

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

- Retail banking offers various products and facilities to individual customers to meet everyday banking needs.
- Corporate banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance and foreign exchange.
- Investment banking offers investment products such as asset management, corporate advisory and brokerage services to retail customers as well as high net worth individuals and institutional clients.
- Treasury provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk.
- International banking offers services such as issuance of guarantee, risk participation, syndications, etc.
- Islamic banking offers Shari’a compliant Islamic products and services.

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

Segment information is as follows:

6 months ended	***Retail banking***	***Corporate banking***	***Investment banking***	***Treasury and international banking***	***Head office***	***Islamic Banking***	***Total***
30-Jun-15	***RO’000***	***RO’000***	***RO’000***	***RO’000***	***RO’000***	***RO’000***	***RO’000***
Operating income	**26,573**	**24,825**	**1,319**	**2,448**	**7,580**	**1,633**	**64,378**
Net Profit / (loss)	**14,653**	**20,210**	**979**	**2,062**	**(10,335)**	**494**	**28,063**
Total assets	**1,032,536**	**1,359,605**	**54,093**	**68,499**	**636,657**	**103,682**	**3,255,072**

6 months ended	*Retail banking*	*Corporate banking*	*Investmen t banking*	*Treasury and international banking*	*Head office*	*Islamic Banking*	*Total*
30-Jun-14	*RO’000*	*RO’000*	*RO’000*	*RO’000*	*RO’000*	*RO’000*	*RO’000*
Operating income	25,454	22,459	2,835	2,019	868	502	54,137
Net Profit / (loss)	15,343	17,991	2,491	1,811	(14,089)	(498)	23,049
Total assets	975,855	1,237,425	27,634	75,062	1,146,570	55,951	3,518,497

23 SEGMENT REPORTING (Continued)

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

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis. Segment information by geography is as follows:

For the period ended 30 June 2015	***Oman***	***UAE***	***Egypt***	***Total***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	**58,135**	**3,020**	**34**	**61,189**
Interest income – internal	**132**	**10**	**27**	**169**
Other operating income – external	**17,391**	**1,137**	**481**	**19,009**
Other operating income – internal	**123**	**-**	**-**	**123**
Total	**75,781**	**4,167**	**542**	**80,490**
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	**15,237**	**548**	**35**	**15,820**
Interest costs – internal	**20**	**149**	**-**	**169**
Other operating expenses – external	**25,316**	**1,498**	**153**	**26,967**
Other operating expenses – internal	**19**	**104**	**-**	**123**
Depreciation	**1,501**	**47**	**-**	**1,548**
Credit loss expense - customer loan	**7,643**	**458**	**1**	**8,102**
Recoveries	**(4,111)**	**(363)**	**(112)**	**(4,586)**
Credit loss expense – bank loans	**68**	**-**	**-**	**68**
Impairment losses on available for sale investment	**1**	**-**	**-**	**1**
Taxation	**3,869**	**344**	**2**	**4,215**
Total	**49,563**	**2,785**	**79**	**52,427**
Segment profit for the year	**26,218**	**1,382**	**463**	**28,063**
Other information				
Segment assets	**3,033,724**	**200,205**	**21,143**	**3,255,072**
Segment capital expenses	**8,014**	**39**	**-**	**8,053**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (unaudited)

23 SEGMENT REPORTING (Continued)

For the year ended 30 June 2014	***Oman***	***UAE***	***Egypt***	***Total***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	56,415	1,496	54	57,965
Interest income – internal	22	15	151	188
Other operating income – external	14,599	1,002	85	15,686
Other operating income – internal	69	-	-	69
Total	71,105	2,513	290	73,908
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	19,131	311	72	19,514
Interest costs – internal	31	34	123	188
Other operating expenses – external	22,442	1,150	415	24,007
Other operating expenses – internal	-	63	6	69
Depreciation	1,372	81	-	1,453
Credit loss expense - customer loan	7,403	171	1	7,575
Recoveries	(4,814)	(360)	(58)	(5,232)
Impairment losses on available for sale investments	20	-	-	20
Credit loss expense – bank loans	(121)	-	-	(121)
Taxation	3,159	212	15	3,386
Total	48,623	1,662	574	50,859
Segment profit for the year	22,482	851	(284)	23,049
Other information				
Segment assets	3,383,450	113,189	21,858	3,518,497
Segment capital expenses	2,372	143	-	2,515

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (unaudited)

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

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:

30 June 2015	***Level 1*** ***RO'000***	***Level 2*** ***RO'000***	***Total*** ***RO'000***
Investments – held for trading:			
Government development bonds	**42,349**	**-**	**42,349**
Quoted equities	**34**	**-**	**34**
Total	**42,383**	**-**	**42,383**
Investments - available for sale:			
Government development bonds	**68,528**	**-**	**68,528**
Quoted equities	**33,351**	**-**	**33,351**
Other unquoted equities	**-**	**13,399**	**13,399**
Total	**101,879**	**13,399**	**115,278**
Total financial assets	**144,262**	**13,399**	**157,661**

Financial instruments at level 2 are valued based on counter party valuation, quoted forward rates and yield curves.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (unaudited)

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

30 June 2014	*Level 1 RO'000*	*Level 2 RO'000*	*Total RO'000*
Investments – held for trading:			
Government development bonds	26,638	-	26,638
Quoted equities	419	-	419
Total	27,057	-	27,057
Investments - available for sale:			
Government development bonds	74,817	-	74,817
Quoted equities	17,481	-	17,481
Other unquoted equities	-	7,970	7,970
Total	92,298	7,970	100,268
Total financial assets	119,355	7,970	127,325

31 December 2014	*Level 1 RO'000*	*Level 2 RO'000*	*Total RO'000*
Investments – held for trading:			
Government development bonds	39,292	-	39,292
Total	39,292	-	39,292
Investments - available for sale:			
Government development bonds	68,952	-	68,952
Quoted equities	23,500	-	23,500
Other unquoted equities	-	13,791	13,791
Total	92,452	13,791	106,243
Total financial assets	131,744	13,791	145,535

National Bank of Oman

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (Unaudited)

25 DERIVATIVES

	Positive fair value (Note 8)	Negative fair value (Note 11)	Notional amount total	Notional amounts by term to maturity: Within 3 months	3 – 12 months	Above 1 Year
30 June 2015	***RO'000***	***RO'000***	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Derivatives						
Fair value hedge	**3,408**	**-**	**192,500**	**-**	**-**	**192,500**
Interest rate swaps	**4,819**	**(4,819)**	**124,039**	**2,125**	**11,691**	**110,223**
Forward foreign exchange purchase contracts	**348**	**(44)**	**122,074**	**56,126**	**65,948**	**-**
Forward foreign exchange sales contracts	**220**	**(143)**	**122,072**	**55,832**	**65,880**	**360**
Currency options	**(6)**	**6**	**15,675**	**15,658**	**17**	
Total	**8,789**	**(5,000)**	**576,360**	**129,741**	**143,536**	**303,083**
30 June 2014						
Derivatives						
Interest rate swaps	5,628	(5,628)	137,577	2,125	11,690	123,762
Forward foreign exchange purchase contracts	24	(23)	84,470	47,778	36,692	-
Forward foreign exchange sales contracts	27	(10)	84,470	47,789	36,681	-
Total	5,679	(5,661)	306,517	97,692	85,063	123,762
31 December 2014						
Derivatives						
Fair value hedge	2,723	-	192,500	-	-	192,500
Interest rate swaps	5,252	(5,252)	130,872	2,125	11,690	117,057
Forward foreign exchange purchase contracts	7	(164)	229,953	86,860	143,093	-
Forward foreign exchange sales contracts	1,047	(145)	229,953	86,718	143,235	-
Total	9,029	(5,561)	783,278	175,703	298,018	309,557

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2015 (Unaudited)

26 LIQUIDITY COVERAGE RATIO

		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		534,564
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	711,400	41,003
3	Stable deposits	602,743	30,137
4	Less stable deposits	108,657	10,866
5	Unsecured wholesale funding, of which:	887,140	349,216
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	887,140	349,216
7	Non-operational deposits (all counterparties)	0	0
8	Unsecured debt	0	0
9	Secured wholesale funding		0
10	Additional requirements, of which	30,139	3,014
11	Outflows related to derivative exposures and other collateral requirements	0	0
12	Outflows related to loss of funding on debt products	0	0
13	Credit and liquidity facilities	30,139	3,014
14	Other contractual funding obligations	0	0
15	Other contingent funding obligations	562,684	31,620
16	**TOTAL CASH OUTFLOWS**		424,853
Cash Inflows			
17	Secured lending (e.g. reverse repos)	0	0
18	Inflows from fully performing exposures	305,989	191,710
19	Other cash inflows	12,936	12,936
20	**TOTAL CASH INFLOWS**	318,925	204,646
			Total Adjusted Value
21	**TOTAL HQLA**		534,564
22	**TOTAL NET CASH OUTFLOWS**		220,207
23	**LIQUIDITY COVERAGE RATIO (%)**		242.76

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

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

Report on the financial statements
We have audited the financial statements of National Bank of Oman SAOG ('the Bank'), set out on pages 2 to 53 which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the Rules and Guidelines on disclosure issued by the Capital Market Authority and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements
In our opinion, the financial statements of the Bank as at and for the year ended 31 December 2014, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

27 January 2015

Paul Callaghan

National Bank of Oman SAOG

FINANCIAL STATEMENTS

31 December 2014

PO Box 751 PC 112 Ruwi Sultanate of Oman.

2013 USD'000	2014 USD'000		Notes	2014 RO'000	2013 RO'000
		ASSETS			
956,665	**750,213**	Cash and balances with Central Banks	4	**288,832**	368,316
593,553	**376,449**	Due from banks and other money market placements (net)	5	**144,933**	228,518
5,371,946	**6,017,696**	Loans, advances and financing activities for customers (net)	6	**2,316,813**	2,068,199
344,423	**383,179**	Financial investments	7	**147,524**	132,603
52,218	**60,270**	Premises and equipment	8	**23,204**	20,104
1,195	**1,132**	Deferred tax asset	14	**436**	460
202,964	**141,175**	Other assets	9	**54,352**	78,141
7,522,964	**7,730,114**	**TOTAL ASSETS**		**2,976,094**	2,896,341
		LIABILITIES, SUBORDINATED DEBT AND EQUITY			
		LIABILITIES			
587,945	**265,423**	Due to banks and other money market deposits	10	**102,188**	226,359
5,660,153	**5,656,473**	Customers' deposits and unrestricted investment accounts	11	**2,177,742**	2,179,159
-	**507,073**	Euro medium term notes	12	**195,223**	-
201,330	**181,198**	Other liabilities	13	**69,761**	77,512
14,357	**15,717**	Taxation	14	**6,051**	5,527
6,463,785	**6,625,884**	**TOTAL LIABILITIES**		**2,550,965**	2,488,557
		SUBORDINATED DEBT			
207,013	**165,195**	Subordinated debt	15	**63,600**	79,700
		EQUITY			
287,799	**316,579**	Share capital	16	**121,883**	110,803
89,519	**89,519**	Share premium	17	**34,465**	34,465
102,821	**112,675**	Legal reserve	18	**43,380**	39,586
11,478	**11,478**	General reserve	19	**4,419**	4,419
116,636	**107,330**	Other non-distributable reserves	20	**41,322**	44,905
43,169	**53,818**	Proposed cash dividend	21	**20,720**	16,620
28,779	**31,657**	Proposed stock dividend	21	**12,188**	11,080
171,965	**215,979**	Retained earnings		**83,152**	66,206
852,166	**939,035**	**TOTAL EQUITY**		**361,529**	328,084
7,522,964	**7,730,114**	**TOTAL LIABILITIES, SUBORDINATED DEBT AND EQUITY**		**2,976,094**	2,896,341

0The financial statements were authorised for issue on 27-Jan-2015 in accordance with a resolution of the Board of Directors.

Chairman

Chief Executive Officer

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

2013 USD'000	2014 USD'000		Notes	2014 RO'000	2013 RO'000
302,935	**305,395**	Interest income	23	**117,577**	116,630
(108,808)	**(95,784)**	Interest expense	24	**(36,877)**	(41,891)
194,127	**209,611**	**Net interest income**		**80,700**	74,739
870	**5,239**	Income from Islamic financing and Investment activities		**2,017**	335
(278)	**(668)**	Unrestricted investment account holders' share of profit		**(257)**	(107)
592	**4,571**	**Net Income from Islamic financing and Investment activities**		**1,760**	228
75,208	**82,519**	Other operating income	25	**31,770**	28,955
269,927	**296,701**	**Operating income**		**114,230**	103,922
(74,275)	**(87,534)**	Staff costs		**(33,701)**	(28,596)
(43,234)	**(46,016)**	Other operating expenses	26	**(17,716)**	(16,645)
(8,673)	**(7,800)**	Depreciation	8	**(3,003)**	(3,339)
(126,182)	**(141,350)**	**Total operating expenses**		**(54,420)**	(48,580)
143,745	**155,351**	**PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX**		**59,810**	55,342
(49,852)	**(31,945)**	Credit loss expense – customers' loan	6	**(12,299)**	(19,193)
9,192	**7,501**	Recoveries and releases from provision for credit losses	6	**2,888**	3,539
19,538	**19,249**	Recoveries from loans and advances written off		**7,411**	7,522
(29)	**(860)**	Impairment losses on available for sale investments	7	**(331)**	(11)
(361)	**39**	Write back / credit loss expense - bank loans		**15**	(139)
(238)	**-**	Provision – others		**-**	(92)
(21,750)	**(6,016)**	**TOTAL IMPAIRMENT LOSSES (NET)**		**(2,316)**	(8,374)
121,995	**149,335**	**PROFIT BEFORE TAX**		**57,494**	46,968
(14,522)	**(18,769)**	Taxation	14	**(7,226)**	(5,591)
107,473	**130,566**	**PROFIT FOR THE YEAR**		**50,268**	41,377
		OTHER COMPREHENSIVE INCOME			
		Items that are or may be reclassified subsequently to profit or loss			
4,400	**(465)**	Net movement on available for sale investments		**(179)**	1,694
(125)	**(62)**	Tax effect of net movement on available for sale investments		**(24)**	(48)
4,275	**(527)**	**OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR**		**(203)**	1,646
111,748	**130,039**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**50,065**	43,023
		Earnings per share:			
0.09	**0.11**	(USD) – Basic and diluted – (RO)	28	**0.041**	0.034

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

(RO'000)	*Share capital*	*Share premium*	*Legal reserve*	*General reserve*	*Other non-distributable reserves*	*Proposed cash dividend*	*Proposed stock dividend*	*Retained earnings*	*Total*
	----------	----------	----------	----------	(RO'000)	----------	----------	----------	----------
Balance at 1 January 2013	110,803	34,465	39,586	4,419	30,719	19,391	-	65,069	304,452
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	-	-	41,377	41,377
Net movement on available for sale investments	-	-	-	-	1,646	-	-	-	1,646
Transactions with owners recorded directly in equity									
Dividend paid	-	-	-	-	-	(19,391)	-	-	(19,391)
Proposed cash dividend	-	-	-	-	-	16,620	-	(16,620)	-
Proposed stock dividend	-	-	-	-	-	-	11,080	(11,080)	-
Transfer to subordinated debt reserve	-	-	-	-	12,540	-	-	(12,540)	-
Balance at 31 December 2013	110,803	34,465	39,586	4,419	44,905	16,620	11,080	66,206	328,084
Balance at 1 January 2014	**110,803**	**34,465**	**39,586**	**4,419**	**44,905**	**16,620**	**11,080**	**66,206**	**328,084**
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	-	-	**50,268**	**50,268**
Net movement on available for sale investments	-	-	-	-	**(203)**	-	-	-	**(203)**
Transactions with owners recorded directly in equity									
Dividend paid	-	-	-	-	-	**(16,620)**	-	-	**(16,620)**
Issue of shares	**11,080**	-	-	-	-	-	**(11,080)**	-	-
Proposed cash dividend	-	-	-	-	-	**20,720**	-	**(20,720)**	-
Proposed stock dividend	-	-	-	-	-	-	**12,188**	**(12,188)**	-
Transfer to retained earnings	-	-	-	-	**(16,100)**	-	-	**16,100**	-
Transfer to subordinated debt reserve	-	-	-	-	**12,720**	-	-	**(12,720)**	-
Transfer to legal reserve	-	-	**3,794**	-	-	-	-	**(3,794)**	-
Balance at 31 December 2014	**121,883**	**34,465**	**43,380**	**4,419**	**41,322**	**20,720**	**12,188**	**83,152**	**361,529**
Balance at 1 January 2014 – In USD'000	287,799	89,519	102,821	11,478	116,636	43,169	28,779	171,965	852,166
Balance at 31 December 2014 – In USD'000	**316,579**	**89,519**	**112,675**	**11,478**	**107,330**	**53,818**	**31,657**	**215,979**	**939,035**

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

STATEMENT OF CASH FLOW

For the year ended 31 December 2014

2013 USD'000	**2014 USD'000**		Notes	**2014 RO'000**	2013 RO'000
		OPERATING ACTIVITIES			
121,994	**149,335**	Profit before taxation		**57,494**	46,968
		Adjustments for:			
8,673	**7,800**	Depreciation	8	**3,003**	3,339
40,660	**24,444**	Provision for credit losses (net)		**9,411**	15,654
361	**(39)**	Provision for credit losses (net)- due from banks		**(15)**	139
29	**860**	Impairment losses on available for sale investments	7	**331**	11
239	**-**	Provision against collateral assets		**-**	92
(112)	**(42)**	Profit on sale of equipment (net)		**(16)**	(43)
(4,416)	**(5,382)**	Profit on sale of investments	25	**(2,072)**	(1,700)
(8,691)	**(10,725)**	Investment income		**(4,129)**	(3,346)
158,737	**166,251**	Operating profit before changes in operating assets and liabilities		**64,007**	61,114
50,262	**15,860**	Due from banks and other money market placements		**6,106**	19,351
84,998	**(346,384)**	Due to banks and other money market deposits		**(133,358)**	32,724
(447,509)	**(670,195)**	Loans and advances to customers		**(258,025)**	(172,291)
(43,130)	**68,863**	Other assets		**26,512**	(16,605)
759,494	**(3,681)**	Customers' deposits		**(1,417)**	292,405
-	**500,000**	Euro medium term notes		**192,500**	-
22,686	**(20,132)**	Other liabilities		**(7,751)**	8,734
585,538	**(289,418)**	**Cash from operations**		**(111,426)**	225,432
(14,938)	**(17,400)**	Taxes paid		**(6,699)**	(5,751)
570,600	**(306,818)**	**Net cash (used in / generated from) operating activities**		**(118,125)**	219,681
		INVESTING ACTIVITIES			
(96,909)	**(63,894)**	Purchase of non-trading investments		**(24,599)**	(37,310)
48,893	**29,205**	Proceeds from sale of non-trading investments		**11,244**	18,824
(7,836)	**(15,896)**	Purchase of premises and equipment	8	**(6,120)**	(3,017)
221	**65**	Disposal of premises and equipment		**25**	85
6,943	**6,735**	Income from bond and other investments	25	**2,593**	2,673
1,748	**3,990**	Dividend income	25	**1,536**	673
(211)	**(36)**	Translation differences on premises and equipment and tax		**(14)**	(81)
(47,151)	**(39,831)**	**Net cash used in investing activities**		**(15,335)**	(18,153)
		FINANCING ACTIVITIES			
(50,366)	**(43,169)**	Payment of dividend		**(16,620)**	(19,391)
46,753	**(41,818)**	Net movement in subordinated debt	15	**(16,100)**	18,000
(3,613)	**(84,987)**	**Net cash used in financing activities**		**(32,720)**	(1,391)
519,836	**(431,636)**	**(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS**		**(166,180)**	200,137
725,138	**1,244,974**	Cash and cash equivalents at the beginning of the year		**479,315**	279,178
1,244,974	**813,338**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**313,135**	479,315
		REPRESENTING:			
955,366	**748,914**	Cash and balances with Central Banks	4	**288,332**	367,816
289,608	**64,424**	Deposits and balances with other banks and financial institutions (net)		**24,803**	111,499
1,244,974	**813,338**			**313,135**	479,315

The attached notes 1 to 35 form integral 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 banking, wholesale banking, investment banking services and Islamic banking within the Sultanate of Oman and with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on Muscat Stock Exchange.

The bank employed 1,368 employees as at 31 December 2014 (2013: 1,370).

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 investment 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 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:

Going concern

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

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.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting judgments and estimates (continued)

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

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.

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 mathematical 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.

