PO Box 44, PC 114, Sultanate of Oman
Tel: +968 24730000 Fax: +968 24730010
www.banksohar.net

PROSPECTUS

Issue of up to 70,000 Perpetual Additional Tier I Capital Instruments (Capital Securities) and a Green Shoe Option of an additional 30,000 Capital Securities on a Private Placement basis, at a price of RO 1,000 per Capital Security, aggregating up to RO 100 million

ISSUE PERIOD
Opening Date: 06 September 2017
Closing Date: 20 September, 2017

Financial Advisor, Issue Manager & Placement Agent

Gulf Baader Capital Markets SAOC
PO Box 974, PC 112, Ruwi, Sultanate of Oman
Tel: +968 22350700 Fax: +968 22350745

Collecting Bank
Bank Sohar SAOG

Legal Advisor
Nasser Al Habsi & Saif Al Mamari Law Firm in association with Addleshaw Goddard (Middle East) LLP

External Auditor
Ernst & Young

Registrar, Transfer Agent and Trustee
Muscat Clearing and Depository Company SAOC

This Prospectus has been prepared in accordance with the applicable guidelines stipulated by the Capital Market Authority of Sultanate of Oman. This is an unofficial English version of the original prospectus prepared in Arabic and approved by Capital Market Authority vide its Administrative Decision No. E / 56 / 2017 dated 30 August, 2017. In the event of any conflict between the English and Arabic versions of the prospectus, the Arabic version will prevail. The Prospectus containing this information has been submitted according to the requirements for securities issued in primary market of Capital Market Authority, Sultanate of Oman.
It is to be emphasized here that Capital Market Authority is not responsible for the accuracy and adequacy of the information contained in this publication, nor assume any liability for any damage or loss that might arise from reliance on such data and information used by any person.

IMPORTANT NOTICE TO INVESTORS

This Prospectus does not constitute an offer to sell or an invitation by or on behalf of the Company to subscribe to the offered securities in any jurisdiction outside of Oman where such distribution is, or may be, unlawful.

The prospectus and the private placement are intended only for certain select investors as identified by the Company and is not an offer to the public. As the securities are being offered on private placement basis, the prospectus is not intended for public circulation or distribution. Select investors include, but are not limited to, pension funds, investment companies, portfolio management entities, high net worth individuals and any other person/entity identified by the Issuer.

The aim of this Prospectus is to present material information that may assist investors to make an appropriate decision as to whether or not to invest in the offered securities.

This Prospectus includes all material information and data and does not contain any misleading information or omit any material information that would have positive or negative impact on an investors' decision as to whether or not to invest in the offered securities.

The Board of Directors of the Issuer are jointly and severally responsible for the integrity and adequacy of the information contained in this Prospectus and confirm that, to their knowledge appropriate due diligence had been observed in the preparation of this Prospectus and further confirm that no material information has been omitted, the omission of which would render this Prospectus misleading.

All investors should examine and carefully review this Prospectus in order to decide whether it would be appropriate to invest in the offered securities by taking into consideration the information contained in this Prospectus in the context. Investors should not consider this Prospectus a recommendation by the Issuer to subscribe the offered securities. Every investor shall bear the responsibility of obtaining independent professional advice on the investment in the offered securities and conduct independent evaluation of the information and assumptions contained herein using whatsoever analysis or projections he/she sees fit as to whether or not to invest in the offered securities.

It is noteworthy that no person has been authorized to make any statements or provide information on the Issuer or the offered securities other than the persons whose names are indicated herein. Where any person makes any statement or provides information, it should not be taken as authorized by the Issuer or the Issue Manager.

IMPORTANT POINTS

This Prospectus includes relevant information that is deemed important and neither includes any misleading information nor excludes any material information, the omission of which may materially influence any investor's decision pertaining to the investment in the offered securities through this Prospectus. All summaries of documents or provisions of documents provided in this Prospectus should not be relied upon as being comprehensive statements in respect of such documents and are only to be seen as being a summary of such documents.

All market investments carry various risks including market risks to varying degrees. The value of any security can fall as well as rise depending on the market conditions.

ADDITIONAL POINTS TO BE NOTED

References to documents

All summaries of documents referred to in this Prospectus may not provide a complete summary of such documents, and statements in this Prospectus relating to such documents may not be exact reproductions of such documents or parts thereof and should not be relied upon as being comprehensive statements in respect of such documents.

Scope of information

The information contained in this Prospectus is intended to provide a prospective Applicant with adequate information relating to the investment opportunity and background information on the Capital Securities Issue. However, this Prospectus does not necessarily contain all the information that a prospective Applicant may consider material. The content of this Prospectus is not to be construed as legal, business or tax advice. Each prospective Applicant should consult his own lawyer, financial advisor or tax advisor for legal, financial or tax advice in relation to any purchase or proposed purchase of the Capital Securities.