Deferred tax assets

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

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 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

IFRS 9 – Financial Instruments – (effective on or after 1 January 2018) – The Bank is assessing the potential impact on the its consolidated financial statements.

IFRS 15 – Revenue from contracts with Customers (effective on or after 1 January 2017) – The Bank is assessing the potential impact on the its consolidated financial statements.

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

- Defined benefit plans: employee contributions (amendments to IAS 19).
- Annual improvements to IFRSs 2010-2012 cycle.
- Annual improvements to IFRSs 2011-2013 cycle.
- IFRS 14 regulatory deferral accounts.
- Accounting for acquisitions of Interests in joint operations (amendments to IFRS 11).
- Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38).
- Agriculture: bearer plants (amendments to IAS 16 and IAS 41).
- Equity method in separate financial statements (amendments to IAS 27).
- Sale or contribution of assets between an Investor and its associate or joint venture (amendments to IFRS 10 and IAS 28).
- Annual improvements to IFRSs 2012-2014 cycle - various standards

3 SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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.

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 recognizing 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.

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 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available for sale

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 profit or loss for the year. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of 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’.

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 to 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 profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated 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.

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'.

Determination of fair values

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model.

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.

Premises and equipment (continued)

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 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets and financial liabilities

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

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

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

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

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.

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

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation – current and deferred (continued)

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.

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.

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.

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.

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 recognized 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'.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due from banks and loans and advances to customers (continued)

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

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

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

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Foreign currencies
(i) Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange 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. Realised and unrealised gains and losses are dealt with in profit or loss for the year.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fee and commission income (continued)

Foreign currencies (continued)

(iii) As at the reporting date, the assets and liabilities of overseas branches are translated into the bank's presentation currency at the rate of exchange as at the reporting date, and their statement of comprehensive incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in 'Other operating expenses' or 'Other operating income'. As the functional currencies of the bank's overseas branches are pegged to Rial Omani, there are no major exchange differences arising on translation.

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.

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

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.

Segment reporting
The bank's segmental reporting is based on the following operating segments: retail banking, corporate banking, investment banking, treasury and international banking and head office functions. 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.

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.

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.

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.

4 CASH AND BALANCES WITH CENTRAL BANKS

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
94,904	**124,244**	Cash	**47,834**	36,538
272,727	**20,779**	Certificates of deposit with Central Banks	**8,000**	105,000
587,735	**603,891**	Other balances with Central Banks	**232,498**	226,278
955,366	**748,914**	**Cash and cash equivalents**	**288,332**	367,816
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
956,665	**750,213**	**Cash and balances with Central Banks**	**288,832**	368,316

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

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

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
36,000	**64,210**	Loans and advances to banks	**24,721**	13,860
488,735	**186,603**	Placement with banks	**71,842**	188,163
69,179	**125,958**	Demand balances	**48,494**	26,634
593,914	**376,771**	**Due from banks and other money market placement**	**145,057**	228,657
(361)	**(322)**	Less: allowance for credit losses	**(124)**	(139)
593,553	**376,449**	**Net due from banks and other money market placement**	**144,933**	228,518

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

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
140,956	**155,275**	Overdrafts	**59,781**	54,268
2,766,317	**2,717,330**	Personal loans	**1,046,172**	1,065,032
2,484,928	**2,921,818**	Other loans	**1,124,900**	956,697
157,722	**304,403**	Loans against trust receipts	**117,195**	60,723
52,262	**123,930**	Bills discounted	**47,713**	20,121
5,602,185	**6,222,756**	**Gross loans and advances**	**2,395,761**	2,156,841
(175,979)	**(179,733)**	Allowance for credit losses	**(69,197)**	(67,752)
(54,260)	**(25,327)**	Reserved interest	**(9,751)**	(20,890)
5,371,946	**6,017,696**	**Net loans and advances**	**2,316,813**	2,068,199

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

The movement in the allowance for credit losses and reserved interest accounts is set out below:

2013 *USD'000*	***2014*** ***USD'000***		***2014*** ***RO'000***	*2013* *RO'000*
		Allowance for credit losses		
150,652	**175,979**	Balance at beginning of the year	**67,752**	58,001
49,852	**31,945**	Provided during the year	**12,299**	19,193
(8,189)	**(6,922)**	Released/recovered during the year	**(2,665)**	(3,153)
(15,927)	**(21,031)**	Written off during the year	**(8,097)**	(6,132)
(409)	**(238)**	Translation difference	**(92)**	(157)
175,979	**179,733**	Balance at end of the year	**69,197**	67,752
		Reserved interest		
43,712	**54,260**	Balance at beginning of the year	**20,890**	16,829
15,561	**8,273**	Reserved during the year	**3,185**	5,991
(1,003)	**(579)**	Released/recovered during the year	**(223)**	(386)
(501)	**-**	Released/recovered during the year to interest income	**-**	(193)
(3,486)	**(36,621)**	Written off during the year	**(14,099)**	(1,342)
(23)	**(6)**	Translation difference	**(2)**	(9)
54,260	**25,327**	Balance at end of the year	**9,751**	20,890

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

2013 *USD'000*	***2014*** ***USD'000***		***2014*** ***RO'000***	*2013* *RO'000*
96,538	**94,032**	Specific impairment	**36,202**	37,167
79,441	**85,701**	Collective impairment	**32,995**	30,585
175,979	**179,733**		**69,197**	67,752

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 2014, impaired loans on which interest is not being accrued or where interest has been reserved amounted to RO 58 million – USD 151 million (2013 – RO 61 million – USD 158 million).

During the year, the bank has written-off fully provided loans and advances amounting to RO 22.2 million – USD 57.7 million (2013: RO 7.5 million – USD 19.5 million) against impairment provisions where the bank believes the possibility of a recovery is low. The bank will continue to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the profit or loss for the year.

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

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

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

Total 2013 USD'000	***Total 2014 USD'000***		***Total 2014 RO'000***	*Total 2013 RO'000*
2,766,317	**2,717,330**	Personal	**1,046,172**	1,065,032
412,457	**656,094**	Service	**252,596**	158,796
509,137	**612,852**	Construction	**235,948**	196,018
424,590	**574,787**	Manufacturing	**221,293**	163,467
292,361	**343,587**	Transport and communication	**132,281**	112,559
272,839	**292,849**	Electricity, gas and water	**112,747**	105,043
250,242	**283,532**	Others	**109,160**	96,343
264,218	**261,904**	Wholesale and retail trade	**100,833**	101,724
220,148	**209,730**	Financial institutions	**80,746**	84,757
135,234	**196,384**	Import trade	**75,608**	52,065
18,678	**35,777**	Mining and quarrying	**13,774**	7,191
35,023	**27,091**	Agriculture	**10,430**	13,484
55	**10,060**	Government	**3,873**	21
886	**779**	Export trade	**300**	341
5,602,185	**6,222,756**	**Total Gross Loans**	**2,395,761**	2,156,841

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

2013 USD'000	***2014 USD'000***		***2014 RO'000***	*2013 RO'000*
5,366,164	**5,769,052**	Sultanate of Oman	**2,221,085**	2,065,973
146,029	**375,371**	United Arab Emirates	**144,518**	56,221
5,865	**5,540**	Egypt	**2,133**	2,258
84,127	**72,793**	Others	**28,025**	32,389
5,602,185	**6,222,756**	**Total**	**2,395,761**	2,156,841

7 FINANCIAL INVESTMENTS

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
		A. Held for trading		
		Quoted investments- Oman		
69,506	**102,057**	Government Development Bonds	**39,292**	26,760
69,506	**102,057**	**Total held for trading**	**39,292**	26,760
		B. Available for sale		
		Quoted investments- Oman		
496	**1,273**	Banking and investment sector	**490**	191
2,855	**2,135**	Manufacturing sector	**822**	1,099
21,026	**51,158**	Service sector	**19,696**	8,095
195,504	**179,096**	Government Development Bonds	**68,952**	75,269
219,881	**233,662**		**89,960**	84,654
		Quoted investments- Foreign		
1,130	**4,649**	Banking and investment sector	**1,790**	435
7,088	**1,824**	Service sector	**702**	2,729
3,634	**-**	Government Development Bonds	**-**	1,399
11,852	**6,473**		**2,492**	4,563
		Unquoted investments		
27,416	**26,319**	Banking and investment sector	**10,133**	10,555
9,047	**9,047**	Manufacturing sector	**3,483**	3,483
2,106	**455**	Service sector	**175**	811
38,569	**35,821**		**13,791**	14,849
270,302	**275,956**	**Total available for sale**	**106,243**	104,066
		C. Held to maturity		
		Quoted investments- Overseas		
4,615	**-**	Manufacturing sector	**-**	1,777
-	**5,166**	Banking sector	**1,989**	-
4,615	**5,166**	**Total Held to maturity**	**1,989**	1,777
344,423	**383,179**	**TOTAL FINANCIAL INVESTMENTS**	**147,524**	132,603

Included under unquoted available for sale investments are investments with a value of RO 3.76 million – USD 9.76 million (2013 – 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.

During the year, the bank has recorded RO 0.33 million - USD 0.86 million (2013 – RO 0.01 million – USD 0.03 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.

Details of significant investments

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

Bank's portfolio %	*Carrying value USD'000*		*Bank's portfolio %*	*Carrying value RO'000*
73.4	**281,153**	Government Development Bonds-Oman-2014	**73.4**	**108,244**
76.9	265,010	Government Development Bonds-Oman-2013	76.9	102,029

8 PREMISES AND EQUIPMENT

	Freehold land and buildings and leasehold improvements RO'000	*Motor vehicles, furniture and equipment RO'000*	*Capital work in progress RO'000*	*Total RO'000*
Reconciliation of carrying amount:				
Balance as at 1 January 2014, net of accumulated depreciation	**12,367**	**4,762**	**2,975**	**20,104**
Additions	**349**	**1,109**	**4,661**	**6,119**
Disposals	**-**	**(9)**	**-**	**(9)**
Transfers	**59**	**1,733**	**(1,792)**	**-**
Translation difference	**(7)**	**-**	**-**	**(7)**
Depreciation	**(828)**	**(2,175)**	**-**	**(3,003)**
Balance as at 31 December 2014, net of accumulated depreciation	**11,940**	**5,420**	**5,844**	**23,204**
At cost	**22,373**	**27,789**	**5,844**	**56,006**
At revaluation	**3,766**	**-**	**-**	**3,766**
Accumulated depreciation	**(14,199)**	**(22,369)**	**-**	**(36,568)**
Net carrying value at 31 December 2014	**11,940**	**5,420**	**5,844**	**23,204**
Net carrying value at 31 December 2014 – USD'000	**31,013**	**14,078**	**15,179**	**60,270**
At cost 1 January 2013	22,357	25,782	2,975	51,114
At revaluation	3,766	-	-	3,766
Accumulated depreciation	(13,756)	(21,020)	-	(34,776)
Net carrying value at 31 December 2013	12,367	4,762	2,975	20,104
Net carrying value at 31 December 2013 – USD'000	32,122	12,369	7,727	52,218

Freehold land stated at cost of RO 8.56 million – USD 22.22 million (2013 – RO 8.56 million – USD 22.23 million) is not depreciated. Land and buildings include three buildings on freehold land, which were re-valued at their open market value for existing use by an independent professional valuer as of 31 October 2010, at RO 3.77 million (USD 9.79 million) from then existing value of RO 2.81 million (USD 7.30 million). On revaluation, the gross carrying amount of each building re-valued was restated so that the net carrying amount of the asset after revaluation equals its re-valued amount. Should the buildings be carried at cost less depreciation, the net carrying amount would have been RO 0.72 million – 1.87 million (2013 – RO 0.79 million – USD 2.05 million).

9 OTHER ASSETS

2013 USD'000	***2014 USD'000***		***2014 RO'000***	*2013 RO'000*
94,258	**35,128**	Interest receivable and others	**13,524**	36,289
14,044	**23,452**	Positive fair value of derivatives (note 34)	**9,029**	5,407
94,662	**82,595**	Customers' indebtedness for acceptances	**31,799**	36,445
202,964	**141,175**		**54,352**	78,141

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
567,779	**245,091**	Acceptances and borrowings	**94,360**	218,595
20,166	**20,332**	Other balances	**7,828**	7,764
587,945	**265,423**		**102,188**	226,359

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
1,605,285	**2,141,784**	Current accounts	**824,587**	618,035
1,408,769	**1,464,231**	Savings accounts	**563,729**	542,376
2,646,099	**2,050,458**	Term deposits	**789,426**	1,018,748
5,660,153	**5,656,473**		**2,177,742**	2,179,159

12 EURO MEDIUM TERM NOTES

The Bank has established a 5-year, USD 500 million Regulation S, bond issuance 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 amount of MTM value of the fair value hedge (Refer note 34).

13 OTHER LIABILITIES

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
89,281	**80,110**	Interest payable & others	**30,842**	34,373
3,366	**4,049**	Staff entitlements	**1,559**	1,296
94,662	**82,595**	Liabilities under acceptances	**31,799**	36,445
14,021	**14,444**	Negative fair value of derivatives (note 34)	**5,561**	5,398
201,330	**181,198**		**69,761**	77,512
		Staff entitlements are as follows:		
2,862	**3,470**	End of service benefits	**1,336**	1,102
504	**579**	Other liabilities	**223**	194
3,366	**4,049**		**1,559**	1,296
		Movement in the end of service benefits liability are as follows:		
2,652	**2,862**	Liability as at 1 January	**1,102**	1,021
792	**894**	Expense recognised in the statement of comprehensive income	**344**	305
(582)	**(286)**	End of service benefits paid	**(110)**	(224)
2,862	**3,470**	Liability as at 31 December	**1,336**	1,102

14 TAXATION

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
		Current tax expense		
14,522	**18,769**	Current period/year	**7,226**	5,591
14,522	**18,769**		**7,226**	5,591

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

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

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
121,995	**149,335**	Accounting profit	**57,494**	46,968
14,639	**17,920**	Tax at applicable rate	**6,899**	5,636
286	**262**	Non-deductible expenses	**101**	110
(909)	**(1,034)**	Tax exempt revenues	**(398)**	(350)
506	**1,621**	Others	**624**	195
14,522	**18,769**		**7,226**	5,591

Taxable income / Loss for Islamic banking operations has been included in calculation of the bank's taxation.

The bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2007. 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 branch in UAE has been agreed with the tax authorities up to 31 December 2013.

Tax liability

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
14,522	**18,769**	Income tax and other taxes – Current year	**7,226**	5,591
(165)	**(3,052)**	Income tax and other taxes – Prior years	**(1,175)**	(64)
14,357	**15,717**		**6,051**	5,527

Recognised deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

1,247	**1,247**	Deductible temporary differences	**480**	480
(52)	**(115)**	Available for sale investments	**(44)**	(20)
1,195	**1,132**		**436**	460

15 SUBORDINATED DEBT

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
160,260	**207,013**	At I January	**79,700**	61,700
46,753	**(41,818)**	Received/(Paid) during the year	**(16,100)**	18,000
207,013	**165,195**		**63,600**	79,700

16 SHARE CAPITAL

The Authorised share capital of the bank is 2,000,000,000 shares of RO 0.100 each (2013 – 2,000,000,000 of RO 0.100 each). At 31 December 2014 – 1,218,827,500 shares of RO 0.100 each (2013 – 1,108,025,000 of RO 0.100 each) have been issued and fully paid.

As of 31 December 2014, the following shareholders held 10% or more of the bank's capital:

	Number of shares '000	% Holding
The Commercial Bank of Qatar	**425,369**	**34.90%**
Suhail Bahwan Group (Holdings) L.L.C	**179,707**	**14.74%**
Civil Service Employee Pension Fund	**138,829**	**11.39%**

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 2014, the legal reserve of Oman and UAE has reached one third and half of the issued capital respectively.

19 GENERAL RESERVE

The general reserve was created on 9 May 2006 by way of a transfer from the subordinated debt reserve to a general reserve. The transfer was made on account of prepayment of certain subordinated debt during 2006 resulting in surplus in subordinated debt reserve. This reserve is available for distribution.

20 OTHER NON-DISTRIBUTABLE RESERVES

	Available for sale reserve RO '000	*Revaluation reserve RO '000*	*Subordinated debt reserve RO '000*	*Total RO '000*
At 1 January 2014	**2,799**	**3,766**	**38,340**	**44,905**
Net movement on available for sale investments	**(179)**	**-**	**-**	**(179)**
Tax effect of net losses on available for sale financial investments	**(24)**	**-**	**-**	**(24)**
Transfer to subordinated debt reserve	**-**		**12,720**	**12,720**
Transfer to retained earnings	**-**	**-**	**(16,100)**	**(16,100)**
At 31 December 2014	**2,596**	**3,766**	**34,960**	**41,322**
At 31 December 2014 – In USD'000	**6,743**	**9,782**	**90,805**	**107,330**

(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 private placement.

21 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.017 per share totalling RO 20.7 million (USD 0.044 per share totalling USD 53.8 million) and stock dividend of RO 0.010 per share totalling RO 12.2 million (USD 0.026 per share totalling USD 31.7 million) for the year ended 31 December 2014, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2015.

At the Annual General Meeting held in March 2014, a cash dividend of RO 0.015 per share totalling RO 16.6 million (USD 0.039 per share totalling USD 43.2 million) and stock dividend of RO 0.010 per share totalling RO 11.1 million (USD 0.026 per share totalling USD 28.8 million) for the year ended 31 December 2013 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 recognized 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:

2013 USD'000	***2014 USD'000***		***2014 RO'000***	*2013 RO'000*
1,252,797	**1,267,439**	Guarantees	**487,964**	482,327
208,891	**200,047**	Documentary letters of credit	**77,018**	80,423
1,461,688	**1,467,486**		**564,982**	562,750

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

2013 USD'000	***2014 USD'000***		***2014 RO'000***	*2013 RO'000*
403,257	**517,597**	Construction	**199,275**	155,254
528,190	**329,540**	Financial Institutions	**126,873**	203,353
116,540	**157,608**	Wholesale and Retail Trade	**60,679**	44,868
114,592	**129,114**	Manufacturing	**49,709**	44,118
130,865	**127,701**	Electricity, Gas and Water	**49,165**	50,383
115,751	**101,491**	Service	**39,074**	44,564
25,353	**74,209**	Others	**28,570**	9,761
17,075	**27,291**	Transport and communication	**10,507**	6,574
7,649	**1,473**	Mining & quarrying	**567**	2,945
494	**1,031**	Personal	**397**	190
1,922	**431**	Agriculture	**166**	740
1,461,688	**1,467,486**		**564,982**	562,750

Guarantees include RO 0.2 million – USD 0.5 million (Dec 2013: RO 0.1 million – USD 0.3 million) relating to non-performing loans.

Commitments

2013 USD'000	***2014 USD'000***		***2014 RO'000***	*2013 RO'000*
254,119	**217,239**	Undrawn commitment	**83,637**	97,836
7,997	**11,860**	Capital expenditure	**4,566**	3,079
8,112	**7,582**	Operating lease commitments	**2,919**	3,123
		Future minimum lease payments:		
3,888	**3,766**	Not later than one year	**1,450**	1,497
4,224	**3,816**	Later than one year and not later than five years	**1,469**	1,626
8,112	**7,582**		**2,919**	3,123

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.

2013	***2014***		***2014***	*2013*
USD'000	***USD'000***		***RO'000***	*RO'000*
14,294	**14,294**	UAE branch	**5,503**	5,503
50,000	**50,000**	Egypt branches	**19,250**	19,250
64,294	**64,294**		**24,753**	24,753

Legal claims

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

Fiduciary assets

The fair value of securities as of 31 December 2014 held on trust for customers amounts to RO 64.83 million –USD 168.40 million (2013 – RO 66.82 million – USD 173.56 million).

23 INTEREST INCOME

2013	***2014***		***2014***	*2013*
USD'000	***USD'000***		***RO'000***	*RO'000*
294,714	**301,644**	Interest from customers	**116,133**	113,465
8,221	**3,751**	Interest from banks	**1,444**	3,165
302,935	**305,395**		**117,577**	116,630

Interest bearing assets, other than investments earned interest at an overall effective annual rate of 4.20% for the year ended 31 December 2014 (31 December 2013 – 4.93%).

24 INTEREST EXPENSE

2013	***2014***		***2014***	*2013*
USD'000	***USD'000***		***RO'000***	*RO'000*
98,359	**85,486**	Interest to customers	**32,912**	37,868
10,449	**8,205**	Interest to banks	**3,159**	4,023
-	**2,093**	Euro medium term notes	**806**	-
108,808	**95,784**		**36,877**	41,891

For the year ended 31 December 2014, the average overall effective annual cost of bank's funds was 1.29% (31 December 2013 – 1.84%).

25 OTHER OPERATING INCOME

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
28,293	**37,179**	Fees and commission income	**14,314**	10,893
(31)	**(39)**	Fees and commission expense	**(15)**	(12)
28,262	**37,140**	Net fees and commissions	**14,299**	10,881
24,239	**16,753**	Service charges	**6,450**	9,332
4,416	**5,382**	Profit on sale of investments	**2,072**	1,700
8,803	**10,618**	Net gains from foreign exchange dealings	**4,088**	3,389
797	**1,901**	Miscellaneous income	**732**	307
6,943	**6,735**	Income from bonds and others	**2,593**	2,673
1,748	**3,990**	Dividend income	**1,536**	673
75,208	**82,519**		**31,770**	28,955

26 OTHER OPERATING EXPENSES

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
12,442	**13,104**	Establishment costs	**5,045**	4,790
30,218	**32,216**	Operating and administration costs	**12,403**	11,634
574	**696**	Directors' remuneration and sitting fees	**268**	221
43,234	**46,016**		**17,716**	16,645

27 RELATED PARTY TRANSACTIONS

Other 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:

	2014			2013		
	Principal shareholders RO'000	**Others RO'000**	**Total RO'000**	Principal shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	**-**	**12,952**	**12,952**	-	36,107	36,107
Customer's deposits	**93,196**	**22,513**	**115,709**	188,244	23,498	211,742
Due from banks	**16**	**12,898**	**12,914**	36,589	12,898	49,487
Due to banks	**48,282**	**-**	**48,282**	99	-	99
Subordinated debt	**14,500**	**4,000**	**18,500**	14,500	5,500	20,000
Letter of credit, guarantees and acceptance	**469**	**1,229**	**1,698**	45	1,029	1,074
Standby revolving credit facility	**77,000**	**-**	**77,000**	77,000	-	77,000
Risk indemnities received	**906**	**-**	**906**	1,793	1,333	3,126
Investment	**2,174**	**-**	**2,174**	1,800	129	1,929

27 RELATED PARTY TRANSACTIONS (Continued)

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

	2014			2013		
	Principal shareholders RO'000	**Others RO'000**	**Total RO'000**	Principal shareholders RO'000	Others RO'000	Total RO'000
Interest income	**4**	**949**	**953**	26	1,619	1,645
Commission income	**-**	**45**	**45**	-	21	21
Interest expense	**4,754**	**595**	**5,349**	721	634	1,355
Other expenses	**-**	**810**	**810**	-	1,620	1,620

	2014			2013		
	Principal shareholders USD'000	**Others USD'000**	**Total USD'000**	Principal shareholders USD'000	Others USD'000	Total USD'000
Loans and advances	**-**	**33,642**	**33,642**	-	93,784	93,784
Customer's deposits	**242,068**	**58,475**	**300,543**	488,945	61,034	549,979
Due from banks	**42**	**33,501**	**33,543**	95,036	33,501	128,537
Due to banks	**125,408**	**-**	**125,408**	257	-	257
Subordinated debt	**37,662**	**10,390**	**48,052**	37,662	14,286	51,948
Letter of credit, guarantees and acceptance	**1,218**	**3,192**	**4,410**	117	2,673	2,790
Standby revolving credit facility	**200,000**	**-**	**200,000**	200,000	-	200,000
Risk indemnities received	**2,353**	**-**	**2,353**	4,657	3,462	8,119
Investment	**5,647**	**-**	**5,647**	4,675	335	5,010

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

	2014			2013		
	Principal shareholders USD'000	**Others USD'000**	**Total USD'000**	Principal shareholders USD'000	Others USD'000	Total USD'000
Interest income	**10**	**2,465**	**2,475**	68	4,205	4,273
Commission income	**-**	**117**	**117**	-	55	55
Interest expense	**12,348**	**1,545**	**13,893**	1,872	1,647	3,519
Other expenses	**-**	**2,104**	**2,104**	-	4,208	4,208

Details regarding senior management compensation are set out below:

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
		Salaries and other short term benefits		
5,862	**5,969**	- Fixed	**2,298**	2,257
2,613	**2,364**	- Discretionary	**910**	1,006
8,475	**8,333**		**3,208**	3,263

28 BASIC AND DILUTED EARNING PER SHARE

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

	2014	*2013*
Profit for the year (RO'000s)	**50,268**	41,377
Weighted average number of shares outstanding during the year (in '000s)	**1,218,828**	1,218,828
Earnings per share (RO)	**RO 0.041**	RO 0.034
Profit for the year (USD'000s)	**130,566**	107,473
Weighted average number of shares outstanding during the year (in '000s)	**1,218,828**	1,218,828
Earnings per share (USD)	**USD 0.11**	USD 0.09

During the year 2014, the bank issued stock dividend of RO 0.010 per share totalling RO 11.1 million (USD 0.026 per share totalling USD 28.8 million) to the existing shareholders. As 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:

2013 USD'000	***2014 USD'000***		***2014 RO'000***	*2013 RO'000*
		Capital base		
790,701	**867,561**	Common equity Tier 1 - shareholders' funds	**334,011**	304,420
190,512	**163,177**	Tier 2 - subordinated debt and collective impairment provisions	**62,823**	73,347
981,213	**1,030,738**	Total capital base	**396,834**	377,767
		Risk weighted assets		
6,101,961	**6,469,457**	Credit risk	**2,490,741**	2,349,255
476,626	**513,662**	Operational risk	**197,760**	183,501
125,675	**60,286**	Market risk	**23,210**	48,385
6,704,262	**7,043,405**	Total risk weighted assets	**2,711,711**	2,581,141
11.8%	**12.3%**	CET 1 Ratio / Tier 1 Ratio	**12.3%**	11.8%
14.6%	**14.6%**	Risk asset ratio (Basel II norms)	**14.6%**	14.6%

30 RISK MANAGEMENT

The primary objective of risk management is to safeguard the bank from the various risks it is exposed to. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk, Legal Risk and Loan Review Mechanism. All risk management functions report to Chief Risk Officer and are independent from Business Units. The bank has exposure to the following risks:-

30.1 CREDIT RISK

Credit risk is the risk that the bank will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations to the bank. 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.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; risk framework provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as 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.

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking and Financial Institutions exposures. 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.

30 RISK MANAGEMENT (Continued)

30.1 CREDIT RISK (Continued)

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
- 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 revised, if required, 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 approved as per the delegated authorities.

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

- Portfolio review
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)
- 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 is in the process of implementing a Credit Scoring Module to enhance the Retail Credit Risk framework.

The Bank has automated a major part of the regulatory and management reporting requirements during the year 2014

Loan review mechanism

The bank an independent Loan Review Mechanism Division with a mandate for constantly evaluating the quality of the loan book; 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.

30 RISK MANAGEMENT (Continued)

30.1 CREDIT RISK (Continued)

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 2013 USD'000	***Gross maximum exposure 2014 USD'000***		***Gross maximum exposure 2014 RO '000***	*Gross maximum exposure 2013 RO '000*
861,761	**625,969**	Balances with Central Banks	**240,998**	331,778
593,553	**376,449**	Due from banks and other money market placements(net)	**144,933**	228,518
5,371,946	**6,017,696**	Loans, advances and financing activities for customers (net)	**2,316,813**	2,068,199
344,423	**383,179**	Financial investments	**147,524**	132,603
202,964	**141,175**	Other assets	**54,352**	78,141
7,374,647	**7,544,468**	**Total on balance sheet exposure**	**2,904,620**	2,839,239
1,252,797	**1,267,439**	Guarantees	**487,964**	482,327
208,891	**200,047**	Documentary letters of credit	**77,018**	80,423
252,951	**217,239**	Undrawn commitment	**83,637**	97,386
1,714,639	**1,684,725**	**Total off balance sheet exposure**	**648,619**	660,136

The above table represents the worst case scenario of credit risk exposure to the bank at 31 December 2014 and 2013 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) RO'000	***Loans past due and not impaired RO'000***	***Non performing loans RO'000***	***Gross loans RO'000***
Balance as at 1 January 2014	**2,048,434**	**47,120**	**61,287**	**2,156,841**
Additions during the year	**1,104,563**	**65,132**	**20,620**	**1,190,315**
Attrition during the year	**(866,069)**	**(58,096)**	**(5,034)**	**(929,199)**
Written-off during the year	**(3,788)**	**-**	**(18,408)**	**(22,196)**
Balance as at 31 December 2014	**2,283,140**	**54,156**	**58,465**	**2,395,761**
Balance as at 31 December 2014 – USD'000s	**5,930,234**	**140,665**	**151,857**	**6,222,756**
Balance as at 31 December 2013	2,048,434	47,120	61,287	2,156,841
Balance as at 31 December 2013 – USD'000s	5,320,608	122,390	159,187	5,602,185

30 RISK MANAGEMENT (Continued)

30.1 CREDIT RISK (Continued)

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 RO'000	*Loans in arrears 31-60 days RO'000*	*Loans in arrears 61-89 days RO'000*	*Total RO'000*
Loans and advances to customers (net) at				
31 December 2014	**35,572**	**11,984**	**6,600**	**54,156**
31 December 2014 – USD'000s	**92,395**	**31,127**	**17,143**	**140,665**
31 December 2013	30,844	12,074	4,202	47,120
31 December 2013 – USD'000s	80,114	31,361	10,914	122,389

Collateral and other credit enhancements

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

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

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

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

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

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) RO'000	*Loans past due and not impaired RO'000*	*Non performing loans RO'000*	*Total RO'000*
Collateral available	**1,354,072**	**65,567**	**36,190**	**1,455,829**
Guarantees available	**9,673**	**-**	**-**	**9,673**
Government soft loans*	**6,746**	**-**	**1,253**	**7,999**
Balance as at 31 December 2014	**1,370,491**	**65,567**	**37,443**	**1,473,501**
Balance as at 31 December 2014 – USD'000s	**3,559,717**	**170,304**	**97,255**	**3,827,276**
Balance as at 31 December 2013	1,162,348	106,226	27,272	1,295,846
Balance as at 31 December 2013 – USD'000s	3,019,086	275,912	70,836	3,365,834

* 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.

30 RISK MANAGEMENT (Continued)

30.1 CREDIT RISK (Continued)

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 2014	**8,243**	**6,162**	**46,882**	**61,287**
Additions during the year	**3,913**	**4,339**	**12,368**	**20,620**
Attrition during the year	**(2,362)**	**(1,973)**	**(699)**	**(5,034)**
Written-off during the year	**-**	**-**	**(18,408)**	**(18,408)**
Balance as at 31 December 2014	**9,794**	**8,528**	**40,143**	**58,465**
Balance as at 31 December 2014 – USD'000s	**25,439**	**22,151**	**104,268**	**151,858**
Balance as at 31 December 2013	8,243	6,162	46,882	61,287
Balance as at 31 December 2013 – USD'000s	21,410	16,005	121,772	159,187

Movement of rescheduled loans:

	2014	*2013*
	RO'000	*RO'000*
Balance as at 1 January	**44,984**	54,256
Additions during the year	**16,065**	12,356
Attrition during the year	**(24,521)**	(21,628)
Balance as at 31December	**36,528**	44,984
Balance as at 31December – USD'000s	**94,878**	116,842

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 RISK MANAGEMENT (Continued)

30.2 LIQUIDITY RISK

The maturity profile of the assets, liabilities and equity at **31 December 2014** is as follows:

	On demand within 3 months RO'000	*3 to 12 months RO'000*	*Subtotal less than 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Subtotal over 12 months RO'000*	*Total RO'000*
Cash and balances with Central Banks	**198,328**	**37,307**	**235,635**	**31,028**	**22,169**	**53,197**	**288,832**
Due from banks and other money market placements (net)	**130,971**	**13,962**	**144,933**	**-**	**-**	**-**	**144,933**
Loans, advances and financing activities for customers (net)	**450,109**	**231,153**	**681,262**	**458,384**	**1,177,167**	**1,635,551**	**2,316,813**
Financial investments	**62,817**	**27,340**	**90,157**	**57,367**	**-**	**57,367**	**147,524**
Premises and equipment	**-**	**-**	**-**	**-**	**23,204**	**23,204**	**23,204**
Deferred tax asset	**436**	**-**	**436**	**-**	**-**	**-**	**436**
Other assets	**52,226**	**2,086**	**54,312**	**40**	**-**	**40**	**54,352**
Total assets	**894,887**	**311,848**	**1,206,735**	**546,819**	**1,222,540**	**1,769,359**	**2,976,094**
Due to banks and other money market deposits	**102,188**	**-**	**102,188**	**-**	**-**	**-**	**102,188**
Customers' deposits and unrestricted investment accounts	**599,349**	**719,579**	**1,318,928**	**428,664**	**430,150**	**858,814**	**2,177,742**
Euro medium term notes	**-**	**-**	**-**	**195,223**	**-**	**195,223**	**195,223**
Other liabilities	**59,735**	**9,296**	**69,031**	**715**	**15**	**730**	**69,761**
Taxation	**6,051**	**-**	**6,051**	**-**	**-**	**-**	**6,051**
Subordinated debt	**-**	**-**	**-**	**63,600**	**-**	**63,600**	**63,600**
Shareholders' equity	**-**	**-**	**-**	**-**	**361,529**	**361,529**	**361,529**
Total liabilities and shareholders' equity	**767,323**	**728,875**	**1,496,198**	**688,202**	**791,694**	**1,479,896**	**2,976,094**

	On demand within 3 months USD'000	*3 to 12 months USD'000*	*Subtotal less than 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Subtotal over 12 months USD'000*	*Total USD'000*
Cash and balances with Central Banks	**515,138**	**96,901**	**612,039**	**80,592**	**57,582**	**138,174**	**750,213**
Due from banks and other money market placement (net)	**340,184**	**36,265**	**376,449**	**-**	**-**	**-**	**376,449**
Loans, advances and financing activities for customers (net)	**1,169,114**	**600,397**	**1,769,511**	**1,190,608**	**3,057,577**	**4,248,185**	**6,017,696**
Financial investments	**163,161**	**71,013**	**234,174**	**149,005**	**-**	**149,005**	**383,179**
Premises and equipment	**-**	**-**	**-**	**-**	**60,270**	**60,270**	**60,270**
Deferred tax asset	**1,132**	**-**	**1,132**	**-**	**-**	**-**	**1,132**
Other assets	**135,652**	**5,419**	**141,071**	**104**	**-**	**104**	**141,175**
Total assets	**2,324,381**	**809,995**	**3,134,376**	**1,420,309**	**3,175,429**	**4,595,738**	**7,730,114**
Due to banks and other money market deposits	**265,423**	**-**	**265,423**	**-**	**-**	**-**	**265,423**
Customers' deposits and unrestricted investment accounts	**1,556,751**	**1,869,036**	**3,425,787**	**1,113,413**	**1,117,273**	**2,230,686**	**5,656,473**
Euro medium term notes	**-**	**-**	**-**	**507,073**	**-**	**507,073**	**507,073**
Other liabilities	**155,156**	**24,146**	**179,302**	**1,857**	**39**	**1,896**	**181,198**
Taxation	**15,717**	**-**	**15,717**	**-**	**-**	**-**	**15,717**
Subordinated debt	**-**	**-**	**-**	**165,195**	**-**	**165,195**	**165,195**
Shareholders' equity	**-**	**-**	**-**	**-**	**939,035**	**939,035**	**939,035**
Total l iabilities and shareholders' equity	**1,993,047**	**1,893,182**	**3,886,229**	**1,787,538**	**2,056,347**	**3,843,885**	**7,730,114**

30 RISK MANAGEMENT (Continued)

30.2 LIQUIDITY RISK (Continued)

The maturity profile of the assets, liabilities and equity at 31 December 2013 is as follows:

	On demand within 3 months RO'000	*3 to 12 months RO'000*	*Subtotal less than 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Subtotal over 12 months RO'000*	*Total RO'000*
Cash and balances with Central Banks	266,853	45,450	312,303	32,522	23,491	56,013	368,316
Due from banks and other money market placements (net)	199,258	29,260	228,518	-	-	-	228,518
Loans and advances (net)	363,780	155,446	519,226	392,647	1,156,326	1,548,973	2,068,199
Financial investments	102,121	3,357	105,478	27,125	-	27,125	132,603
Premises and equipment	-	-	-	-	20,104	20,104	20,104
Deferred tax asset	460	-	460	-	-	-	460
Other assets	75,923	2,218	78,141	-	-	-	78,141
Total assets	1,008,395	235,731	1,244,126	452,294	1,199,921	1,652,215	2,896,341
Due to banks and other money market deposits	87,759	42,350	130,109	96,250	-	96,250	226,359
Customers' deposits	494,630	712,949	1,207,579	578,620	392,960	971,580	2,179,159
Other liabilities	67,165	6,790	73,955	3,557	-	3,557	77,512
Taxation	5,527	-	5,527	-	-	-	5,527
Subordinated debt	-	-	-	53,200	26,500	79,700	79,700
Shareholders' equity	-	-	-	-	328,084	328,084	328,084
Total liabilities and shareholders' equity	655,081	762,089	1,417,170	731,627	747,544	1,479,171	2,896,341

	On demand within 3 months USD'000	*3 to 12 months USD'000*	*Subtotal less than 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Subtotal over 12 months USD'000*	*Total USD'000*
Cash and balances with Central Banks	693,124	118,052	811,176	84,473	61,016	145,489	956,665
Due from banks and other money market placement (net)	517,553	76,000	593,553	-	-	-	593,553
Loans and advances (net)	944,884	403,756	1,348,640	1,019,862	3,003,444	4,023,306	5,371,946
Financial investments	265,249	8,719	273,968	70,455	-	70,455	344,423
Premises and equipment	-	-	-	-	52,218	52,218	52,218
Deferred tax asset	1,195	-	1,195	-	-	-	1,195
Other assets	197,203	5,761	202,964	-	-	-	202,964
Total assets	2,619,208	612,288	3,231,496	1,174,790	3,116,678	4,291,468	7,522,964
Due to banks and other money market deposits	227,945	110,000	337,945	250,000	-	250,000	587,945
Customers' deposits	1,284,753	1,851,816	3,136,569	1,502,909	1,020,675	2,523,584	5,660,153
Other liabilities	174,455	17,636	192,091	9,239	-	9,239	201,330
Taxation	14,357	-	14,357	-	-	-	14,357
Subordinated debt	-	-	-	138,182	68,831	207,013	207,013
Shareholders' equity	-	-	-	-	852,166	852,166	852,166
Total liabilities and shareholders' equity	1,701,510	1,979,452	3,680,962	1,900,330	1,941,672	3,842,002	7,522,964

30 RISK MANAGEMENT (Continued)

30.3 MARKET RISK

The bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the bank will fluctuate 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.