Investor due diligence

Prior to making any decision as to whether to subscribe for the Capital Securities, prospective Applicants should read this Prospectus in its entirety. In making an investment decision, prospective Applicants must rely upon their own examination of the terms of this Prospectus and the risks involved in making an investment.

Restrictions on distribution of this Prospectus

The distribution of this Prospectus and the Issue may, in certain jurisdictions, be restricted by law or may be subject to prior regulatory approvals. This Prospectus does not constitute an offer or an invitation by or on behalf of Bank Sohar to any person in any jurisdiction outside Oman to purchase any of the Capital Securities where such offer or invitation would be unlawful. Bank Sohar and the Issue Manager require persons into whose possession this Prospectus comes, to inform them of and observe, all such restrictions. None of Bank Sohar or the Issue Manager accept any legal responsibility for any violation of any such restrictions on the sale, offer to sell or solicitation to subscribe for Capital Securities by any person, whether or not a prospective Applicant, in any jurisdiction outside Oman where such sale, offer to sell or solicitation to subscribe would be unlawful.

Restrictions on use of information contained in this Prospectus

The information contained in this Prospectus may not be published, duplicated, copied or disclosed in whole or in part or otherwise used for any purpose other than in connection with the Issue, without the prior written approval of Bank Sohar and the Issue Manager other than the purpose it has been issued for.

Disclaimer of implied warranties

Save and except as required under applicable law and regulations, no representation or warranty, express or implied, is given by Bank Sohar or the Issue Manager, or any of their respective directors, managers, accountants, advisers, lawyers, employees or any other person as to the completeness of the contents of this Prospectus; or of the projections included within; or of any other document or information supplied at any time in connection with the Issue; or that any such document has remained unchanged after the issue thereof.

SELLING RESTRICTIONS OUTSIDE OF OMAN

Kingdom of Bahrain

In relation to investors in the Kingdom of Bahrain, the securities, which are the subject of 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 in the Kingdom of Bahrain where such investors make a minimum investment of at least US$100,000, or any equivalent amount in other currency or such other amount as the Central Bank of Bahrain may determine.

This Issue does not constitute an offer of 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 Central Bank of Bahrain. Accordingly, no 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 securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside Bahrain.

The Central Bank of Bahrain has not reviewed, approved or registered this Prospectus or related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the Central Bank of Bahrain assumes no responsibility for the accuracy and completeness of the statements and information contained in this document and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this document.

State of Kuwait

This Prospectus has not been reviewed by the Capital Markets Authority of Kuwait and is not issued by a person licensed by the Capital Markets Authority. Accordingly, this Prospectus may neither be circulated within the State of Kuwait nor may any Capital Securities be offered for subscription be sold, directly or indirectly, in the state of Kuwait. Moreover, no invitation or offer to subscribe for any of the Capital Securities may be made to persons, including for the avoidance of doubt, any legal entities, in the State of Kuwait. In the event that this Prospectus is forwarded to any person in the State of Kuwait, it should be disregarded and no steps should be taken in reliance upon it. No person in the State of Kuwait may accept or subscribe for, or purport to accept or subscribe for, the Capital Securities.

State of Qatar

The Capital Securities have not been and will not be offered, sold or delivered, at any time, directly or indirectly in the State of Qatar in a manner that would constitute a public offering. No application has been or will be made for the Capital Securities to be listed or traded on the Qatar Exchange or the QE Venture Market. This Prospectus has not been, and will not be, reviewed or approved by or registered or filed with the Qatar Financial Markets Authority or Qatar Central Bank and may not be publicly distributed. This Prospectus is intended for the original recipient only and must not be provided to any other person. This Prospectus is not for general circulation in the State of Qatar and may not be reproduced or used for any other purpose.

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 as issued by the Board of the Capital Market

Authority of the Kingdom of Saudi Arabia resolution number 2-11-2004 dated October 4, 2004 as amended by resolution number 1-28-2008 dated August 18, 2008 (the "KSA Regulations").

This Prospectus is directed to "sophisticated investors", as defined under Article 10 of the KSA Regulations ("Sophisticated Investors"), for information purposes only. This Prospectus is not intended for distribution to, or use by anyone who is not a Sophisticated Investor. Any person who is not a Sophisticated Investor should not act on this Prospectus or any of its contents. This Prospectus also is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be contrary to law or regulation.

The Capital Market Authority of the Kingdom of Saudi Arabia does not make any representation 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 securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this Prospectus, you should consult an authorised financial adviser.

United Arab Emirates (excluding the Dubai International Financial Centre)

This Prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose.