- ***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 2014	**200 bps increase**	**200 bps decrease**
Earnings impact - RO'000s	**13,009**	**(13,009)**
Earnings impact - USD'000s	**33,790**	**(33,790)**

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

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

30 RISK MANAGEMENT (Continued)

30.3 MARKET RISK (Continued)

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

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2014** is as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Non-interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	**0.12%**	**8,000**	**-**	**-**	**-**	**280,832**	**288,832**
Due from banks and other money market placements (net)	**0.89%**	**140,848**	**3,850**	**-**	**-**	**235**	**144,933**
Loans, advances and financing activities for customers (net)	**5.36%**	**932,245**	**475,732**	**441,577**	**467,259**	**-**	**2,316,813**
Financial investments	**2.32%**	**702**	**27,410**	**60,491**	**19,337**	**39,584**	**147,524**
Premises and equipment	**N/A**	**-**	**-**	**-**	**-**	**23,204**	**23,204**
Deferred tax asset	**N/A**	**-**	**-**	**-**	**-**	**436**	**436**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**54,352**	**54,352**
Total assets		**1,081,795**	**506,992**	**502,068**	**486,596**	**398,643**	**2,976,094**
Due to banks and other money market deposits	**2.22%**	**102,188**	**-**	**-**	**-**	**-**	**102,188**
Customers' deposits and unrestricted investment accounts	**1.09%**	**221,008**	**679,160**	**163,820**	**13,090**	**1,100,664**	**2,177,742**
Euro medium term notes	**1.79%**	**-**	**-**	**195,223**	**-**	**-**	**195,223**
Other liabilities	**N/A**	**-**	**-**	**-**	**-**	**69,761**	**69,761**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**6,051**	**6,051**
Subordinated debt	**6.00%**	**-**	**-**	**63,600**	**-**	**-**	**63,600**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**361,529**	**361,529**
Total liabilities and shareholders' equity		**323,196**	**679,160**	**422,643**	**13,090**	**1,538,005**	**2,976,094**
Total interest rate sensitivity gap		**758,599**	**(172,168)**	**79,425**	**473,506**	**(1,139,362)**	**-**
Cumulative interest rate sensitivity gap		**758,599**	**586,431**	**665,856**	**1,139,362**	**-**	**-**

30 RISK MANAGEMENT (Continued)

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements **at 31 December 2014** is as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Non interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	**0.12%**	**20,779**	**-**	**-**	**-**	**729,434**	**750,213**
Due from banks and other money market placements (net)	**0.89%**	**365,839**	**10,000**	**-**	**-**	**610**	**376,449**
Loans, advances and financing activities for customers (net)	**5.36%**	**2,421,415**	**1,235,668**	**1,146,953**	**1,213,660**	**-**	**6,017,696**
Financial investments	**2.32%**	**1,823**	**71,195**	**157,119**	**50,226**	**102,816**	**383,179**
Premises and equipment	**N/A**	**-**	**-**	**-**	**-**	**60,270**	**60,270**
Deferred tax asset	**N/A**	**-**	**-**	**-**	**-**	**1,132**	**1,132**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**141,175**	**141,175**
Total assets		**2,809,856**	**1,316,863**	**1304,072**	**1,263,886**	**1,035,437**	**7,730,114**
Due to banks and other money market deposits	**2.22%**	**265,423**	**-**	**-**	**-**	**-**	**265,423**
Customers' deposits and unrestricted investment accounts	**1.09%**	**574,047**	**1,764,052**	**425,506**	**34,000**	**2,858,868**	**5,656,473**
Euro medium term notes	**1.79%**	**-**	**-**	**507,073**	**-**	**-**	**507,073**
Other liabilities	**N/A**	**-**	**-**	**-**	**-**	**181,198**	**181,198**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**15,717**	**15,717**
Subordinated debt	**6.00%**	**-**	**-**	**165,195**	**-**	**-**	**165,195**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**939,035**	**939,035**
Total liabilities and shareholders' equity		**839,470**	**1,764,052**	**1,097,774**	**34,000**	**3,994,818**	**7,730,114**
Total interest rate sensitivity gap		**1,970,386**	**(447,189)**	**206,298**	**1,229,886**	**(2,959,382)**	**-**
Cumulative interest rate sensitivity gap		**1,970,386**	**1,523,197**	**1,729,495**	**2,959,381**	**-**	**-**

30 RISK MANAGEMENT (Continued)

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2013 is as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 year RO'000*	*Over 5 year RO'000*	*Non interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	0.12%	105,000	-	-	-	263,316	368,316
Due from banks and other money market placements (net)	1.78%	228,518	-	-	-	-	228,518
Loans and advances (net)	5.49%	812,003	384,922	417,422	453,852	-	2,068,199
Financial investments	2.66%	13,201	7,552	85,083	-	26,767	132,603
Premises and equipment	N/A	-	-	-	-	20,104	20,104
Deferred tax asset	N/A	-	-	-	-	460	460
Other assets	N/A	-	-	-	-	78,141	78,141
Total assets		1,158,722	392,474	502,505	453,852	388,788	2,896,341
Due to banks and other money market deposits	1.96%	226,359	-	-			226,359
Customers' deposits	1.66%	196,240	770,013	319,393	-	893,513	2,179,159
Other liabilities	N/A	-	-	-	-	77,512	77,512
Taxation	N/A	-	-	-	-	5,527	5,527
Subordinated debt	6.10%	-	-	37,100	42,600	-	79,700
Shareholders' equity	N/A	-	-	-	-	328,084	328,084
Total liabilities and shareholders' equity		422,599	770,013	356,493	42,600	1,304,636	2,896,341
Total interest rate sensitivity gap		736,123	(377,539)	146,012	411,252	(915,848)	-
Cumulative interest rate sensitivity gap		736,123	358,584	504,596	915,848	-	-

30 RISK MANAGEMENT (Continued)

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2013 is as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*1 to 5 year USD'000*	*Over 5 year USD'000*	*Non interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	0.12%	272,727	-	-	-	683,938	956,665
Due from banks and other money market placements (net)	1.78%	593,553	-	-	-	-	593,553
Loans and advances (net)	5.49%	2,109,100	999,797	1,084,213	1,178,836	-	5,371,946
Financial investments	2.66%	34,288	19,616	220,994	-	69,525	344,423
Premises and equipment	N/A	-	-	-	-	52,218	52,218
Deferred tax asset	N/A	-	-	-	-	1,195	1,195
Other assets	N/A	-	-	-	-	202,964	202,964
Total assets		3,009,668	1,019,413	1,305,207	1,178,836	1,009,840	7,522,964
Due to banks and other money market deposits	1.96%	587,945	-	-	-	-	587,945
Customers' deposits	1.66%	509,714	2,000,034	829,592	-	2,320,813	5,660,153
Other liabilities	N/A	-	-	-	-	201,330	201,330
Taxation	N/A	-	-	-	-	14,357	14,357
Subordinated debt	6.10%	-	-	96,364	110,649	-	207,013
Shareholders' equity	N/A	-	-	-	-	852,166	852,166
Total liabilities and shareholders' equity		1,097,659	2,000,034	925,956	110,649	3,388,666	7,522,964
Total interest rate sensitivity gap		1,912,009	(980,621)	379,251	1,068,187	(2,378,827)	-
Cumulative interest rate sensitivity gap		1,912,009	931,388	1,310,639	2,378,826	-	-

- *Currency risk*

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

The foreign exchange positions in the books of the bank are largely held on account of customers and any variations in the exchange rates are absorbed by the customers.

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

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

2013 USD'000	***2014 USD'000***		***2014 RO'000***	*2013 RO'000*
195,031	**178,538**	US Dollar	**68,737**	75,087
608	**1,195**	UAE Dirham	**460**	234
1,577	**8,034**	Others	**3,093**	607

30 RISK MANAGEMENT (Continued)

30.4 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. 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 will be reported to the Board Risk Committee. In addition to this, the bank has an operational loss reporting database.

30.5 STRATEGIC RISKS

The Bank monitors strategic risks through regular reporting at the Board Risk Committee. This also includes reviews of Human Resource related risks and the monitoring of strategic project risks.

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 2014** is as follows:

	Sultanate of Oman RO'000	*UAE RO'000*	*Egypt RO'000*	*Others RO'000*	*Total RO'000*
Cash and balances with Central Banks	**275,011**	**12,562**	**1,259**	**-**	**288,832**
Due from banks and other money market placements (net)	**-**	**15,595**	**63**	**129,275**	**144,933**
Loans, advances and financing activities for customers (net)	**2,153,113**	**136,719**	**2**	**26,979**	**2,316,813**
Financial investments	**139,952**	**2,691**	**-**	**4,881**	**147,524**
Premises and equipment	**22,543**	**353**	**308**	**-**	**23,204**
Deferred tax asset	**436**	**-**	**-**	**-**	**436**
Other assets	**44,447**	**9,004**	**901**	**-**	**54,352**
Total assets	**2,635,502**	**176,924**	**2,533**	**161,135**	**2,976,094**
Due to banks and other money market deposits	**3,028**	**20,749**	**6,545**	**71,866**	**102,188**
Customers' deposits and unrestricted investment accounts	**2,073,867**	**101,436**	**2,439**	**-**	**2,177,742**
Euro medium term notes	**195,223**	**-**	**-**	**-**	**195,223**
Other liabilities	**58,834**	**10,362**	**565**	**-**	**69,761**
Taxation	**5,414**	**321**	**316**	**-**	**6,051**
Subordinated debt	**63,600**	**-**	**-**	**-**	**63,600**
Shareholders' equity	**354,751**	**6,106**	**672**	**-**	**361,529**
Liabilities and shareholders' equity	**2,754,717**	**138,974**	**10,537**	**71,866**	**2,976,094**
Contingent liabilities	**406,189**	**48,193**	**14**	**110,586**	**564,982**

31 CONCENTRATIONS (continued)

	Sultanate of Oman USD'000	*UAE USD'000*	*Egypt USD'000*	*Others USD'000*	*Total USD'000*
Cash and balances with Central Banks	**714,314**	**32,629**	**3,270**	**-**	**750,213**
Due from banks and other money market placements (net)	**-**	**40,506**	**164**	**335,779**	**376,449**
Loans, advances and financing activities for customers (net)	**5,592,502**	**355,114**	**5**	**70,075**	**6,017,696**
Financial investments	**363,512**	**6,990**	**-**	**12,677**	**383,179**
Premises and equipment	**58,553**	**917**	**800**	**-**	**60,270**
Deferred tax asset	**1,132**	**-**	**-**	**-**	**1,132**
Other assets	**115,448**	**23,387**	**2,340**	**-**	**141,175**
Total assets	**6,845,461**	**459,543**	**6,579**	**418,531**	**7,730,114**
Due to banks and other money market deposits	**7,865**	**53,894**	**17,000**	**186,664**	**265,423**
Customers' deposits and unrestricted investment accounts	**5,386,668**	**263,470**	**6,335**	**-**	**5,656,473**
Euro medium term notes	**507,073**	**-**	**-**	**-**	**507,073**
Other liabilities	**152,816**	**26,914**	**1,468**	**-**	**181,198**
Taxation	**14,062**	**834**	**821**	**-**	**15,717**
Subordinated debt	**165,195**	**-**	**-**	**-**	**165,195**
Shareholders' equity	**921,430**	**15,860**	**1,745**	**-**	**939,035**
Liabilities and shareholders' equity	**7,155,109**	**360,972**	**27,369**	**186,664**	**7,730,114**
Contingent liabilities	**1,055,037**	**125,177**	**36**	**287,236**	**1,467,486**

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2013 is as follows:

	Sultanate of Oman RO'000	*UAE RO'000*	*Egypt RO'000*	*Others RO'000*	*Total RO'000*
Cash and balances with Central Banks	348,454	10,875	8,987	-	368,316
Due from banks and other money market placements (net)	-	27,275	54	201,189	228,518
Loans and advances (net)	1,991,304	45,551	1	31,343	2,068,199
Financial investments	123,360	4,635	1,399	3,209	132,603
Premises and equipment	19,480	308	316	-	20,104
Deferred tax asset	460	-	-	-	460
Other assets	74,551	2,130	1,460	-	78,141
Total assets	2,557,609	90,774	12,217	235,741	2,896,341
Due to banks and other money market deposits	31,816	296	6,478	187,769	226,359
Customers' deposits	2,079,303	50,236	8,974	40,646	2,179,159
Other liabilities	74,252	2,635	625	-	77,512
Taxation	5,190	1	336	-	5,527
Subordinated debt	79,700	-	-	-	79,700
Shareholders' equity	322,178	4,820	1,086	-	328,084
Liabilities and shareholders' equity	2,592,439	57,988	17,499	228,415	2,896,341
Contingent liabilities	320,261	52,338	298	189,853	562,750

31 CONCENTRATIONS (Continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2013 is as follows:

	Sultanate of Oman USD'000	*UAE USD'000*	*Egypt USD'000*	*Others USD'000*	*Total USD'000*
Cash and balances with Central Banks	905,075	28,247	23,343	-	956,665
Due from banks and other money market placements (net)	-	70,844	140	522,569	593,553
Loans and advances (net)	5,172,218	118,314	3	81,411	5,371,946
Financial investments	320,416	12,039	3,634	8,334	344,423
Premises and equipment	50,597	800	821	-	52,218
Deferred tax asset	1,195	-	-	-	1,195
Other assets	193,640	5,532	3,792	-	202,964
Total assets	6,643,141	235,776	31,733	612,314	7,522,964
Due to banks and other money market deposits	82,639	769	16,826	487,711	587,945
Customers' deposits	5,400,787	130,483	23,309	105,574	5,660,153
Other liabilities	192,863	6,844	1,623	-	201,330
Taxation	13,481	3	873	-	14,357
Subordinated debt	207,013	-	-	-	207,013
Shareholders' equity	836,826	12,519	2,821	-	852,166
Liabilities and shareholders' equity	6,733,609	150,618	45,452	593,285	7,522,964
Contingent liabilities	831,847	135,943	774	493,125	1,461,688

32 SEGMENTAL INFORMATION

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

- Retail banking offers various products and facilities to individual customers to meet everyday banking needs.
- Corporate banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance and foreign exchange.
- Investment banking offers investment products such as asset management, corporate advisory and brokerage services to retail customers as well as high net worth individuals and institutional clients.
- Treasury provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk.
- International banking offers services such as issuance of guarantee, risk participation, syndications, etc.

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

Segment information is as follows:

Year ended 31 December 2014	*Retail banking RO'000*	*Corporate banking RO'000*	*Investment banking RO'000*	*Treasury and international banking RO'000*	*Head office RO'000*	*Islamic banking RO'000*	*Total RO'000*
Net income	**42,214**	**37,750**	**(333)**	**627**	**443**	**1,760**	**82,460**
Other income	**12,720**	**8,030**	**4,953**	**3,391**	**2,600**	**75**	**31,770**
Operating profit	**33,969**	**41,248**	**3,941**	**3,413**	**(23,166)**	**405**	**59,810**
Impairment provisions (net)	**120**	**(1,556)**	**(331)**	**15**	**-**	**(564)**	**(2,316)**
Net Profit	**34,089**	**39,692**	**3,610**	**3,428**	**(30,371)**	**(180)**	**50,268**
Total assets	**987,366**	**1,292,620**	**39,280**	**57,196**	**509,444**	**90,188**	**2,976,094**
Total liabilities and equity	**881,577**	**1,208,271**	**42,054**	**-**	**754,003**	**90,189**	**2,976,094**

Year ended 31 December 2014	*Retail banking USD'000*	*Corporate banking USD'000*	*Investment banking USD'000*	*Treasury and international banking USD'000*	*Head office USD'000*	*Islamic banking USD'000*	*Total USD'000*
Net income	**109,647**	**98,052**	**(866)**	**1,628**	**1,150**	**4,571**	**214,182**
Other income	**33,040**	**20,858**	**12,866**	**8,809**	**6,751**	**195**	**82,519**
Operating profit	**88,231**	**107,138**	**10,236**	**8,865**	**(60,171)**	**1,052**	**155,351**
Impairment provisions (net)	**312**	**(4,042)**	**(860)**	**39**	**0**	**(1,465)**	**(6,016)**
Net Profit	**88,543**	**103,096**	**9,376**	**8,904**	**(78,885)**	**(468)**	**130,566**
Total assets	**2,564,587**	**3,357,455**	**102,026**	**148,561**	**1,323,230**	**234,255**	**7,730,114**
Total liabilities and equity	**2,289,810**	**3,138,366**	**109,231**	**-**	**1,958,450**	**234,257**	**7,730,114**

32 SEGMENTAL INFORMATION (Continued)

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

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

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

Segment information by geography is as follows:

For the year ended 31 December 2014	***Oman*** ***RO'000***	***UAE*** ***RO'000***	***Egypt*** ***RO'000***	***Total*** ***RO'000***
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	**115,712**	**3,814**	**68**	**119,594**
Interest income – internal	**88**	**26**	**177**	**291**
Other operating income – external	**29,831**	**1,783**	**156**	**31,770**
Other operating income – internal	**168**	**-**	**-**	**168**
Total	**145,799**	**5,623**	**401**	**151,823**
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	**36,296**	**723**	**115**	**37,134**
Interest costs – internal	**57**	**112**	**122**	**291**
Other operating expenses – external	**48,367**	**2,450**	**600**	**51,417**
Other operating expenses – internal	**21**	**141**	**6**	**168**
Depreciation	**2,873**	**129**	**1**	**3,003**
Credit loss expense - customer loan	**11,056**	**1,242**	**1**	**12,299**
Recoveries	**(9,460)**	**(781)**	**(58)**	**(10,299)**
Impairment losses on available for sale investments	**331**	**-**	**-**	**331**
Credit loss expense – bank loans	**(15)**	**-**	**-**	**(15)**
Provision – others	**-**	**-**	**-**	**-**
Taxation	**6,890**	**321**	**15**	**7,226**
Total	**96,416**	**4,337**	**802**	**101,555**
Segment profit for the year	**49,383**	**1,286**	**(401)**	**50,268**
Other information				
Segment assets	**2,780,699**	**175,012**	**20,383**	**2,976,094**
Segment capital expenses	**5,937**	**182**	**-**	**6,119**

32 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2014	*Oman USD'000*	*UAE USD'000*	*Egypt USD'000*	*Total USD'000*
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	300,551	9,906	177	310,634
Interest income – internal	228	68	460	756
Other operating income – external	77,483	4,631	405	82,519
Other operating income – internal	436	-	-	436
Total	378,698	14,605	1,042	394,345
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	94,275	1,878	299	96,452
Interest costs – internal	148	291	317	756
Other operating expenses – external	125,628	6,364	1,558	133,550
Other operating expenses – internal	54	366	16	436
Depreciation	7,462	335	3	7,800
Credit loss expense - customer loan	28,716	3226	3	31,945
Recoveries	(24,570)	(2,029)	(151)	(26,750)
Impairment losses on available for sale investments	860	-	-	860
Credit loss expense – bank loans	(39)	-	-	(39)
Provision – others	-	-	-	-
Taxation	17,896	834	39	18,769
Total	250,430	11,265	2,084	263,779
Segment profit for the year	128,268	3,340	(1,042)	130,566
Other information				
Segment assets	7,222,594	454,577	52,943	7,730,114
Segment capital expenses	15,421	473	-	15,894

32 SEGMENTAL INFORMATION (Continued)

Segment information is as follows:

Year ended 31 December 2013	*Retail banking RO'000*	*Corporate banking RO'000*	*Investment banking RO'000*	*Treasury and international banking RO'000*	*Head office RO'000*	*Islamic banking RO'000*	*Total RO'000*
Net income	39,898	30,002	(54)	1,938	2,955	228	74,967
Other income	13,527	6,202	3,490	3,418	2,294	24	28,955
Operating profit	33,219	32,144	2,691	4,691	(16,893)	(510)	55,342
Impairment provisions (net)	(2,998)	(5,106)	5	(139)	-	(136)	(8,374)
Net Profit	30,221	27,038	2,696	4,552	(22,484)	(646)	41,377
Total assets	1,023,915	1,067,325	29,175	100,755	660,496	14,675	2,896,341
Total liabilities and equity	788,234	1,326,082	52,706	-	714,644	14,675	2,896,341

Year ended 31 December 2013	*Retail banking USD'000*	*Corporate banking USD'000*	*Investment banking USD'000*	*Treasury and international banking USD'000*	*Head office USD'000*	*Islamic banking USD'000*	*Total USD'000*
Net income	103,631	77,927	(140)	5,034	7,675	592	194,719
Other income	35,135	16,109	9,065	8,878	5,959	62	75,208
Operating profit	86,284	83,491	6,990	12,184	(43,879)	(1,325)	143,745
Impairment provisions (net)	(7,788)	(13,262)	13	(361)	-	(353)	(21,751)
Net Profit	78,496	70,229	7,003	11,823	(58,400)	(1,678)	107,473
Total assets	2,659,519	2,772,273	75,779	261,701	1,715,575	38,117	7,522,964
Total liabilities and equity	2,047,361	3,444,369	136,899	-	1,856,218	38,117	7,522,964

32 SEGMENTAL INFORMATION (Continued)

Segment information by geography is as follows:

For the year ended 31 December 2013	***Oman***	***UAE***	***Egypt***	***Total***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	114,656	1,784	525	116,965
Interest income – internal	9	39	879	927
Other operating income – external	27,567	870	518	28,955
Other operating income – internal	130	-	-	130
Total	142,362	2,693	1,922	146,977
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	41,056	483	459	41,998
Interest costs – internal	78	48	801	927
Other operating expenses – external	43,023	1,690	528	45,241
Other operating expenses – internal	-	67	63	130
Depreciation	3,157	125	57	3,339
Credit loss expense - customer loan	17,883	1,305	5	19,193
Recoveries	(9,170)	(1,028)	(863)	(11,061)
Impairment losses on available for sale investments	11	-	-	11
Credit loss expense – bank loans	139	-	-	139
Provision – others	-	-	92	92
Taxation	5,465	1	125	5,591
Total	101,642	2,691	1,267	105,600
Segment profit for the year	40,720	2	655	41,377
Other information				
Segment assets	2,808,781	59,795	27,765	2,896,341
Segment capital expenses	2,872	145	-	3,017