By receiving this Prospectus, the person or entity to whom it has been issued understands, acknowledges and agrees that neither the Capital Securities nor this Prospectus have been approved by the UAE Central Bank, the UAE Ministry of Economy and Planning, the UAE Securities and Commodities Authority or any other authorities in the United Arab Emirates. The Issue Manager has not received authorisation or licensing from the UAE Central Bank, the UAE Ministry of Economy and Planning, the UAE Securities and Commodities Authority or any other authorities in the United Arab Emirates to market or sell the Capital Securities within the United Arab Emirates. No marketing or offer of the Capital Securities has been or will be made from within the United Arab Emirates and no purchase of the Capital Securities may or will be consummated within the United Arab Emirates. It should not be assumed that the Issue Manager is a licensed broker, dealer or investment adviser under the laws applicable in the United Arab Emirates, or that they advise individuals resident in the United Arab Emirates as to the appropriateness of investing in or purchasing or selling securities or other financial products. The Capital Securities may not be offered or sold directly or indirectly to the public in the United Arab Emirates. This Prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the UAE Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

Nothing contained in this Prospectus is intended to constitute investment, legal, tax, accounting or other professional advice. This Prospectus is for your information only and nothing in this Prospectus is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

Dubai International Financial Centre

This Prospectus is not intended to, and does not, constitute a financial promotion, an offer, sale or delivery of Capital Securities or other securities under the Dubai International Financial Centre (the "DIFC") Markets Law (DIFC Law 12 of 2004, as amended), Regulatory Law (DIFC Law 1 of 2004, as amended), under the Offered Securities Rules of the Dubai Financial Services Authority (the "**DFSA**") or otherwise. The Capital Securities are not intended for, are not being offered, distributed, sold or publicly promoted or advertised, directly or indirectly, to, or for the account or benefit of, any person in the DIFC. This Prospectus is not intended for distribution to any person in the DIFC and any such person that receives a copy of this Prospectus should not act or rely on this Prospectus and should ignore the same. The DFSA has not approved the offer of Capital Securities or this Prospectus nor taken steps to verify the information set out in it, and has no responsibility for it.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain “forward-looking statements”. These forward-looking statements generally can be identified by the use of forward-looking terminology, including terms such as “aim”, “anticipate”, “believe”, “expect”, “estimate”, “goal”, “intend”, “objective”, “plan”, “project”, “shall”, “will”, “will continue”, “will pursue”, their negative, or other words or phrases of similar import. Similarly, statements that describe Bank Sohar’s strategies, objectives, plans or goals are also forward-looking statements. All forward-looking statements are subject to risks, uncertainties and assumptions that could cause actual outcomes, including among other things, Bank Sohar’s result of operations, financial condition, cash flows, liquidity, financial projections and growth to differ materially from those contemplated by the relevant forward-looking statement.

Important factors that could cause actual results to differ materially from Bank Sohar’s expectations include but are not limited to:

- inability to estimate future performance;
- inability of Bank Sohar to meet its debt service obligations;
- inability of Bank Sohar to meet its payment obligations;
- certain financing and/or operational and maintenance risks;
- access to adequate insurance to cover all potential losses;
- change in monetary and/or interest policies of Oman, local and/or international inflation, local and/or international interest rates;
- fluctuations in foreign exchange rates, equity prices or other rates or prices;
- the performance of the financial markets in Oman;
- general political, economic and business conditions in Oman which may have an impact on Bank Sohar’s business activities;
- changes in laws and/or regulation and/or conditions that may have a bearing on the position of Bank Sohar’s clients, and/or suppliers, or the banking sector in Oman; and
- increased competition in the banking sector in Oman changes in the economic and/or financial conditions of Bank Sohar’s clients, suppliers and the banking sector.

By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could be materially different from those that have been estimated. None of Bank Sohar or the Issue Manager or any of their respective affiliates have any obligation to update or otherwise revise any statements in this Prospectus to reflect circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition or differ in actuality.

The above list is not exhaustive and for a further discussion of factors that could cause actual results to differ, see Chapter 14 – Risk Factors of this Prospectus. Bank Sohar will adhere to the disclosure rules and regulations issued by the CMA, which includes making timely disclosure regarding Bank Sohar’s results of operation. Bank Sohar advises Applicants to track any information or announcements made by it after listing through the MSM website at www.msm.gov.om in the event they purchase Capital Securities and become holders of Capital Securities.

PRESENTATION OF FINANCIAL, INDUSTRY AND MARKET DATA

Financial Data

Unless stated otherwise, the financial data in this Prospectus is derived from Bank Sohar's audited financial statements or its unaudited interim financial statements, in each case prepared in accordance with IFRS. Copies of the financial statements are available on MSM website or on the Bank's website. Bank Sohar's financial year commences on 1 January and ends on 31 December. In this Prospectus, any discrepancy in any table between the total and the sum of the relevant amounts listed is due to rounding.