32 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2013	***Oman***	***UAE***	***Egypt***	***Total***
	USD'000	***USD'000***	***USD'000***	***USD'000***
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	297,808	4,634	1,363	303,805
Interest income – internal	23	101	2,283	2,407
Other operating income – external	71,603	2,260	1,345	75,208
Other operating income – internal	338	-	-	338
Total	369,772	6,995	4,991	381,758
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	106,639	1,255	1,192	109,086
Interest costs – internal	203	125	2,079	2,407
Other operating expenses – external	111,748	4,390	1,371	117,509
Other operating expenses – internal	-	174	164	338
Depreciation	8,200	325	148	8,673
Credit loss expense - customer loan	46,450	3,389	13	49,852
Recoveries	(23,817)	(2,671)	(2,242)	(28,730)
Impairment losses on available for sale investments	29	-	-	29
Credit loss expense – bank loans	361	-	-	361
Provision – others	-	-	238	238
Taxation	14,194	3	325	14,522
Total	264,007	6,990	3,288	274,285
Segment profit for the year	105,765	5	1,703	107,473
Other information				
Segment assets	7,295,535	155,312	72,117	7,522,964
Segment capital expenses	7,460	377	-	7,837

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

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:

Total	***Level 2***	***Level 1***		***Level 1***	***Level 2***	***Total***
USD'000	***USD'000***	***USD'000***	***31 December 2014***	***RO'000***	***RO'000***	***RO'000***
			Investments – held for trading:			
102,169	**-**	**102,169**	Government development bonds	**39,335**	**-**	**39,335**
102,169	**-**	**102,169**	**Total**	**39,335**	**-**	**39,335**
			Investments - available for sale:			
179,278	**-**	**179,278**	Government development bonds	**69,022**	**-**	**69,022**
61,039	**-**	**61,039**	Quoted equities	**23,500**	**-**	**23,500**
35,821	**35,821**	**-**	Other unquoted equities	**-**	**13,791**	**13,791**
276,138	**35,821**	**240,317**	**Total**	**92,522**	**13,791**	**106,313**
378,307	**35,821**	**342,486**	**Total financial assets**	**131,857**	**13,791**	**145,648**

Total	*Level 2*	*Level 1*		*Level 1*	*Level 2*	*Total*
USD'000	*USD'000*	*USD'000*	*31 December 2013*	*RO'000*	*RO'000*	*RO'000*
			Investments – held for trading:			
69,506	-	69,506	Government development bonds	26,760	-	26,760
69,506	-	69,506	Total	26,760	-	26,760
			Investments - available for sale:			
199,138	-	199,138	Government development bonds	76,668	-	76,668
32,595	-	32,595	Quoted equities	12,549	-	12,549
38,569	38,569	-	Other unquoted equities	-	14,849	14,849
270,302	38,569	231,733	Total	89,217	14,849	104,066
339,808	38,569	301,239	Total financial assets	115,977	14,849	130,826

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 2014	***Positive fair value RO'000 (note 9)***	***Negative fair value RO'000 (note 13)***	***Notional amount RO'000***	***Notional amounts by term to maturity***		
				Within 3 months RO'000	***3 - 12 months RO'000***	***1 - 5 years RO'000***
Fair value hedge	**2,723**	**-**	**192,500**	**-**	**-**	**192,500**
Interest rate swaps	**5,252**	**(5,252)**	**130,872**	**2,125**	**11,690**	**117,057**
Forward purchase contracts	**7**	**(164)**	**229,953**	**86,860**	**143,093**	**-**
Forward sales contracts	**1,047**	**(145)**	**229,953**	**86,718**	**143,235**	**-**
Total	**9,029**	**(5,561)**	**783,278**	**175,703**	**298,018**	**309,557**
Total – USD'000	**23,452**	**(14,444)**	**2,034,488**	**456,371**	**774,073**	**804,044**

31 December 2013	*Positive fair value RO'000 (note 9)*	*Negative fair value RO'000 (note 13)*	*Notional amount RO'000*	*Notional amounts by term to maturity*		
				Within 3 months RO'000	*3 - 12 months RO'000*	*1 - 5 years RO'000*
Interest rate swaps	5,261	(5,261)	144,155	2,125	11,690	130,340
Forward purchase contracts	53	(49)	49,505	39,660	9,845	-
Forward sales contracts	54	(49)	49,505	39,663	9,842	-
Currency options	16	(16)	4,244	3,820	424	-
Commodity hedging	23	(23)	2,193	2,193	-	-
Total	5,407	(5,398)	249,602	87,461	31,801	130,340
Total – USD'000	14,044	(14,021)	648,317	227,172	82,600	338,545

35 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2013 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 2013.

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the financial statements

We have audited the financial statements of National Bank of Oman SAOG ('the bank'), set out on pages 2 to 55 which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the Rules and Guidelines on disclosure issued by the Capital Market Authority and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion the financial statements as at and for the year ended 31 December 2013, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Company Law of 1974, as amended.

22 January 2014

Paul Callaghan

C.R. No. 1/30936/6

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

2012 USD'000	***2013 USD'000***		*Notes*	***2013 RO'000***	*2012 RO'000*
		ASSETS			
560,358	**956,665**	Cash and balances with Central Banks	4	**368,316**	215,738
564,314	**593,553**	Due from banks and other money market placements (net)	5	**228,518**	217,261
4,965,096	**5,371,946**	Loans, advances and financing activities for customers (net)	6	**2,068,199**	1,911,562
287,590	**344,423**	Financial investments	7	**132,603**	110,722
53,242	**52,218**	Premises and equipment	8	**20,104**	20,498
1,062	**1,195**	Deferred tax asset	13	**460**	409
160,073	**202,964**	Other assets	9	**78,141**	61,628
6,591,735	**7,522,964**	**TOTAL ASSETS**		**2,896,341**	2,537,818
		LIABILITIES, SUBORDINATED DEBT AND EQUITY			
		LIABILITIES			
546,616	**587,945**	Due to banks and other money market deposits	10	**226,359**	210,447
4,900,660	**5,660,153**	Customers' deposits and unrestricted investment accounts	11	**2,179,159**	1,886,754
178,644	**201,330**	Other liabilities	12	**77,512**	68,778
14,771	**14,357**	Taxation	13	**5,527**	5,687
5,640,691	**6,463,785**	**TOTAL LIABILITIES**		**2,488,557**	2,171,666
		SUBORDINATED DEBT			
160,260	**207,013**	Subordinated debt	14	**79,700**	61,700
		EQUITY			
287,799	**287,799**	Share capital	15	**110,803**	110,803
89,519	**89,519**	Share premium	16	**34,465**	34,465
102,821	**102,821**	Legal reserve	17	**39,586**	39,586
11,478	**11,478**	General reserve	18	**4,419**	4,419
79,790	**116,636**	Other non-distributable reserves	19	**44,905**	30,719
50,366	**43,169**	Proposed cash dividend	20	**16,620**	19,391
-	**28,779**	Proposed stock dividend	20	**11,080**	-
169,011	**171,965**	Retained earnings		**66,206**	65,069
790,784	**852,166**	**TOTAL EQUITY**		**328,084**	304,452
6,591,735	**7,522,964**	**TOTAL LIABILITIES, SUBORDINATED DEBT AND EQUITY**		**2,896,341**	2,537,818

The financial statements were authorised for issue on 22nd January 2014 in accordance with a resolution of the Board of Directors.

Chairman

Chief Executive Officer

The attached notes 1 to 34 form integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

2012 USD'000	2013 USD'000		Notes	2013 RO'000	2012 RO'000
278,184	**302,935**	Interest income	22	**116,630**	107,101
(103,693)	**(108,808)**	Interest expense	23	**(41,891)**	(39,922)
174,491	**194,127**	**Net interest income**		**74,739**	67,179
-	**870**	Income from Islamic financing and Investment activities		**335**	-
-	**(278)**	Unrestricted investment account holders' share of profit		**(107)**	-
-	**592**	**Net Income from Islamic financing and Investment activities**		**228**	-
81,729	**75,208**	Other operating income	24	**28,955**	31,466
256,220	**269,927**	**Operating income**		**103,922**	98,645
(68,917)	**(74,275)**	Staff costs		**(28,596)**	(26,533)
(42,665)	**(43,234)**	Other operating expenses	25	**(16,645)**	(16,426)
(9,678)	**(8,673)**	Depreciation	8	**(3,339)**	(3,726)
(121,260)	**(126,182)**	**Total operating expenses**		**(48,580)**	(46,685)
134,960	**143,745**	**PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX**		**55,342**	51,960
(44,002)	**(49,852)**	Credit loss expense – customers' loan	6	**(19,193)**	(16,941)
9,039	**9,192**	Recoveries and releases from provision for credit losses	6	**3,539**	3,480
25,252	**19,538**	Recoveries from loans and advances written off		**7,522**	9,722
(4,003)	**(29)**	Impairment losses on available for sale investments	7	**(11)**	(1,541)
-	**(361)**	Credit loss expense - bank loans		**(139)**	-
-	**(238)**	Provision – others		**(92)**	-
(13,714)	**(21,750)**	**TOTAL IMPAIRMENT LOSSES (NET)**		**(8,374)**	(5,280)
121,246	**121,995**	**PROFIT BEFORE TAX**		**46,968**	46,680
(15,630)	**(14,522)**	Taxation	13	**(5,591)**	(6,018)
105,616	**107,473**	**PROFIT FOR THE YEAR**		**41,377**	40,662
		OTHER COMPREHENSIVE INCOME			
3,868	**4,400**	Net movement on available for sale investments		**1,694**	1,489
(21)	**(125)**	Tax effect of net movement on available for sale investments		**(48)**	(8)
3,847	**4,275**	**OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR**		**1,646**	1,481
109,463	**111,748**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**43,023**	42,143
		Earnings per share:			
0.10	**0.10**	(USD) – Basic and diluted – (RO)	27	**0.037**	0.037

The attached notes 1 to 34 form integral part of these financial statements.

National Bank of Oman SAOG

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

(RO'000)	*Share capital*	*Share premium*	*Legal reserve*	*General reserve*	*Other non-distributable reserves*	*Proposed cash dividend*	*Proposed stock dividend*	*Retained earnings*	*Total*
					(RO'000)				
Balance at 1 January 2012	108,100	34,465	38,642	4,419	18,298	18,918	2,703	55,682	281,227
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	-	-	40,662	40,662
Net movement on available for sale investments	-	-	-	-	1,481	-	-	-	1,481
Transactions with owners recorded directly in equity									
Issue of Shares	2,703	-	-	-	-	-	(2,703)	-	-
Dividend paid	-	-	-	-	-	(18,918)	-	-	(18,918)
Proposed cash dividend	-	-	-	-	-	19,391	-	(19,391)	-
Proposed stock dividend	-	-	-	-	-	-	-	-	-
Transfer to subordinated debt reserve	-	-	-	-	10,940	-	-	(10,940)	-
Transfer to legal reserve	-	-	944	-	-	-	-	(944)	-
Balance at 31 December 2012	110,803	34,465	39,586	4,419	30,719	19,391	-	65,069	304,452
Balance at 1 January 2013	**110,803**	**34,465**	**39,586**	**4,419**	**30,719**	**19,391**	**-**	**65,069**	**304,452**
Total comprehensive income for the year									
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41,377**	**41,377**
Net movement on available for sale investments	**-**	**-**	**-**	**-**	**1,646**	**-**	**-**	**-**	**1,646**
Transactions with owners recorded directly in equity									
Dividend paid	**-**	**-**	**-**	**-**	**-**	**(19,391)**	**-**	**-**	**(19,391)**
Proposed cash dividend	**-**	**-**	**-**	**-**	**-**	**16,620**	**-**	**(16,620)**	**-**
Proposed stock dividend	**-**	**-**	**-**	**-**	**-**	**-**	**11,080**	**(11,080)**	**-**
Transfer to subordinated debt reserve	**-**	**-**	**-**	**-**	**12,540**	**-**	**-**	**(12,540)**	**-**
Transfer to legal reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2013	**110,803**	**34,465**	**39,586**	**4,419**	**44,905**	**16,620**	**11,080**	**66,206**	**328,084**
Balance at 1 January 2013 – In USD'000	287,799	89,519	102,821	11,478	79,790	50,366	-	169,011	790,784
Balance at 31 December 2013 – In USD'000	**287,799**	**89,519**	**102,821**	**11,478**	**116,636**	**43,169**	**28,779**	**171,965**	**852,166**

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF CASH FLOW

For the year ended 31 December 2013

2012 USD'000	**2013 USD'000**		Notes	**2013 RO'000**	2012 RO'000
		OPERATING ACTIVITIES			
121,246	**121,994**	Profit before taxation		**46,968**	46,680
		Adjustments for:			
9,678	**8,673**	Depreciation	8	**3,339**	3,726
30,961	**35,876**	Provision for credit losses (net)		**13,812**	11,920
4,003	**29**	Impairment losses on available for sale investments	7	**11**	1,541
-	**238**	Provision against collateral assets		**92**	-
(790)	**(112)**	Profit on sale of equipment (net)		**(43)**	(304)
(990)	**(4,416)**	Profit on sale of investments	24	**(1,700)**	(381)
(8,402)	**(8,691)**	Investment income		**(3,346)**	(3,235)
155,706	**153,592**	Operating profit before changes in operating assets and liabilities		**59,133**	59,947
(88,184)	**50,623**	Due from banks and other money market placements		**19,490**	(33,951)
(68,000)	**84,998**	Due to banks and other money market deposits		**32,724**	(26,180)
(656,374)	**(442,725)**	Loans and advances to customers		**(170,449)**	(252,704)
(1,709)	**(43,130)**	Other assets		**(16,605)**	(658)
745,273	**759,494**	Customers' deposits		**292,405**	286,930
9,990	**22,686**	Other liabilities		**8,734**	3,846
96,702	**585,538**	**Cash from operations**		**225,432**	37,230
(14,247)	**(14,938)**	Taxes paid		**(5,751)**	(5,485)
82,455	**570,600**	**Net cash from operating activities**		**219,681**	31,745
		INVESTING ACTIVITIES			
(55,514)	**(96,909)**	Purchase of non-trading investments		**(37,310)**	(21,373)
15,158	**48,893**	Proceeds from sale of non-trading investments		**18,824**	5,836
(10,171)	**(7,836)**	Purchase of premises and equipment	8	**(3,017)**	(3,916)
1,265	**221**	Disposal of premises and equipment		**85**	487
5,992	**6,943**	Income from bond and other investments	24	**2,673**	2,307
2,410	**1,748**	Dividend income	24	**673**	928
416	**(211)**	Translation differences on premises and equipment and tax		**(81)**	160
(40,444)	**(47,151)**	**Net cash used in investing activities**		**(18,153)**	(15,571)
		FINANCING ACTIVITIES			
(49,138)	**(50,366)**	Payment of dividend		**(19,391)**	(18,918)
18,182	**46,753**	Net movement in subordinated debt	14	**18,000**	7,000
(30,956)	**(3,613)**	**Net cash (used in) / from financing activities**		**(1,391)**	(11,918)
11,055	**519,836**	**INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS**		**200,137**	4,256
714,083	**725,138**	Cash and cash equivalents at the beginning of the year		**279,178**	274,922
725,138	**1,244,974**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**479,315**	279,178
		REPRESENTING:			
559,060	**955,366**	Cash and balances with Central Banks	4	**367,816**	215,238
166,078	**289,608**	Deposits and balances with other banks and financial institutions (net)		**111,499**	63,940
725,138	**1,244,974**			**479,315**	279,178

The attached notes 1 to 34 form integral 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 banking, wholesale banking, investment banking services and Islamic banking within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on Muscat Stock Exchange.

The bank employed 1,370 employees as at 31 December 2013 (2012: 1,352).

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 investment 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 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:

Going concern

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

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.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting judgments and estimates (continued)

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

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.

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 mathematical 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.

Deferred tax assets

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

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 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

IFRS 12 – Disclosure of Interests in Other Entities (Investment funds) (effective on or after 1 January 2014)

IFRS 9 – Financial Instruments – (effective on or after 1 January 2016)

IAS 32 – Financial Instruments: Presentation – (effective on or after 1 January 2016)

3 SIGNIFICANT ACCOUNTING POLICIES

During the period, the Bank has adopted the following standards effective for the annual period beginning on or after 1 January 2013. The new standards do not have any material impact to the Group, but they will result in extensive additional disclosures:

- IAS 1 (amendment) - Presentation of items of other comprehensive income
- IFRS 13 - Fair value measurement

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 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 recognizing 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.

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 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available for sale

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 profit or loss for the year. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of 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’.

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’.

Determination of fair values

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and equipment (continued)

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.

Derecognition of financial assets and financial liabilities

Financial assets:

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

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

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

Financial liabilities:

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

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.

Deposits

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

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 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Financial g**uarantees**
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.

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.

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 recognized in the profit or loss for the year.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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'.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

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.

Interest and similar income and expense (continued)
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'

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Foreign currencies

(i) Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange 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. Realised and unrealised gains and losses are dealt with in profit or loss for the year.

(iii) As at the reporting date, the assets and liabilities of overseas branches are translated into the bank’s presentation currency at the rate of exchange as at the reporting date, and their statement of comprehensive incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in ‘Other operating expenses’ or ‘Other operating income’. As the functional currencies of the bank's overseas branches are pegged to Rial Omani, there are no major exchange differences arising on translation.

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.

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 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Segment reporting
The bank's segmental reporting is based on the following operating segments: retail banking, corporate banking, investment banking, treasury and international banking and head office functions. 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.

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.

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.

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.

4 CASH AND BALANCES WITH CENTRAL BANKS

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
80,974	**94,904**	Cash	**36,538**	31,175
9,234	**-**	Treasury bills with Central Banks	**-**	3,555
64,935	**272,727**	Certificates of deposit with Central Banks	**105,000**	25,000
403,916	**587,735**	Other balances with Central Banks	**226,278**	155,508
559,059	**955,366**	**Cash and cash equivalents**	**367,816**	215,238
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
560,358	**956,665**	**Cash and balances with Central Banks**	**368,316**	215,738

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

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

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
212,636	**36,000**	Loans and advances to banks	**13,860**	81,865
295,722	**488,735**	Placement with banks	**188,163**	113,853
73,073	**69,179**	Demand balances	**26,634**	28,133
581,431	**593,914**	**Due from banks and other money market placements**	**228,657**	223,851
(16,940)	**(361)**	Less: allowance for credit losses	**(139)**	(6,522)
(177)	**-**	Less: reserved interest	**-**	(68)
564,314	**593,553**	**Net due from banks and other money market placements**	**228,518**	217,261

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

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
102,935	**140,956**	Overdrafts	**54,268**	39,630
2,502,774	**2,744,831**	Personal loans	**1,056,760**	963,568
2,354,109	**2,471,783**	Other loans	**951,636**	906,332
148,795	**157,722**	Loans against trust receipts	**60,723**	57,286
50,847	**52,262**	Bills discounted	**20,121**	19,576
-	**34,631**	Islamic financing activities	**13,333**	-
5,159,460	**5,602,185**	**Gross loans and advances**	**2,156,841**	1,986,392
(150,652)	**(175,979)**	Allowance for credit losses	**(67,752)**	(58,001)
(43,712)	**(54,260)**	Reserved interest	**(20,890)**	(16,829)
4,965,096	**5,371,946**	**Net loans and advances**	**2,068,199**	1,911,562

The movement in the allowance for credit losses and reserved interest accounts is set out below:

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
		Allowance for credit losses		
128,460	**150,652**	Balance at beginning of the year	**58,001**	49,457
44,002	**49,852**	Provided during the year	**19,193**	16,941
(8,153)	**(8,189)**	Released/recovered during the year	**(3,153)**	(3,139)
(13,426)	**(15,927)**	Written off during the year	**(6,132)**	(5,169)
(231)	**(409)**	Translation difference	**(157)**	(89)
150,652	**175,979**	Balance at end of the year	**67,752**	58,001
		Reserved interest		
34,943	**43,712**	Balance at beginning of the year	**16,829**	13,453
14,197	**15,561**	Reserved during the year	**5,991**	5,466
(886)	**(1,003)**	Released/recovered during the year	**(386)**	(341)
(506)	**(501)**	Released/recovered during the year to interest income	**(193)**	(195)
(4,021)	**(3,486)**	Written off during the year	**(1,342)**	(1,548)
(15)	**(23)**	Translation difference	**(9)**	(6)
43,712	**54,260**	Balance at end of the year	**20,890**	16,829

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

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
74,751	**96,538**	Specific impairment	**37,167**	28,779
75,901	**79,441**	Collective impairment	**30,585**	29,222
150,652	**175,979**		**67,752**	58,001

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 2013, impaired loans on which interest is not being accrued or where interest has been reserved amounted to RO 61 million – USD 158 (2012 – RO 53 million – USD 138 million).

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

During the year, the bank has written-off fully provided loans and advances amounting to RO 7.5 million – USD 19.5 million (2012: RO 6.7 million – USD 17.4 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.

Total 2012 USD'000	***Total 2013 USD'000***		***Total 2013 RO'000***	*Total 2012 RO'000*
2,502,774	**2,744,831**	Personal	**1,056,760**	963,568
399,938	**495,992**	Construction	**190,957**	153,976
361,574	**424,590**	Manufacturing	**163,467**	139,206
296,442	**412,457**	Service	**158,796**	114,130
294,491	**292,361**	Transport and communication	**112,559**	113,379
234,229	**272,839**	Electricity, gas and water	**105,043**	90,178
304,958	**264,218**	Wholesale and retail trade	**101,724**	117,409
254,216	**250,242**	Others	**96,343**	97,873
245,325	**220,148**	Financial institutions	**84,757**	94,450
136,374	**135,234**	Import trade	**52,065**	52,504
33,195	**35,023**	Agriculture	**13,484**	12,780
94,013	**18,678**	Mining and quarrying	**7,191**	36,195
849	**886**	Export trade	**341**	327
1,082	**55**	Government	**21**	417
5,159,460	**5,567,554**	**Total Gross Loans**	**2,143,508**	1,986,392
-	**34,631**	Islamic financing activities	**13,333**	-
5,159,460	**5,602,185**	**Total**	**2,156,841**	1,986,392

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

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
4,968,434	**5,366,164**	Sultanate of Oman	**2,065,973**	1,912,847
143,829	**146,029**	United Arab Emirates	**56,221**	55,374
6,463	**5,865**	Egypt	**2,258**	2,488
40,734	**84,127**	Others	**32,389**	15,683
5,159,460	**5,602,185**	**Total**	**2,156,841**	1,986,392

7 FINANCIAL INVESTMENTS

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
		A. Held for trading		
		Quoted investments- Oman		
-	**69,506**	Government Development Bonds	**26,760**	-
-	**69,506**	**Total held for trading**	**26,760**	-
		B. Available for sale		
		Quoted investments- Oman		
1,925	**496**	Banking and investment sector	**191**	741
3,018	**2,855**	Manufacturing sector	**1,099**	1,162
21,727	**21,026**	Service sector	**8,095**	8,365
223,818	**195,504**	Government Development Bonds	**75,269**	86,170
250,488	**219,881**		**84,654**	96,438
		Quoted investments- Foreign		
-	**1,130**	Banking and investment sector	**435**	-
-	**7,088**	Service sector	**2,729**	-
9,332	**3,634**	Government Development Bonds	**1,399**	3,593
9,332	**11,852**		**4,563**	3,593
		Unquoted investments		
17,974	**27,416**	Banking and investment sector	**10,555**	6,920
9,047	**9,047**	Manufacturing sector	**3,483**	3,483
748	**2,106**	Service sector	**811**	288
27,769	**38,569**		**14,849**	10,691
287,590	**270,302**	**Total available for sale**	**104,066**	110,722
		C. Held to maturity		
		Quoted investments- Overseas		
-	**4,615**	Manufacturing sector	**1,777**	-
-	**4,615**	**Total Held to maturity**	**1,777**	-
287,590	**344,423**	**TOTAL FINANCIAL INVESTMENTS**	**132,603**	110,722

Included under unquoted available for sale investments are investments with a value of RO 3.87 million – USD 10.05 million (2012 – RO 3.91 million – USD 10.16 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.

During the year, the bank has recorded RO 0.01 million - USD 0.03 million (2012 – RO 1.54 million – USD 4.0 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.

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

Bank's portfolio	*Carrying value*		*Bank's portfolio*	*Carrying value*
%	*USD'000*	***2013***	*%*	*RO'000*
76.9	**265,010**	Government Development Bonds-Oman	**76.9**	**102,029**
		2012		
77.8	223,818	Government Development Bonds-Oman	77.8	86,170

8 PREMISES AND EQUIPMENT

	Freehold land and buildings and leasehold improvements RO'000	*Motor vehicles, furniture and equipment RO'000*	*Capital work in progress RO'000*	*Total RO'000*
Reconciliation of carrying amount:				
Balance as at 1 January 2013, net of accumulated depreciation	**12,696**	**5,443**	**2,359**	**20,498**
Additions	**140**	**843**	**2,034**	**3,017**
Disposals	**-**	**(42)**	**-**	**(42)**
Transfers	**531**	**887**	**(1,418)**	**-**
Translation difference	**(30)**	**-**	**-**	**(30)**
Depreciation	**(970)**	**(2,369)**	**-**	**(3,339)**
Balance as at 31 December 2013, net of accumulated depreciation	**12,367**	**4,762**	**2,975**	**20,104**
At cost	**22,357**	**25,782**	**2,975**	**51,114**
At revaluation	**3,766**	**-**	**-**	**3,766**
Accumulated depreciation	**(13,756)**	**(21,020)**	**-**	**(34,776)**
Net carrying value at 31 December 2013	**12,367**	**4,762**	**2,975**	**20,104**
Net carrying value at 31 December 2013 – USD'000	**32,122**	**12,369**	**7,727**	**52,218**
At cost 1 January 2012	21,844	24,565	2,359	48,768
At revaluation	3,766	-	-	3,766
Accumulated depreciation	(12,914)	(19,122)	-	(32,036)
Net carrying value at 31 December 2012	12,696	5,443	2,359	20,498
Net carrying value at 31 December 2012 – USD'000	32,977	14,138	6,127	53,242

Freehold land stated at cost of RO 8.56 million – USD 22.23 million (2012 – RO 8.56 million – USD 22.23 million) is not depreciated. Land and buildings include three buildings on freehold land, which were re-valued at their open market value for existing use by an independent professional valuer as of 31 October 2010, at RO 3.77 million (USD 9.79 million) from then existing value of RO 2.81 million (USD 7.30 million). On revaluation, the gross carrying amount of each building re-valued was restated so that the net carrying amount of the asset after revaluation equals its re-valued amount. Should the buildings be carried at cost less depreciation, the net carrying amount would have been RO 0.79 million – USD 2.05 million (2012 – RO 0.88 million – USD 2.29 million).

9 OTHER ASSETS

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
58,988	**94,258**	Interest receivable and others	**36,289**	22,710
28,753	**14,044**	Positive fair value of derivatives (note 33)	**5,407**	11,070
72,332	**94,662**	Customers' indebtedness for acceptances	**36,445**	27,848
160,073	**202,964**		**78,141**	61,628

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
528,000	**567,779**	Acceptances and borrowings	**218,595**	203,280
18,616	**20,166**	Other balances	**7,764**	7,167
546,616	**587,945**		**226,359**	210,447

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
1,002,504	**1,583,997**	Current accounts	**609,839**	385,964
1,254,400	**1,405,940**	Savings accounts	**541,287**	482,944
2,630,769	**2,630,956**	Term deposits	**1,012,918**	1,012,846
12,987	**-**	Certificates of deposit	**-**	5,000
-	**39,260**	Islamic Deposits	**15,115**	-
4,900,660	**5,660,153**		**2,179,159**	1,886,754

12 OTHER LIABILITIES

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
74,281	**89,281**	Interest payable & others	**34,373**	28,598
3,026	**3,366**	Staff entitlements	**1,296**	1,165
72,332	**94,662**	Liabilities under acceptances	**36,445**	27,848
29,005	**14,021**	Negative fair value of derivatives (note 33)	**5,398**	11,167
178,644	**201,330**		**77,512**	68,778

		Staff entitlements are as follows:		
2,652	**2,862**	End of service benefits	**1,102**	1,021
374	**504**	Other liabilities	**194**	144
3,026	**3,366**		**1,296**	1,165

		Movement in the end of service benefits liability are as follows:		
2,291	**2,652**	Liability as at 1 January	**1,021**	882
704	**792**	Expense recognised in the statement of comprehensive income	**305**	271
(343)	**(582)**	End of service benefits paid	**(224)**	(132)
2,652	**2,862**	Liability as at 31 December	**1,102**	1,021

13 TAXATION

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
		Current tax expense		
15,462	**14,522**	Current period/year	**5,591**	5,953
168	**-**	Deferred tax adjustment	**-**	65
15,630	**14,522**		**5,591**	6,018

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

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

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
121,246	**121,994**	Accounting profit	**46,968**	46,680
14,540	**14,639**	Tax at applicable rate	**5,636**	5,598
764	**286**	Non-deductible expenses	**110**	294
(857)	**(909)**	Tax exempt revenues	**(350)**	(330)
1,183	**506**	Others	**195**	456
15,630	**14,522**		**5,591**	6,018

Taxable income / Loss for Islamic banking operations has been included in calculation of the bank's taxation.

The bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2007. 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 branch in UAE has been agreed with the tax authorities up to 31 December 2012.

Tax liability

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
15,462	**14,522**	Income tax and other taxes – Current year	**5,591**	5,953
(691)	**(165)**	Income tax and other taxes – Prior years	**(64)**	(266)
14,771	**14,357**		**5,527**	5,687

Recognised deferred tax assets and liabilities
Deferred tax assets are attributable to the following:

990	**1,247**	Deductible temporary differences	**480**	381
72	**(52)**	Available for sale investments	**(20)**	28
1,062	**1,195**		**460**	409

De-recognized deferred tax assets

168	**-**	Deductible temporary differences Provisions	**-**	65

14 SUBORDINATED DEBT

2012 *USD'000*	***2013*** ***USD'000***		***2013*** ***RO'000***	*2012* *RO'000*
142,078	**160,260**	At I January	**61,700**	54,700
18,182	**46,753**	Received during the year	**18,000**	7,000
160,260	**207,013**		**79,700**	61,700

(i) Placements received in 2013 are repayable in December 2018.

(ii) Placements received in prior years are repayable up to 2017.

15 SHARE CAPITAL

2012 *USD'000*	***2013*** ***USD'000***		***2013*** ***RO'000***	*2012* *RO'000*
519,481	**519,481**	Authorised - ordinary shares of RO 0.100 each	**200,000**	200,000
287,799	**287,799**	Issued and fully paid - ordinary shares of RO 0.100 each	**110,803**	110,803

As of 31 December 2013, the following shareholders held 10% or more of the bank's capital:

	Number of shares '000	***% Holding***
The Commercial Bank of Qatar	**386,699**	**34.90%**
Suhail Bahwan Group (Holdings) L.L.C	**163,370**	**14.74%**
Civil Service Employee Pension Fund	**112,191**	**10.13%**

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

16 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.

17 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 Abu Dhabi. 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 Abu Dhabi. At 31 December 2013, the legal reserve of Oman has reached one third of the issued capital.

18 GENERAL RESERVE

The general reserve was created on 9 May 2006 by way of a transfer from the subordinated debt reserve to a general reserve. The transfer was made on account of prepayment of certain subordinated debt during 2006 resulting in surplus in subordinated debt reserve. This reserve is available for distribution.

19 OTHER NON-DISTRIBUTABLE RESERVES

	Available for sale reserve RO '000	*Revaluation reserve RO '000*	*Subordinated debt reserve RO '000*	*Total RO '000*
At 1 January 2013	1,153	3,766	25,800	30,719
Net movement on available for sale investments	1,694	-	-	1,694
Tax effect of net losses on available for sale financial investments	(48)	-	-	(48)
Transfer to subordinated debt reserve	-	-	12,540	12,540
At 31 December 2013	**2,799**	**3,766**	**38,340**	**44,905**
At 31 December 2013 – In USD'000	**7,270**	**9,782**	**99,584**	**116,636**

(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 14). The reserve is available for transfer back to retained earning upon maturity of the private placement.

20 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.015 per share totalling RO 16.6 million (USD 0.039 per share totalling USD 43.2 million) and stock dividend of RO 0.010 per share totalling RO 11.1 million (USD 0.026 per share totalling USD 28.8 million) for the year ended 31 December 2013, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2014.

At the Annual General Meeting held in March 2013, a cash dividend of RO 0.0175 per share totalling RO 19.4 million (USD 0.045 per share totalling USD 50.4 million) for the year ended 31 December 2012 was approved and subsequently paid.

21 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 recognized 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.

Contingent liabilities

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

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
1,186,288	**1,252,797**	Guarantees	**482,327**	456,721
155,590	**208,891**	Documentary letters of credit	**80,423**	59,902
1,341,878	**1,461,688**		**562,750**	516,623

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

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
488,639	**528,190**	Financial institutions	**203,353**	188,126
361,325	**403,257**	Construction	**155,254**	139,110
128,197	**130,865**	Electricity, gas and water	**50,383**	49,356
111,818	**116,540**	Wholesale and retail trade	**44,868**	43,050
88,145	**115,751**	Service	**44,564**	33,936
74,514	**114,592**	Manufacturing	**44,118**	28,688
70,725	**25,353**	Others	**9,761**	27,229
15,060	**17,075**	Transport and communication	**6,574**	5,798
1,912	**7,649**	Mining and Quarrying	**2,945**	736
956	**1,922**	Agriculture	**740**	368
506	**494**	Personal	**190**	195
81	**-**	Import trade	**-**	31
1,341,878	**1,461,688**		**562,750**	516,623

Guarantees include RO 0.1 million – USD 0.3 million (Dec 2012: RO 0.1 million – USD 0.3 million) relating to non-performing loans.

21 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Commitments

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
388,639	**254,119**	Undrawn commitment	**97,836**	149,626
2,114	**7,997**	Capital expenditure	**3,079**	814
7,218	**8,112**	Operating lease commitments	**3,123**	2,779
		Future minimum lease payments:		
3,096	**3,888**	Not later than one year	**1,497**	1,192
4,122	**4,224**	Later than one year and not later than five years	**1,626**	1,587
-	**-**	Later than five years	**-**	-
7,218	**8,112**		**3,123**	2,779

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.

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
14,294	**14,294**	Abu Dhabi branch	**5,503**	5,503
50,000	**50,000**	Egypt branches	**19,250**	19,250
64,294	**64,294**		**24,753**	24,753

Legal claims

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

Fiduciary assets

The fair value of securities as of 31 December 2013 held on trust for customers amounts to RO 66.82 million -USD 173.56 million (2012 – RO 59.07 million – USD 153.43 million).

22 INTEREST INCOME

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
270,865	**294,714**	Interest from customers	**113,465**	104,283
7,319	**8,221**	Interest from banks	**3,165**	2,818
278,184	**302,935**		**116,630**	107,101

Interest bearing assets, other than investments earned interest at an overall effective annual rate of 4.93% for the year ended 31 December 2013 (31 December 2012 – 5.07%).

23 INTEREST EXPENSE

2012	***2013***		***2013***	*2012*
USD'000	***USD'000***		***RO'000***	*RO'000*
94,979	**98,359**	Interest to customers	**37,868**	36,567
8,714	**10,449**	Interest to banks	**4,023**	3,355
103,693	**108,808**		**41,891**	39,922

For the year ended 31 December 2013, the average overall effective annual cost of bank's funds was 1.84% (31 December 2012 – 1.98%).

24 OTHER OPERATING INCOME

2012	***2013***		***2013***	*2012*
USD'000	***USD'000***		***RO'000***	*RO'000*
25,083	**28,293**	Fees and commission income	**10,893**	9,657
(55)	**(31)**	Fees and commission expense	**(12)**	(21)
25,028	**28,262**	Net fees and commissions	**10,881**	9,636
37,426	**24,239**	Service charges	**9,332**	14,409
990	**4,416**	Profit on sale of investments	**1,700**	381
8,504	**8,803**	Net gains from foreign exchange dealings	**3,389**	3,274
1,379	**797**	Miscellaneous income	**307**	531
5,992	**6,943**	Income from bonds and others	**2,673**	2,307
2,410	**1,748**	Dividend income	**673**	928
81,729	**75,208**		**28,955**	31,466

25 OTHER OPERATING EXPENSES

2012	***2013***		***2013***	*2012*
USD'000	***USD'000***		***RO'000***	*RO'000*
12,013	**12,442**	Establishment costs	**4,790**	4,625
30,133	**30,218**	Operating and administration costs	**11,634**	11,601
519	**574**	Directors' remuneration and sitting fees	**221**	200
42,665	**43,234**		**16,645**	16,426

26 RELATED PARTY TRANSACTIONS

Other 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:

	2013			2012		
	Principal shareholders RO'000	**Others RO'000**	**Total RO'000**	Principal shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	**-**	**36,107**	**36,107**	-	53,677	53,677
Customer's deposits	**188,244**	**23,498**	**211,742**	-	9,631	9,631
Due from banks	**36,589**	**12,898**	**49,487**	34,682	-	34,682
Due to banks	**99**	**-**	**99**	9,683	13,475	23,158
Subordinated debt	**14,500**	**5,500**	**20,000**	-	5,500	5,500
Letter of credit, guarantees and acceptance	**45**	**1,029**	**1,074**	2,177	2,724	4,901
Standby revolving credit facility	**77,000**	**-**	**77,000**	77,000	-	77,000
Risk indemnities received	**1,793**	**1,333**	**3,126**	546	4,000	4,546
Investment	**1,800**	**129**	**1,929**	-	-	-

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

	2013			2012		
	Principal shareholders RO'000	**Others RO'000**	**Total RO'000**	Principal shareholders RO'000	Others RO'000	Total RO'000
Interest income	**26**	**1,619**	**1,645**	13	1,460	1,473
Commission income	**-**	**21**	**21**	5	19	24
Interest expense	**721**	**634**	**1,355**	353	355	708
Other expenses	**-**	**1,620**	**1,620**	205	1,148	1,353

	2013			2012		
	Principal shareholders USD'000	**Others USD'000**	**Total USD'000**	Principal shareholders USD'000	Others USD'000	Total USD'000
Loans and advances	**-**	**93,784**	**93,784**	-	139,421	139,421
Customer's deposits	**488,945**	**61,034**	**549,979**	-	25,016	25,016
Due from banks	**95,036**	**33,501**	**128,537**	90,082	-	90,082
Due to banks	**257**	**-**	**257**	25,152	35,000	60,152
Subordinated debt	**37,662**	**14,286**	**51,948**	-	14,286	14,286
Letter of credit, guarantees and acceptance	**117**	**2,673**	**2,790**	5,655	7,075	12,730
Standby revolving credit facility	**200,000**	**-**	**200,000**	200,000	-	200,000
Risk indemnities received	**4,657**	**3,462**	**8,119**	1,418	10,390	11,808
Investment	**4,675**	**335**	**5,010**	-	-	-

26 RELATED PARTY TRANSACTIONS (Continued)

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

	2013			*2012*		
	Principal shareholders USD'000	***Others USD'000***	***Total USD'000***	*Principal shareholders USD'000*	*Others USD'000*	*Total USD'000*
Interest income	**68**	**4,205**	**4,273**	33	3,793	3,826
Commission income	**-**	**55**	**55**	13	49	62
Interest expense	**1,872**	**1,647**	**3,519**	916	922	1,838
Other expenses	**-**	**4,208**	**4,208**	533	2,983	3,516

Details regarding senior management compensation are set out below:

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
		Salaries and other short term benefits		
5,147	**5,862**	- Fixed	**2,257**	1,981
1,652	**2,613**	- Discretionary	**1,006**	636
6,799	**8,475**		**3,263**	2,617

27 BASIC AND DILUTED EARNING PER SHARE

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

	2013	*2012*
Profit for the year (RO'000s)	**41,377**	40,662
Weighted average number of shares outstanding during the year (in '000s)	**1,108,025**	1,108,025
Earnings per share (RO)	**RO 0.037**	RO 0.037
Profit for the year (USD'000s)	**107,473**	105,616
Weighted average number of shares outstanding during the year (in '000s)	**1,108,025**	1,108,025
Earnings per share (USD)	**USD 0.10**	USD 0.10

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.

28 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:

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
		Capital base		
726,439	**790,702**	Common equity Tier 1 - shareholders' funds	**304,420**	279,679
170,527	**190,512**	Tier 2 - subordinated debt and collective impairment provisions	**73,347**	65,653
896,966	**981,214**	Total capital base	**377,767**	345,332
		Risk weighted assets		
5,768,641	**6,101,961**	Credit risk	**2,349,255**	2,220,927
432,860	**476,626**	Operational risk	**183,501**	166,651
26,081	**125,675**	Market risk	**48,385**	10,041
6,227,582	**6,704,262**	Total risk weighted assets	**2,581,141**	2,397,619
11.7%	**11.8%**	CET 1 Ratio / Tier 1 Ratio	**11.8%**	11.7%
14.4%	**14.6%**	Risk asset ratio (Basel II norms)	**14.6%**	14.4%

29 RISK MANAGEMENT

The primary objective of risk management is to safeguard the bank from the various risks it is exposed to. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk, Legal Risk and Loan Review Mechanism. All risk management functions report to Chief Risk Officer and are independent from Business Units. The bank has exposure to the following risks:-

29.1 CREDIT RISK

Credit risk is the risk that the bank will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations to the bank. 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.