Currency of Presentation

In this Prospectus, all references to "OMR" and/or "Omani Rials" are to the legal currency for the time being of Oman.

Industry and Market Data

Unless stated otherwise, industry and market data used throughout this Prospectus has been obtained from third-party industry publications and/or websites. Although it is believed that industry data used in this Prospectus is reliable, it has not been independently verified and therefore its accuracy and completeness is not guaranteed and its reliability cannot be assured. Similarly, internal company reports, while believed to be reliable, have not been verified by any independent sources. The extent to which the market and industry data used in this Prospectus is meaningful depends on the reader's familiarity with and understanding of the methodologies used in compiling such data.

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CHAPTER 1: ABBREVIATIONS AND DEFINITIONS

Definitions

AGM	Annual General Meeting of the Bank
APPLICABLE REGULATORY CAPITAL REQUIREMENTS	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
APPLICANT	A person or entity who applies for the subscription of the Capital Securities pursuant to the terms of this Prospectus
APPLICATION	The application through an application form to be submitted for the subscription of the Capital Securities pursuant to the terms of this Prospectus
ARTICLES	Articles of Association of Bank Sohar as registered with MOCI, as may be amended from time to time in accordance with the provisions as contained therein
AUTHORISED SIGNATORIES	The persons who are authorised signatories of the Bank
BAIZA / BZS	One thousandth of Omani Rial (Bzs 1000 = 1 Omani Rial)
BANKING LAW	The Banking Law of Oman promulgated by Royal Decree 114/2000, as amended
BASEL COMMITTEE	The Basel Committee on Banking Supervision
BASEL III	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	The document titled "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 the document titled "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
BOARD / BOARD OF DIRECTORS	Bank Sohar's Board of Directors elected in accordance with the Articles and the CCL
BUSINESS DAY	A day, other than a Friday, Saturday or a public holiday, on which banks and the Registrar are open for general business in Muscat, Oman
CALL DATE	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 its outstanding principal amount together with any Outstanding Payments
CAPITAL REGULATIONS	At any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Oman, including those of the Regulator (which shall include, without limitation, the Regulator's CP-1 Guidelines on regulatory capital under Basel III issued via the CBO circular BM1114 dated 17 November 2013 and CBO circular BSD/2017/BKUP/Banks/16 dated 16 January 2017); and any other amendments thereof
CAPITAL SECURITIES	Perpetual Capital Securities, qualifying as an Additional Tier I Capital Instrument under CBO guidelines, with a face value of RO 1,000 per Capital Security, issued under this Prospectus
CBO	Central Bank Oman
CCL	Commercial Companies Law of Oman promulgated by Royal Decree 4/74 and the amendments thereto
CHAPTER	A chapter of this Prospectus
CMA	Capital Market Authority of Oman
CMA LAW	Capital Market Law of Oman as contained in Royal Decree 80/98
CODE	The Corporate Governance Code for public listed companies issued vide CMA Circular No. E/4/2015 on 22/7/2015 as amended
COMMON EQUITY TIER 1 CAPITAL	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
CONDITIONS	The terms and conditions of the issue of Capital Securities as set out in Chapter 5 of this Prospectus
DAY-COUNT FRACTION	The number of days in the relevant period divided by 365 (including the first such day but excluding the last)
DETERMINATION DATE	In respect of a Reset Period, the third Business Day prior to the commencement of such Reset Period
DIRECTOR	A member of the Board of Directors of Bank Sohar
DISTRIBUTABLE	The Bank's accumulated and realised profits (to the extent not previously

ITEMS	distributed or capitalised), less accumulated losses, all as set out in the most recent financial statements of the Bank as announced through the MSM website
DIVIDEND STOPPER DATE	Has the meaning given to it in Condition 6.4 (*Dividend and Redemption Restrictions*)
EARLY REDEMPTION AMOUNT	In relation to a Capital Security, its outstanding principal amount together with any Outstanding Payments
EGM	Extraordinary General Meeting of the Bank
EVENT OF DEFAULT	(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***: a liquidator is appointed, an order is made by a court of competent jurisdiction or an effective resolution passed for the winding-up or dissolution or liquidation of the Bank or the Bank shall apply or petition for a winding-up or liquidation 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; (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 (iii) arising as a result of a merger or amalgamation with another financial institution; 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
EXISTING INTEREST	The Interest Rate or the Initial Interest Rate, as applicable, immediately