Credit risk management
Credit Risk is managed within the regulatory requirements of Central Bank of Oman; risk framework provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as 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.

Corporate credit
Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking and Financial Institutions exposures. 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.

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

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
- 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 revised, if required, 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 approved as per the delegated authorities.

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

- Portfolio review
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)
- 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, and to enhance the recovery methodologies of the retail portfolio. The bank has reworked its strategy of lending through adoption of stricter lending criteria and continuous monitoring of the portfolio and is in the process of implementing a Loan origination system, Credit Scoring Module and Collections solution to enhance its Retail Credit Risk framework.

Loan review mechanism
The bank an independent Loan Review Mechanism Division with a mandate for constantly evaluating the quality of the loan book; 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.

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.

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

Maximum exposure to credit risk

Gross maximum exposure 2012 USD'000	***Gross maximum exposure 2013 USD'000***		***Gross maximum exposure 2013 RO '000***	*Gross maximum exposure 2012 RO '000*
479,385	**861,761**	Balances with Central Banks	**331,778**	184,563
564,314	**593,553**	Due from banks and other money market placements(net)	**228,518**	217,261
4,965,096	**5,371,946**	Loans, advances and financing activities for customers (net)	**2,068,199**	1,911,562
287,590	**344,423**	Financial investments	**132,603**	110,722
160,073	**202,964**	Other assets	**78,141**	61,628
6,456,458	**7,374,647**	**Total on balance sheet exposure**	**2,839,239**	2,485,736
1,186,288	**1,252,797**	Guarantees	**482,327**	456,721
155,590	**208,891**	Documentary letters of credit	**80,423**	59,902
388,639	**252,951**	Undrawn commitment	**97,386**	149,626
1,730,517	**1,714,639**	**Total off balance sheet exposure**	**660,136**	666,249

The above table represents the worst case scenario of credit risk exposure to the bank at 31 December 2013 and 2012 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) RO'000	***Loans past due and not impaired RO'000***	***Non performing loans RO'000***	***Gross loans RO'000***
Balance as at 1 January 2013	1,912,836	20,358	53,198	1,986,392
Additions during the year	607,954	76,631	29,864	714,449
Attrition during the year	(472,356)	(49,869)	(14,301)	(536,526)
Written-off during the year	-	-	(7,474)	(7,474)
Balance as at 31 December 2013	**2,048,434**	**47,120**	**61,287**	**2,156,841**
Balance as at 31 December 2013 – USD'000s	**5,320,608**	**122,390**	**159,187**	**5,602,185**
Balance as at 31 December 2012	1,912,836	20,358	53,198	1,986,392
Balance as at 31 December 2012 – USD'000s	4,968,405	52,878	138,177	5,159,460

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

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 RO'000	*Loans in arrears 31-60 days RO'000*	*Loans in arrears 61-89 days RO'000*	*Total RO'000*
Loans and advances to customers (net) at				
31 December 2013	**30,844**	**12,074**	**4,202**	**47,120**
31 December 2013 – USD'000s	**80,114**	**31,361**	**10,914**	**122,389**
31 December 2012	2,438	11,470	6,450	20,358
31 December 2012 – USD'000s	6,332	29,792	16,754	52,878

Collateral and other credit enhancements

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

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

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

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

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

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

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

	Performing loans (neither past due nor impaired) RO'000	*Loans past due and not impaired RO'000*	*Non performing loans RO'000*	*Total RO'000*
Collateral available	1,142,250	106,226	26,014	**1,274,490**
Guarantees available	12,402	-	-	**12,402**
Government soft loans*	7,696	-	1,258	**8,954**
Balance as at 31 December 2013	**1,162,348**	**106,226**	**27,272**	**1,295,846**
Balance as at 31 December 2013 – USD'000s	**3,019,086**	**275,912**	**70,836**	**3,365,834**
Balance as at 31 December 2012	946,778	41,737	16,299	1,004,814
Balance as at 31 December 2012 – USD'000s	2,459,163	108,408	42,335	2,609,906

* 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 RO'000	*Doubtful RO'000*	*Loss RO'000*	*Total RO'000*
Balance as at 1 January 2013	6,989	18,395	27,814	53,198
Additions during the year	2,958	674	26,232	29,864
Attrition during the year	(1,704)	(11,251)	(1,346)	(14,301)
Written-off during the year	-	(1,656)	(5,818)	(7,474)
Balance as at 31 December 2013	**8,243**	**6,162**	**46,882**	**61,287**
Balance as at 31 December 2013 – USD'000s	**21,410**	**16,005**	**121,772**	**159,187**
Balance as at 31 December 2012	6,989	18,395	27,814	53,198
Balance as at 31 December 2012 – USD'000s	18,153	47,779	72,245	138,177

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

Movement of rescheduled loans:

	2013	*2012*
	RO'000	*RO'000*
Balance as at 1 January	**54,256**	78,053
Additions during the year	**12,356**	3,611
Attrition during the year	**(21,628)**	(27,408)
Balance as at 31December	**44,984**	54,256
Balance as at 31December – USD'000s	**116,842**	140,925

29.2 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 thorough analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the bank also periodically conducts stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

29 RISK MANAGEMENT (Continued)

29.2 LIQUIDITY RISK

The maturity profile of the assets, liabilities and equity at **31 December 2013** is as follows:

	On demand within 3 months RO'000	*3 to 12 months RO'000*	*Subtotal less than 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Subtotal over 12 months RO'000*	*Total RO'000*
Cash and balances with Central Banks	**266,853**	**45,450**	**312,303**	**32,522**	**23,491**	**56,013**	**368,316**
Due from banks and other money market placements (net)	**199,258**	**29,260**	**228,518**	**-**	**-**	**-**	**228,518**
Loans, advances and financing activities for customers (net)	**363,780**	**155,446**	**519,226**	**392,647**	**1,156,326**	**1,548,973**	**2,068,199**
Financial investments	**102,121**	**3,357**	**105,478**	**27,125**	**-**	**27,125**	**132,603**
Premises and equipment	**-**	**-**	**-**	**-**	**20,104**	**20,104**	**20,104**
Deferred tax asset	**460**	**-**	**460**	**-**	**-**	**-**	**460**
Other assets	**75,923**	**2,218**	**78,141**	**-**	**-**	**-**	**78,141**
Total assets	**1,008,395**	**235,731**	**1,244,126**	**452,294**	**1,199,921**	**1,652,215**	**2,896,341**
Due to banks and other money market deposits	**87,759**	**42,350**	**130,109**	**96,250**	**-**	**96,250**	**226,359**
Customers' deposits and unrestricted investment accounts	**494,630**	**712,949**	**1,207,579**	**578,620**	**392,960**	**971,580**	**2,179,159**
Other liabilities	**67,165**	**6,790**	**73,955**	**3,557**	**-**	**3,557**	**77,512**
Taxation	**5,527**	**-**	**5,527**	**-**	**-**	**-**	**5,527**
Subordinated debt	**-**	**-**	**-**	**53,200**	**26,500**	**79,700**	**79,700**
Shareholders' equity	**-**	**-**	**-**	**-**	**328,084**	**328,084**	**328,084**
Total liabilities and shareholders' equity	**655,081**	**762,089**	**1,417,170**	**731,627**	**747,544**	**1,479,171**	**2,896,341**

	On demand within 3 months USD'000	*3 to 12 months USD'000*	*Subtotal less than 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Subtotal over 12 months USD'000*	*Total USD'000*
Cash and balances with Central Banks	**693,124**	**118,052**	**811,176**	**84,473**	**61,016**	**145,489**	**956,665**
Due from banks and other money market placement (net)	**517,553**	**76,000**	**593,553**	**-**	**-**	**-**	**593,553**
Loans, advances and financing activities for customers (net)	**944,884**	**403,756**	**1,348,640**	**1,019,862**	**3,003,444**	**4,023,306**	**5,371,946**
Financial investments	**265,249**	**8,719**	**273,968**	**70,455**	**-**	**70,455**	**344,423**
Premises and equipment	**-**	**-**	**-**	**-**	**52,218**	**52,218**	**52,218**
Deferred tax asset	**1,195**	**-**	**1,195**	**-**	**-**	**-**	**1,195**
Other assets	**197,203**	**5,761**	**202,964**	**-**	**-**	**-**	**202,964**
Total assets	**2,619,208**	**612,288**	**3,231,496**	**1,174,790**	**3,116,678**	**4,291,468**	**7,522,964**
Due to banks and other money market deposits	**227,945**	**110,000**	**337,945**	**250,000**	**-**	**250,000**	**587,945**
Customers' deposits and unrestricted investment accounts	**1,284,753**	**1,851,816**	**3,136,569**	**1,502,909**	**1,020,675**	**2,523,584**	**5,660,153**
Other liabilities	**174,455**	**17,636**	**192,091**	**9,239**	**-**	**9,239**	**201,330**
Taxation	**14,357**	**-**	**14,357**	**-**	**-**	**-**	**14,357**
Subordinated debt	**-**	**-**	**-**	**138,182**	**68,831**	**207,013**	**207,013**
Shareholders' equity	**-**	**-**	**-**	**-**	**852,166**	**852,166**	**852,166**
Total liabilities and shareholders' equity	**1,701,510**	**1,979,452**	**3,680,962**	**1,900,330**	**1,941,672**	**3,842,002**	**7,522,964**

29 RISK MANAGEMENT (Continued)

29.2 LIQUIDITY RISK (Continued)

The maturity profile of the assets, liabilities and equity at 31 December 2012 is as follows:

	On demand within 3 months RO'000	*3 to 12 months RO'000*	*Subtotal less than 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Subtotal over 12 months RO'000*	*Total RO'000*
Cash and balances with Central Banks	128,296	34,973	163,269	32,456	20,013	52,469	215,738
Due from banks and other money market placements (net)	168,512	48,749	217,261	-	-	-	217,261
Loans and advances (net)	461,545	110,386	571,931	354,349	985,282	1,339,631	1,911,562
Financial investments	89,985	-	89,985	20,737	-	20,737	110,722
Premises and equipment	-	-	-	-	20,498	20,498	20,498
Deferred tax asset	409	-	409	-	-	-	409
Other assets	59,737	1,797	61,534	94	-	94	61,628
Total assets	908,484	195,905	1,104,389	407,636	1,025,793	1,433,429	2,537,818
Due to banks and other money market deposits	104,572	9,625	114,197	96,250	-	96,250	210,447
Customers' deposits	409,083	597,154	1,006,237	540,303	340,214	880,517	1,886,754
Other liabilities	58,091	7,194	65,285	3,493	-	3,493	68,778
Taxation	5,687		5,687	-	-	-	5,687
Subordinated debt	-	-	-	54,700	7,000	61,700	61,700
Shareholders' equity	-	-	-	-	304,452	304,452	304,452
Total liabilities and shareholders' equity	577,433	613,973	1,191,406	694,746	651,666	1,346,412	2,537,818

	On demand within 3 months USD'000	*3 to 12 months USD'000*	*Subtotal less than 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Subtotal over 12 months USD'000*	*Total USD'000*
Cash and balances with Central Banks	333,236	90,839	424,075	84,301	51,982	136,283	560,358
Due from banks and other money market placement (net)	437,693	126,621	564,314	-	-	-	564,314
Loans and advances (net)	1,198,818	286,717	1,485,535	920,387	2,559,174	3,479,561	4,965,096
Financial investments	233,728	-	233,728	53,862	-	53,862	287,590
Premises and equipment	-	-	-	-	53,242	53,242	53,242
Deferred tax asset	1,062	-	1,062	-	-	-	1,062
Other assets	155,161	4,668	159,829	244	-	244	160,073
Total assets	2,359,698	508,845	2,868,543	1,058,794	2,664,398	3,723,192	6,591,735
Due to banks and other money market deposits	271,616	25,000	296,616	250,000	-	250,000	546,616
Customers' deposits	1,062,554	1,551,049	2,613,603	1,403,384	883,673	2,287,057	4,900,660
Other liabilities	150,885	18,686	169,571	9,073	-	9,073	178,644
Taxation	14,771	-	14,771	-	-	-	14,771
Subordinated debt	-	-	-	142,078	18,182	160,260	160,260
Shareholders' equity	-	-	-	-	790,784	790,784	790,784
Total liabilities and shareholders' equity	1,499,826	1,594,735	3,094,561	1,804,535	1,692,639	3,497,174	6,591,735

29 RISK MANAGEMENT (Continued)

29.3 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 exposures.

- ***Equity risk***

The proprietary equity positions are held in the 'Available for Sale' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and 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 2013	**200 bps increase**	**200 bps decrease**
Earnings impact - RO'000s	**11,447**	**(11,447)**
Earnings impact - USD'000s	**29,732**	**(29,732)**

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.

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

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

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2013** is as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Non-interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	**0.12%**	**105,000**	**-**	**-**	**-**	**263,316**	**368,316**
Due from banks and other money market placements (net)	**1.78%**	**228,518**	**-**	**-**	**-**	**-**	**228,518**
Loans, advances and financing activities for customers (net)	**5.49%**	**812,003**	**384,922**	**417,422**	**453,852**	**-**	**2,068,199**
Financial investments	**2.66%**	**13,201**	**7,552**	**85,083**	**-**	**26,767**	**132,603**
Premises and equipment	**N/A**	**-**	**-**	**-**	**-**	**20,104**	**20,104**
Deferred tax asset	**N/A**	**-**	**-**	**-**	**-**	**460**	**460**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**78,141**	**78,141**
Total assets		**1,158,722**	**392,474**	**502,505**	**453,852**	**388,788**	**2,896,341**
Due to banks and other money market deposits	**1.96%**	**226,359**	**-**	**-**			**226,359**
Customers' deposits and unrestricted investment accounts	**1.66%**	**196,240**	**770,013**	**319,393**	**-**	**893,513**	**2,179,159**
Other liabilities	**N/A**	**-**	**-**	**-**	**-**	**77,512**	**77,512**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**5,527**	**5,527**
Subordinated debt	**6.10%**	**-**	**-**	**37,100**	**42,600**	**-**	**79,700**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**328,084**	**328,084**
Total liabilities and shareholders' equity		**422,599**	**770,013**	**356,493**	**42,600**	**1,304,636**	**2,896,341**
Total interest rate sensitivity gap		**736,123**	**(377,539)**	**146,012**	**411,252**	**(915,848)**	**-**
Cumulative interest rate sensitivity gap		**736,123**	**358,584**	**504,596**	**915,848**	**-**	

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements **at 31 December 2013** is as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Non interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	**0.12%**	**272,727**	**-**	**-**	**-**	**683,938**	**956,665**
Due from banks and other money market placements (net)	**1.78%**	**593,553**	**-**	**-**	**-**	**-**	**593,553**
Loans, advances and financing activities for customers (net)	**5.49%**	**2,109,100**	**999,797**	**1,084,213**	**1,178,836**	**-**	**5,371,946**
Financial investments	**2.66%**	**34,288**	**19,616**	**220,994**	**-**	**69,525**	**344,423**
Premises and equipment	**N/A**	**-**	**-**	**-**	**-**	**52,218**	**52,218**
Deferred tax asset	**N/A**	**-**	**-**	**-**	**-**	**1,195**	**1,195**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**202,964**	**202,964**
Total assets		**3,009,668**	**1,019,413**	**1,305,207**	**1,178,836**	**1,009,840**	**7,522,964**
Due to banks and other money market deposits	**1.96%**	**587,945**	**-**	**-**	**-**	**-**	**587,945**
Customers' deposits and unrestricted investment accounts	**1.66%**	**509,714**	**2,000,034**	**829,592**	**-**	**2,320,813**	**5,660,153**
Other liabilities	**N/A**	**-**	**-**	**-**	**-**	**201,330**	**201,330**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**14,357**	**14,357**
Subordinated debt	**6.10%**	**-**	**-**	**96,364**	**110,649**	**-**	**207,013**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**852,166**	**852,166**
Total liabilities and shareholders' equity		**1,097,659**	**2,000,034**	**925,956**	**110,649**	**3,388,666**	**7,522,964**
Total interest rate sensitivity gap		**1,912,009**	**(980,621)**	**379,251**	**1,068,187**	**(2,378,827)**	**-**
Cumulative interest rate sensitivity gap		**1,912,009**	**931,388**	**1,310,639**	**2,378,826**	**-**	

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2012 is as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 year RO'000*	*Over 5 year RO'000*	*Non interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	0.08%	28,554	-	-	-	187,184	215,738
Due from banks and other money market placements (net)	1.53%	195,373	21,888	-	-	-	217,261
Loans and advances (net)	5.67%	822,246	296,461	361,907	393,077	37,871	1,911,562
Financial investments	3.00%	6,870	10,000	73,115	-	20,737	110,722
Premises and equipment	N/A	-	-	-	-	20,498	20,498
Deferred tax asset	N/A	-	-	-	-	409	409
Other assets	N/A	-	-	-	-	61,628	61,628
Total assets		1,053,043	328,349	435,022	393,077	328,327	2,537,818
Due to banks and other money market deposits	1.59%	210,447	-	-	-	-	210,447
Customers' deposits	1.89%	212,521	686,977	343,400	-	643,856	1,886,754
Other liabilities	N/A	-	-	-	-	68,778	68,778
Taxation	N/A	-	-	-	-	5,687	5,687
Subordinated debt	6.55%	-	-	54,700	7,000	-	61,700
Shareholders' equity	N/A	-	-	-	-	304,452	304,452
Total liabilities and shareholders' equity		422,968	686,977	398,100	7,000	1,022,773	2,537,818
Total interest rate sensitivity gap		630,075	(358,628)	36,922	386,077	(694,446)	-
Cumulative interest rate sensitivity gap		630,075	271,447	308,369	694,446	-	

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2012 is as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*1 to 5 year USD'000*	*Over 5 year USD'000*	*Non interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	0.08%	74,166	-	-	-	486,192	560,358
Due from banks and other money market placements (net)	1.53%	507,462	56,852	-	-	-	564,314
Loans and advances (net)	5.67%	2,135,704	770,029	940,018	1,020,979	98,366	4,965,096
Financial investments	3.00%	17,844	25,974	189,909	-	53,863	287,590
Premises and equipment	N/A	-	-	-	-	53,242	53,242
Deferred tax asset	N/A	-	-	-	-	1,062	1,062
Other assets	N/A	-	-	-	-	160,073	160,073
Total assets		2,735,176	852,855	1,129,927	1,020,979	852,798	6,591,735
Due to banks and other money market deposits	1.59%	546,616	-	-	-	-	546,616
Customers' deposits	1.89%	552,003	1,784,356	891,948	-	1,672,353	4,900,660
Other liabilities	N/A	-	-	-	-	178,644	178,644
Taxation	N/A	-	-	-	-	14,771	14,771
Subordinated debt	6.55%	-	-	142,078	18,182	-	160,260
Shareholders' equity	N/A	-	-	-	-	790,784	790,784
Total liabilities and shareholders' equity		1,098,619	1,784,356	1,034,026	18,182	2,656,552	6,591,735
Total interest rate sensitivity gap		1,636,557	(931,501)	95,901	1,002,797	(1,803,754)	-
Cumulative interest rate sensitivity gap		1,636,557	705,056	800,957	1,803,754	-	

- *Currency risk*

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

The foreign exchange positions in the books of the bank are largely held on account of customers and any variations in the exchange rates are absorbed by the customers.

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

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

2012 USD'000	***2013 USD'000***		***2013 RO'000***	*2012 RO'000*
6,971	**195,031**	US Dollar	**75,087**	2,684
2,574	**608**	UAE Dirham	**234**	991
13,392	**1,577**	Others	**607**	5,156

29 RISK MANAGEMENT (Continued)

29.4 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. 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 will be reported to the Board Risk Committee. In addition to this, the bank has an operational loss reporting database.

29.5 STRATEGIC RISKS

The Bank monitors strategic risks through regular reporting at the Board Risk Committee. This also includes reviews of Human Resource related risks and the monitoring of strategic project risks.