RATE	preceding the relevant Reset Date
EXTRAORDINARY RESOLUTION	A resolution passed by the holders of the Capital Securities in accordance with the procedures set out to these Conditions
FINANCIAL ADVISOR, ISSUE MANAGER & PLACEMENT AGENT	Gulf Baader Capital Markets SAOC PO Box 974, PC 112, Ruwi, Oman Tel: +968 22350700 Fax: +968 22350745 Email: cfd@gbcmoman.net
FINANCIAL YEAR / FY	The financial year of Bank Sohar commencing from 1st January and ending on 31st December or as may be amended by the Shareholders in accordance with the Articles
FIRST CALL DATE	The 5th anniversary of the Issue Date
GREEN SHOE OPTION	In case of oversubscription, the option available to Issuer to issue and allot upto 30,000 more Capital Securities and retain corresponding excess subscription amounts
FIRST INTEREST PAYMENT DATE	Six months from the Issue Date.
GOVERNMENT	Government of Oman
IFRS	International Financial Reporting Standards
INITIAL INTEREST RATE	7.75%
INITIAL MARGIN	2.50% per annum
INITIAL PERIOD	The period from and including the Issue Date, to but excluding the First Call Date
INTEREST DUE DATES	The dates until which interest is payable for the respective periods for which interest accrues in accordance with the terms of the Capital Securities issue
INTEREST PAYMENT AMOUNT	The amount of interest payable, subject to Condition 6 (*Interest Restrictions*) and Condition 7 (*Payments*), on each Interest Payment Date
INTEREST PAYMENT DATE	The First Interest Payment Date and every six months after the First Interest Payment Date
INTEREST PERIOD	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	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	Issue of up to 70,000 Perpetual Additional Tier 1 Capital Securities Instruments (Capital Securities) and a Green Shoe Option of an additional 30,000 Capital Securities on a Private Placement basis, at a price of RO 1,000 per Capital Security, aggregating up to RO 100 million
ISSUE DATE	The date of approval of the allotment of the Capital Securities by the CMA
ISSUE PRICE	OMR 1,000 per Capital Security
ISSUER / BANK SOHAR / THE BANK	Bank Sohar SAOG PO Box 44, PC 114, Oman Tel: +968 24730000; Fax: +968 24730010
JUNIOR OBLIGATIONS	All claims of the holders of Ordinary Shares
LAWS OF OMAN	The laws of Oman in the form of Royal Decrees, Ministerial Decisions, CMA Regulations as the same may have been, or may from time to time be enacted, amended or re-enacted or issued
MCDC / REGISTRAR	Muscat Clearing and Depository Company SAOC P O Box 952, , P.C. 112, Ruwi Oman Tel: +968 24822222; Fax: +968 24817491
MEMORANDUM	Memorandum of Association of Bank Sohar
MOCI	Ministry of Commerce and Industry of Oman
MSM	Muscat Securities Market of Oman
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	(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	Has the meaning given to it in Condition 9 (*Write-down at the Point of Non-*

NOTICE	*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	The payment obligations of the Bank under the Capital Securities
OMAN	Sultanate of Oman
OMR / OMANI RIAL / RO	The lawful currency of Oman. Each Omani Rial is equivalent to 1,000 Baizas
OTHER COMMON EQUITY TIER 1 INSTRUMENTS	Securities issued by the Bank that constitute Common Equity Tier 1 Capital of the Bank other than Ordinary Shares
OUTSTANDING PAYMENTS	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**	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 7.2 (*Payment Day*)
PROSPECTUS	Means this Prospectus as approved by the CMA's Administrative Decision No. E / 56 / 2017 dated 30 August, 2017
QUALIFYING TIER 1 INSTRUMENTS	Instruments that satisfy the criteria of Qualifying Tier I Capital Instruments pursuant to the criteria set out in the "Guidelines on Regulatory Capital under Basel III" circulated by the CBO in the CBO circular No BM 1114 dated 17 November 2013.
RECORD DATE	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 on the 15th day before the date for payment of the relevant Redemption Amount (as the case may be)
REDEMPTION AMOUNT	The Early Redemption Amount, the Tax Redemption Amount or the Capital Event Redemption Amount (as the case may be)
REGISTER	The record of holding and ownership of the Capital Securities maintained by MCDC
REGULATOR	The CBO or any successor entity having primary bank supervisory authority with respect to the Bank in Oman