30 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 2013** is as follows:

	Sultanate of Oman RO'000	*UAE RO'000*	*Egypt RO'000*	*Others RO'000*	*Total RO'000*
Cash and balances with Central Banks	**348,454**	**10,875**	**8,987**	**-**	**368,316**
Due from banks and other money market placements (net)	**-**	**27,275**	**54**	**201,189**	**228,518**
Loans, advances and financing activities for customers (net)	**1,991,304**	**45,551**	**1**	**31,343**	**2,068,199**
Financial investments	**123,360**	**4,635**	**1,399**	**3,209**	**132,603**
Premises and equipment	**19,480**	**308**	**316**	**-**	**20,104**
Deferred tax asset	**460**	**-**	**-**	**-**	**460**
Other assets	**74,551**	**2,130**	**1,460**	**-**	**78,141**
Total assets	**2,557,609**	**90,774**	**12,217**	**235,741**	**2,896,341**
Due to banks and other money market deposits	**31,816**	**296**	**6,478**	**187,769**	**226,359**
Customers' deposits and unrestricted investment accounts	**2,079,303**	**50,236**	**8,974**	**40,646**	**2,179,159**
Other liabilities	**74,252**	**2,635**	**625**	**-**	**77,512**
Taxation	**5,190**	**1**	**336**	**-**	**5,527**
Subordinated debt	**79,700**	**-**	**-**	**-**	**79,700**
Shareholders' equity	**322,178**	**4,820**	**1,086**	**-**	**328,084**
Liabilities and shareholders' equity	**2,592,439**	**57,988**	**17,499**	**228,415**	**2,896,341**
Contingent liabilities	**320,261**	**52,338**	**298**	**189,853**	**562,750**

30 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	**905,075**	**28,247**	**23,343**	**-**	**956,665**
Due from banks and other money market placements (net)	**-**	**70,844**	**140**	**522,569**	**593,553**
Loans, advances and financing activities for customers (net)	**5,172,218**	**118,314**	**3**	**81,411**	**5,371,946**
Financial investments	**320,416**	**12,039**	**3,634**	**8,334**	**344,423**
Premises and equipment	**50,597**	**800**	**821**	**-**	**52,218**
Deferred tax asset	**1,195**	**-**	**-**	**-**	**1,195**
Other assets	**193,640**	**5,532**	**3,792**	**-**	**202,964**
Total assets	**6,643,141**	**235,776**	**31,733**	**612,314**	**7,522,964**
Due to banks and other money market deposits	**82,639**	**769**	**16,826**	**487,711**	**587,945**
Customers' deposits and unrestricted investment accounts	**5,400,787**	**130,483**	**23,309**	**105,574**	**5,660,153**
Other liabilities	**192,863**	**6,844**	**1,623**	**-**	**201,330**
Taxation	**13,481**	**3**	**873**	**-**	**14,357**
Subordinated debt	**207,013**	**-**	**-**	**-**	**207,013**
Shareholders' equity	**836,826**	**12,519**	**2,821**	**-**	**852,166**
Liabilities and shareholders' equity	**6,733,609**	**150,618**	**45,452**	**593,285**	**7,522,964**
Contingent liabilities	**831,847**	**135,943**	**774**	**493,125**	**1,461,688**

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2012 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	201,919	7,737	6,082	-	215,738
Due from banks and other money market placements (net)	-	10,359	2,560	204,342	217,261
Loans and advances (net)	1,851,790	44,612	-	15,160	1,911,562
Financial investments	106,107	-	3,593	1,022	110,722
Premises and equipment	19,809	286	403	-	20,498
Deferred tax asset	409	-	-	-	409
Other assets	53,644	1,340	810	5,834	61,628
Total assets	2,233,678	64,334	13,448	226,358	2,537,818
Due to banks and other money market deposits	5,840	36,706	4,620	163,281	210,447
Customers' deposits	1,790,936	43,692	18,852	33,274	1,886,754
Other liabilities	60,781	1,795	368	5,834	68,778
Taxation	5,152	98	437	-	5,687
Subordinated debt	61,700	-	-	-	61,700
Shareholders' equity	299,215	4,818	419	-	304,452
Liabilities and shareholders' equity	2,223,624	87,109	24,696	202,389	2,537,818
Contingent liabilities	313,260	36,427	574	166,362	516,623

30 CONCENTRATIONS (Continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2012 is as follows:

	Sultanate of Oman USD'000	*UAE USD'000*	*Egypt USD'000*	*Others USD'000*	*Total USD'000*
Cash and balances with Central Banks	524,465	20,096	15,797	-	560,358
Due from banks and other money market placements (net)	-	26,906	6,649	530,759	564,314
Loans and advances (net)	4,809,844	115,875	-	39,377	4,965,096
Financial investments	275,603	-	9,332	2,655	287,590
Premises and equipment	51,452	743	1,047	-	53,242
Deferred tax asset	1,062	-	-	-	1,062
Other assets	139,335	3,481	2,104	15,153	160,073
Total assets	5,801,761	167,101	34,929	587,944	6,591,735
Due to banks and other money market deposits	15,169	95,340	12,000	424,107	546,616
Customers' deposits	4,651,782	113,486	48,966	86,426	4,900,660
Other liabilities	157,873	4,662	956	15,153	178,644
Taxation	13,381	255	1,135	-	14,771
Subordinated debt	160,260	-	-	-	160,260
Shareholders' equity	777,182	12,514	1,088	-	790,784
Liabilities and shareholders' equity	5,775,647	226,257	64,145	525,686	6,591,735
Contingent liabilities	813,662	94,616	1,491	432,109	1,341,878

31 SEGMENTAL INFORMATION

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

- Retail banking offers various products and facilities to individual customers to meet everyday banking needs.
- Corporate banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance and foreign exchange.
- Investment banking offers investment products such as asset management, corporate advisory and brokerage services to retail customers as well as high net worth individuals and institutional clients.
- Treasury provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk.
- International banking offers services such as issuance of guarantee, risk participation, syndications, etc.

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

Segment information is as follows:

Year ended 31 December 2013	*Retail banking RO'000*	*Corporate banking RO'000*	*Investment banking RO'000*	*Treasury and international banking RO'000*	*Head office RO'000*	*Islamic banking RO'000*	*Total RO'000*
Net income	**39,898**	**30,002**	**(54)**	**1,938**	**2,955**	**228**	**74,967**
Other income	**13,527**	**6,202**	**3,490**	**3,418**	**2,294**	**24**	**28,955**
Operating profit	**33,219**	**32,144**	**2,691**	**4,691**	**(16,893)**	**(510)**	**55,342**
Impairment provisions (net)	**(2,998)**	**(5,106)**	**5**	**(139)**	**-**	**(136)**	**(8,374)**
Net Profit	**30,221**	**27,038**	**2,696**	**4,552**	**(22,484)**	**(646)**	**41,377**
Total assets	**1,023,915**	**1,067,325**	**29,175**	**100,755**	**660,496**	**14,675**	**2,896,341**
Total liabilities and equity	**788,234**	**1,326,082**	**52,706**	**-**	**714,644**	**14,675**	**2,896,341**

Year ended 31 December 2013	*Retail banking USD'000*	*Corporate banking USD'000*	*Investment banking USD'000*	*Treasury and international banking USD'000*	*Head office USD'000*	*Islamic banking USD'000*	*Total USD'000*
Net income	**103,631**	**77,927**	**(140)**	**5,034**	**7,675**	**592**	**194,719**
Other income	**35,135**	**16,109**	**9,065**	**8,878**	**5,959**	**62**	**75,208**
Operating profit	**86,284**	**83,491**	**6,990**	**12,184**	**(43,879)**	**(1,325)**	**143,745**
Impairment provisions (net)	**(7,788)**	**(13,262)**	**13**	**(361)**	**-**	**(353)**	**(21,751)**
Net Profit	**78,496**	**70,229**	**7,003**	**11,823**	**(58,400)**	**(1,678)**	**107,473**
Total assets	**2,659,519**	**2,772,273**	**75,779**	**261,701**	**1,715,575**	**38,117**	**7,522,964**
Total liabilities and equity	**2,047,361**	**3,444,369**	**136,899**	**-**	**1,856,218**	**38,117**	**7,522,964**

31 SEGMENTAL INFORMATION (Continued)

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

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

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

Segment information by geography is as follows:

For the year ended 31 December 2013	***Oman*** ***RO'000***	***UAE*** ***RO'000***	***Egypt*** ***RO'000***	***Total*** ***RO'000***
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	**114,656**	**1,784**	**525**	**116,965**
Interest income – internal	**9**	**39**	**879**	**927**
Other operating income – external	**27,567**	**870**	**518**	**28,955**
Other operating income – internal	**130**	**-**	**-**	**130**
Total	**142,362**	**2,693**	**1,922**	**146,977**
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	**41,056**	**483**	**459**	**41,998**
Interest costs – internal	**78**	**48**	**801**	**927**
Other operating expenses – external	**43,023**	**1,690**	**528**	**45,241**
Other operating expenses – internal	**-**	**67**	**63**	**130**
Depreciation	**3,157**	**125**	**57**	**3,339**
Credit loss expense - customer loan	**17,883**	**1,305**	**5**	**19,193**
Recoveries	**(9,170)**	**(1,028)**	**(863)**	**(11,061)**
Impairment losses on available for sale investments	**11**	**-**	**-**	**11**
Credit loss expense – bank loans	**139**	**-**	**-**	**139**
Provision – others	**-**	**-**	**92**	**92**
Taxation	**5,465**	**1**	**125**	**5,591**
Total	**101,642**	**2,691**	**1,267**	**105,600**
Segment profit for the year	**40,720**	**2**	**655**	**41,377**
Other information				
Segment assets	**2,808,781**	**59,795**	**27,765**	**2,896,341**
Segment capital expenses	**2,872**	**145**	**-**	**3,017**

31 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2013	*Oman* *USD'000*	*UAE* *USD'000*	*Egypt* *USD'000*	*Total* *USD'000*
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	**297,808**	**4,634**	**1,363**	**303,805**
Interest income – internal	**23**	**101**	**2,283**	**2,407**
Other operating income – external	**71,603**	**2,260**	**1,345**	**75,208**
Other operating income – internal	**338**	**-**	**-**	**338**
Total	**369,772**	**6,995**	**4,991**	**381,758**
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	**106,639**	**1,255**	**1,192**	**109,086**
Interest costs – internal	**203**	**125**	**2,079**	**2,407**
Other operating expenses – external	**111,748**	**4,390**	**1,371**	**117,509**
Other operating expenses – internal	**-**	**174**	**164**	**338**
Depreciation	**8,200**	**325**	**148**	**8,673**
Credit loss expense - customer loan	**46,450**	**3,389**	**13**	**49,852**
Recoveries	**(23,817)**	**(2,671)**	**(2,242)**	**(28,730)**
Impairment losses on available for sale investments	**29**	**-**	**-**	**29**
Credit loss expense – bank loans	**361**	**-**	**-**	**361**
Provision – others	**-**	**-**	**238**	**238**
Taxation	**14,194**	**3**	**325**	**14,522**
Total	**264,007**	**6,990**	**3,288**	**274,285**
Segment profit for the year	**105,765**	**5**	**1,703**	**107,473**
Other information				
Segment assets	**7,295,535**	**155,312**	**72,117**	**7,522,964**
Segment capital expenses	**7,460**	**377**	**-**	**7,837**

31 SEGMENTAL INFORMATION (Continued)

Segment information is as follows:

Year ended 31 December 2012	*Retail banking RO'000*	*Corporate banking RO'000*	*Investment banking RO'000*	*Treasury and international banking RO'000*	*Head office RO'000*	*Total RO'000*
Net interest income	37,462	25,216	(338)	962	3,877	67,179
Other income	18,615	5,229	2,096	3,612	1,914	31,466
Operating profit	35,166	27,663	1,001	4,270	(16,140)	51,960
Impairment provisions (net)	(2,475)	(2,930)	(1,471)	-	1,596	(5,280)
Net Profit	32,691	24,733	(470)	4,270	(20,562)	40,662
Total assets	936,151	993,947	20,959	106,146	480,615	2,537,818
Total liabilities and equity	692,836	1,152,235	34,193	5,834	652,720	2,537,818

Year ended 31 December 2012	*Retail banking USD'000*	*Corporate banking USD'000*	*Investment banking USD'000*	*Treasury and international banking USD'000*	*Head office USD'000*	*Total USD'000*
Net interest income	97,304	65,496	(878)	2,499	10,070	174,491
Other income	48,350	13,582	5,444	9,382	4,971	81,729
Operating profit	91,339	71,852	2,600	11,091	(41,922)	134,960
Impairment provisions (net)	(6,429)	(7,610)	(3,821)	-	4,146	(13,714)
Net Profit	84,910	64,242	(1,221)	11,091	(53,406)	105,616
Total assets	2,431,561	2,581,681	54,439	275,704	1,248,350	6,591,735
Total liabilities and equity	1,799,574	2,992,818	88,813	15,153	1,695,377	6,591,735

31 SEGMENTAL INFORMATION (Continued)

Segment information by geography is as follows:

For the year ended 31 December 2012	*Oman* *RO'000*	*UAE* *RO'000*	*Egypt* *RO'000*	*Total* *RO'000*
Segment revenue				
Interest income - external	104,047	1,857	1,197	107,101
Interest income - internal	-	40	1,636	1,676
Other operating income - external	29,971	630	865	31,466
Other operating income - internal	191	-	-	191
Total	134,209	2,527	3,698	140,434
Segment costs				
Interest costs - external	38,402	546	974	39,922
Interest costs - internal	243	88	1,345	1,676
Other operating expenses - external	40,516	1,379	1,064	42,959
Other operating expenses – internal	-	62	129	191
Depreciation	3,515	127	84	3,726
Credit loss expense - customer loan	15,859	1,079	3	16,941
Provision – others	-	-	-	-
Impairment losses on available for sale investments	1,471	-	70	1,541
Recoveries	(11,282)	(1,244)	(676)	(13,202)
Taxation	5,677	54	287	6,018
Total	94,401	2,091	3,280	99,772
Segment profit for the year	39,808	436	418	40,662
Other information				
Segment assets	2,448,605	53,258	35,955	2,537,818
Segment capital expenses	3,612	289	15	3,916

31 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2012	*Oman* *USD'000*	*UAE* *USD'000*	*Egypt* *USD'000*	*Total* *USD'000*
Segment revenue				
Interest income - external	270,252	4,823	3,109	278,184
Interest income - internal	-	104	4,249	4,353
Operating income - external	77,847	1,636	2,246	81,729
Operating income - internal	496	-	-	496
Total	348,595	6,563	9,604	364,762
Segment costs				
Interest costs - external	99,745	1,418	2,530	103,693
Interest costs - internal	630	229	3,494	4,353
Operating expenses - external	105,236	3,582	2,764	111,582
Operating expenses – internal	-	161	335	496
Depreciation	9,130	330	218	9,678
Credit loss expense - customer loan	41,193	2,802	7	44,002
Provision – others	-	-	-	-
Impairment losses on available for sale investments	3,822	-	181	4,003
Recoveries	(29,304)	(3,231)	(1,756)	(34,291)
Taxation	14,745	140	745	15,630
Total	245,197	5,431	8,518	259,146
Segment profit for the year	103,398	1,132	1,086	105,616
Other information				
Segment assets	6,360,014	138,332	93,390	6,591,736
Segment capital expenses	9,382	751	39	10,172

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

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:

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Total USD'000	*Level 2 USD'000*	*Level 1 USD'000*		*Level 1 RO'000*	*Level 2 RO'000*	*Total RO'000*
			Investments – held for trading:			
69,506	**-**	**69,506**	Government development bonds	**26,760**	**-**	**26,760**
69,506	**-**	**69,506**	**Total**	**26,760**	**-**	**26,760**
			Investments - available for sale:			
199,138	**-**	**199,138**	Government development bonds	**76,668**	**-**	**76,668**
32,595	**-**	**32,595**	Quoted equities	**12,549**	**-**	**12,549**
38,569	**38,569**	**-**	Other unquoted equities	**-**	**14,849**	**14,849**
270,302	**38,569**	**231,733**	**Total**	**89,217**	**14,849**	**104,066**
339,808	**38,569**	**301,239**	**Total financial assets**	**115,977**	**14,849**	**130,826**
287,590	27,769	259,821	Total financial assets at 31 December 2012	100,031	10,691	110,722

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 23).

33 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.

33 DERIVATIVES (Continued)

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.

During the reporting period ended 31 December 2013 and 31 December 2012, the bank has not entered into any derivative financial instrument for its on balance sheet hedging.

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.

31 December 2013				***Notional amounts by term to maturity***		
	Positive fair value	***Negative fair value***	***Notional amount***	***Within 3 months***	***3 - 12 months***	***1 - 5 years***
	RO'000 (note 9)	***RO'000 (note 12)***	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Interest rate swaps	**5,261**	**(5,261)**	**144,155**	**2,125**	**11,690**	**130,340**
Forward foreign exchange purchase contracts	**53**	**(49)**	**49,505**	**39,660**	**9,845**	**-**
Forward foreign exchange sales contracts	**54**	**(49)**	**49,505**	**39,663**	**9,842**	**-**
Currency options	**16**	**(16)**	**4,244**	**3,820**	**424**	**-**
Commodity hedging	**23**	**(23)**	**2,193**	**2,193**	**-**	**-**
Total	**5,407**	**(5,398)**	**249,602**	**87,461**	**31,801**	**130,340**
Total – USD'000	**14,044**	**(14,021)**	**648,317**	**227,172**	**82,600**	**338,545**

31 December 2012				*Notional amounts by term to maturity*		
	Positive fair value	*Negative fair value*	*Notional amount*	*Within 3 months*	*3 - 12 months*	*1 - 5 years*
	RO'000 (note 9)	*RO'000 (note 12)*	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Interest rate swaps	9,753	(9,753)	138,276	4,762	6,901	126,613
Forward foreign exchange purchase contracts	64	(361)	66,657	48,716	17,941	-
Forward foreign exchange sales contracts	370	(170)	66,657	48,649	18,008	-
Currency options	325	(325)	45,483	33,253	12,230	-
Commodity hedging	558	(558)	51,161	30,980	20,181	-
Total	11,070	(11,167)	368,234	166,360	75,261	126,613
Total – USD'000	28,753	(29,005)	956,452	432,104	195,483	328,865

34 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2012 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 2012.

ISSUER

The National Bank of Oman SAOG
Bank Al Markazi Street
Ruwi
Muscat
Sultanate of Oman

REGISTRAR AND TRANSFER AGENT

HSBC BANK PLC
8 Canada Square
London E14 5HQ
England

FISCAL AGENT AND CALCULATION AGENT

HSBC BANK PLC
8 Canada Square
London E14 5HQ
England

LEGAL ADVISERS

To the Bank as to English law

Dentons & Co
Level 18, Boulevard Plaza
Burj Khalifah District
PO Box 1756
Dubai

Dentons UKMEA LLP
One Fleet Place
London EC4M 7WS
England

To the Bank as to Omani law

Dentons & Co Oman Branch
PO Box 3552
Ruwi PC 112
Sultanate of Oman

To the Managers as to English law

Clifford Chance LLP
Level 15
Burj Daman
Dubai International Financial Centre
P.O. Box 9380
Dubai

To the Managers as to Omani law

Al Busaidy, Mansoor Jamal & Co.
P.O. Box 686, Ruwi
Postal Code 112
Sultanate of Oman

AUDITORS

KPMG
4th Floor
HSBC Bank Building
MBD, P.O. Box 641, Ruwi 112
Sultanate of Oman

GLOBAL COORDINATORS

National Bank of Abu Dhabi P.J.S.C.
One NBAD Tower
Sheikh Khalifa Street
P.O. Box 4 Abu Dhabi
United Arab Emirates

Standard Chartered Bank
P.O. Box 999
Dubai
United Arab Emirates

JOINT LEAD MANAGERS

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Crédit Agricole Corporate and Investment Bank
Broadwalk House
5 Appold Street
London EC2A 2DA
United Kingdom

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

National Bank of Abu Dhabi P.J.S.C.
One NBAD Tower
Sheikh Khalifa Street
P.O. Box 4 Abu Dhabi
United Arab Emirates

The National Bank of Oman SAOG
Bank Al Markazi Street
Ruwi
Muscat
Sultanate of Oman

Standard Chartered Bank
P.O. Box 999
Dubai
United Arab Emirates

CO-LEAD MANAGER

FIRST GULF BANK P.J.S.C.
P.O. Box 6316
Abu Dhabi
United Arab Emirates

LISTING AGENT

The Bank of New York Mellon SA/NV, Dublin Branch
Hanover Building, Windmill Lane, Dublin 2, Ireland