RELEVANT DATE	The date on which the payment first becomes due, except that, if notice to that effect is duly given to holders of the Capital Securities in accordance with Condition 13 (*Notices*)
RELEVANT 5 YEAR RESET RATE	The lower of the following: (a) The rate of the most recent Reset Reference Bond (b) The Existing Interest Rate in the event no Reset Reference Bond is available on account of: (i) no auction issue in the immediate 12 months preceding any Reset Date; or (ii) there is no tenor matching the Reset Reference Tenor
RESET REFERENCE TENOR	The length of time in years, until the maturity date or first call date of the Reset Reference bond
RESET REFERENCE BOND	(a) The most recent Omani Rial Government Development Bond with the relevant rate being the average yield at which allotment is made, in the immediate 12 months preceding the applicable Reset Date and which has a tenor equal to the relevant Reset Reference Tenor; or (b) The most recent Omani Rial sovereign debt issue with the relevant rate being the yield to maturity/first call calculated at the announced issue price, in the immediate 12 months preceding the applicable Reset Date and which has a tenor equal to the relevant Reset Reference Tenor
RESET DATE	The First Call Date and every fifth anniversary thereafter
RESET PERIOD	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, but excluding, the next succeeding Reset Date
SENIOR OBLIGATIONS	All unsubordinated payment obligations of the Bank (including deposit holders and general creditors) and all subordinated payment obligations (if any) of the Bank to which the Obligations rank, or are expressed to rank, junior
SHARES	The ordinary shares of nominal value of Baiza 100 of the Bank.
SHAREHOLDERS	The shareholders of Bank Sohar
TAX EVENT	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 the Issue Date 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 11 (*Taxation*)
TIER 1 CAPITAL	Capital qualifying as, and approved by the Regulator as, tier 1 capital in accordance with the Capital Regulations
TIER 2 CAPITAL	Capital qualifying as, and approved by the Regulator as, tier 2 capital in accordance with the Capital Regulations
TRUST DEED	The agreement between Bank Sohar (as Issuer) and MCDC (as Trrustee)
TRUSTEE	MCDC or any successor body thereto and includes all persons who may be appointed trustee under the terms of the Trust Deed to act for and on behalf of the holders of Capital Securities as their representative
WRITE-DOWN	(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

Interpretations

In this Prospectus:

- Headings and underlining are for convenience only and do not affect the interpretation of the Prospectus.
- Words importing the singular include the plural and vice versa.

- An expression importing a natural person includes any juristic person.
- In case a day on which an action or event is required to take place pursuant to the Conditions falls on a day that is not a Business Day, then that action or event will take place immediately on the following Business Day.

CHAPTER 2: CREDIT RATING

Issuer Rating

Issuer ratings are opinions of rating agencies of the ability of entities to honour senior unsecured debt and debt like obligations. As such, issuer ratings incorporate any external support that is expected to apply to all current and future issuance of senior unsecured financial obligations and contracts, such as explicit support stemming from a guarantee of all senior unsecured financial obligations and contracts, and/or implicit support for issuers subject to joint default analysis (e.g. government-related issuers). Issuer ratings do not incorporate support arrangements, such as guarantees, that apply only to specific (but not to all) senior unsecured financial obligations and contracts.

The Issuer has been assigned the following long-term rating:

Rating Agency	Rating	Outlook	Date of last revision
FITCH Ratings	BBB-	Negative	3 July 2017
Capital Intelligence	BBB	Stable	28 April 2017

About Fitch Ratings

Fitch is a leading provider of credit ratings, research, and risk analysis. The firm's ratings and analysis track debt covering sovereign nations, corporate issuers, public finance issuers and structured finance obligations.

Viability Rating Scale	
Category	**Brief description**
AAA	**Highest fundamental credit quality** 'AAA' ratings denote the best prospects for ongoing viability and lowest expectation of failure risk. They are assigned only to banks with extremely strong and stable fundamental characteristics, so that they are most unlikely to have to rely on extraordinary support to avoid default. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	**Very high fundamental credit quality** 'AA' ratings denote very strong prospects for ongoing viability. Fundamental characteristics are very strong and stable so that Fitch considers it highly unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity is not significantly vulnerable to foreseeable events.
A	**High fundamental credit quality** 'A' ratings denote strong prospects for ongoing viability. Fundamental characteristics are strong and stable, so that it is unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity may nevertheless be more vulnerable to adverse business or economic conditions than for banks with higher ratings.
BBB	**Good fundamental credit quality** 'BBB' ratings denote good prospects for ongoing viability. The bank's fundamentals are adequate, so that there is a low risk that it would have to rely on extraordinary support to avoid

	default. However, adverse business or economic conditions are more likely to impair this capacity.
BB	**Speculative fundamental credit quality** 'BB' ratings denote moderate prospects for ongoing viability. A moderate degree of fundamental financial strength exists, which would have to be eroded before the bank would have to rely on extraordinary support to avoid default. However, the bank has higher vulnerability to adverse changes in business or economic conditions over time.
B	**Highly speculative fundamental credit quality** 'B' ratings denote weak prospects for ongoing viability. Material failure risk is present but a limited margin of safety remains. The bank's capacity for continued unsupported operation is vulnerable to deterioration in the business and economic environment.
CCC	**Substantial fundamental credit risk** Failure of the bank is a real possibility. Capacity for continued unsupported operation is highly vulnerable to deterioration in the business and economic environment.
CC	**Very high levels of fundamental credit risk** Failure of the bank appears probable.
C	**Exceptionally high levels of fundamental credit risk** Failure of the bank is imminent or inevitable.
F	**Failure** A bank that, in Fitch's opinion, has failed, i.e. either: has defaulted on its senior obligations to third-party, non-government creditors; or requires extraordinary support or needs to impose losses on subordinated obligations to restore its viability.
The modifiers '+' or '−' may be appended to a rating to denote relative status within categories from 'AA' to 'B'	

The terms "investment grade" and "speculative grade" have established themselves over time as shorthand to describe the categories 'AAA' to 'BBB' (investment grade) and 'BB' to 'D' (speculative grade). The terms investment grade and speculative grade are market conventions and do not imply any recommendation or endorsement of a specific security for investment purposes.

About Capital Intelligence Rating Ltd Ratings

Capital Intelligence is a leading provider of credit ratings, research, and risk analysis. The firm's ratings and analysis track debt covering sovereign nations, corporate issuers, public finance issuers and structured finance obligations.

Foreign Currency and Local Currency Ratings
International Issuer Credit Ratings: Foreign Currency and Local Currency CI's international issuer credit ratings indicate the general creditworthiness of an entity (such as a bank, corporate or sovereign) and the likelihood that it will meet its financial obligations in a timely manner. Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to

foreign currency or on the transfer of foreign currency to residents and non-residents.

Local currency ratings are an opinion of an entity's ability and willingness to meet all of its financial obligations on a timely basis, regardless of the currency in which those obligations are denominated and absent transfer and convertibility restrictions. Both foreign currency and local currency ratings are internationally comparable assessments.

Foreign and local currency ratings take into account the economic, financial and country risks that may affect creditworthiness, as well as the likelihood that an entity would receive external support in the event of financial difficulties.

Ratings assigned to banks and corporates are generally not higher than the ratings assigned by CI to the relevant sovereign government. However, it may be possible for an issuer with particular strengths and attributes such as inherent financial strength, geographically diversified cash flow, substantial foreign assets, and guaranteed external support, to be rated above the sovereign.

CI may assign either a public rating or an internal 'shadow' rating to the sovereign. Shadow sovereign ratings are not intended for publication and are used to ensure that sovereign risk factors are adequately reflected in the ratings of non-sovereign issuers.

The following rating scale applies to both foreign currency and local currency ratings. Short-term ratings assess the time period up to one year.

Long-Term Issuer Ratings

Investment Grade	
AAA	The highest credit quality. Exceptional capacity for timely fulfilment of financial obligations and most unlikely to be affected by any foreseeable adversity. Extremely strong financial condition and very positive non-financial factors.
AA	Very high credit quality. Very strong capacity for timely fulfilment of financial obligations. Unlikely to have repayment problems over the long term and unquestioned over the short and medium terms. Adverse changes in business, economic and financial conditions are unlikely to affect the institution significantly.
A	High credit quality. Strong capacity for timely fulfilment of financial obligations. Possesses many favourable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions.
BBB	Good credit quality. Satisfactory capacity for timely fulfilment of financial obligations. Acceptable credit characteristics but some vulnerability to adverse changes in business, economic and financial conditions. Medium grade credit characteristics and the lowest investment grade category.
Speculative Grade	
BB	Speculative credit quality. Capacity for timely fulfilment of financial obligations is vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors do not provide significant safeguard and the possibility of investment risk may develop.
B	Significant credit risk. Capacity for timely fulfilment of financial obligations is very vulnerable to adverse changes in internal or external circumstances. Financial and/or non-

	financial factors provide weak protection; high probability for investment risk exists.
C	Substantial credit risk is apparent and the likelihood of default is high. Considerable uncertainty as to the timely repayment of financial obligations. Credit is of poor standing with financial and/or non-financial factors providing little protection.
RS	Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.
SD	Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.
D	The obligor has defaulted on all, or nearly all, of its financial obligations.
Short-Term Issuer Ratings	
Investment Grade	
A1	Superior credit quality. Highest capacity for timely repayment of short-term financial obligations that is extremely unlikely to be affected by unexpected adversities. Institutions with a particularly strong credit profile have a "+" affixed to the rating.
A2	Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.
A3	Strong capacity for timely repayment that may be affected by unexpected adversities.
Speculative Grade	
B	Adequate capacity for timely repayment that could be seriously affected by unexpected adversities.
C	Inadequate capacity for timely repayment if unexpected adversities are encountered in the short term.
RS	Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.
SD	Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.
D	The obligor has defaulted on all, or nearly all, of its financial obligations.
Capital Intelligence appends "+" and "-" signs to foreign and local currency **long term** ratings in the categories from "AA" to "C" to indicate that the strength of a particular rated entity is, respectively, slightly greater or less than that of similarly rated peers.	
Outlook - expectations of improvement, no change or deterioration in a bank or corporate rating over the 12 months following its publication are denoted Positive, Stable or Negative. The time horizon for	

a sovereign rating outlook is longer, at 12-24 months.

CHAPTER 3: SUMMARY OF INFORMATION RELATING TO BANK SOHAR SAOG

This summary highlights information contained elsewhere in this Prospectus. It does not contain all the information that Applicants should consider before investing in the Capital Securities. All Applicants should read the entire Prospectus carefully and, the published financial statements of Bank Sohar. In addition, all Applicants should specifically read "Chapter 14 – Risk Factors" of this Prospectus for more information about important risk factors that should be considered before applying for Capital Securities.

Overview of Bank Sohar

The Bank is a full scale retail and commercial bank which commenced business in 2007. Its operations are focused on Oman and it is the fourth largest bank in the country in terms of total assets and has been the fastest growing bank in Oman in terms of total assets since 2007. The Bank operates a network of 27 conventional branches, 5 Islamic branches and 55 ATMs spread throughout Oman.

The Bank's wholesale banking division provides products and services to large corporates, mid-sized corporates, SMEs and the government and public sector in Oman. The SME business is relatively small, but is being expanded. The Bank also provides advisory services to entrepreneurs and works closely with government departments responsible for promoting SMEs in the country.

The Bank's retail banking business has grown substantially over the years, although the rate of growth has slowed since 2014 reflecting a general concern that individual indebtedness in the country is rising. Since 2013, the Bank has also provided Shari'a-compliant banking through an Islamic finance window.

BANK SOHAR'S COMPETITIVE STRENGTHS INCLUDE THE FOLLOWING:
The Bank's core strengths are its: **Significant indirect government shareholding**: The Bank's shares are majorly held by government entities including long-term investors such as pension funds and sovereign wealth funds. **Strong asset quality**: The Bank enjoys a good asset quality built over years with appropriate balancing of marketing considerations and risk management policies. **Strong growth**: the Bank has been one of the fastest growing banks in Oman in terms of total assets since 2007. This reflects its initial strategy which has been achieved with appropriate implementation. **Strong management**: The Bank possesses an experienced senior management team, largely from the Omani market, and this team has successfully grown the Bank's assets and profitability with a prudent balancing of risk. Most of the Bank's original senior management team continue to serve the Bank. **Islamic banking window**: The Bank's Islamic window under the name 'Sohar Islamic' was established in full compliance with Shari'a requirements and CBO regulations. Islamic Banking provides the Bank with significant flexibility in allowing customers to choose the type of banking service they prefer.

CHAPTER 4: SUMMARY OF THE ISSUE

Issuer:	Bank Sohar SAOG
Commercial Registration No.	1014333 established on 4 March 2007 at the Ministry of Commerce and Industry
Principal place of Business	PO Box 44, PC 114, Oman
Bank's Duration	Unlimited
Authorised Share Capital	RO 200,000,000 divided into 2,000,000,000 shares of Baiza 100 each
Issued & Paid up Capital	RO 178,464,624 divided into 1,784,646,242 shares of Baiza 100 each
Initial Interest Rate	7.75%
Credit rating of Issuer	Long-term issuer rating of BBB- (Negative outlook) by FITCH Ratings as of date 3 July 2017 Long-term issuer rating of BBB (Stable outlook) by Capital Intelligence as of date 28 April 2017
Nature of securities offered	Omani Riyal Perpetual Capital Securities as Additional Tier I Capital Instruments
Issue	Issue of up to 70,000 Capital Securities and a Green shoe option of 30,000 additional Capital Securities on Private Placement basis, at a price of RO 1,000 per Capital Security, aggregating up to RO 100 million
Nominal Value of Capital Securities	RO 1,000 per Capital Security
Issue Period	Opening Date; 06 September 2017 Closing Date: 20 September, 2017
Tenor	Perpetual
Minimum and Maximum application	Minimum application – 250 Capital Securities Maximum application – 70,000 Capital Securities
Listing of Capital Securities	On MSM
Financial Advisor & Issue Manager:	Gulf Baader Capital Markets SAOC
Registrar, Transfer Agent and Trustee:	Muscat Clearing and Depository Company SAOC
Legal Advisor to the Issue	Nasser Al Habsi & Saif Al Mamari Law Firm PO Box 4, PC 102, Oman

Statutory Auditor	Ernst & Young LLC PO Box 1750, PC 112, Oman
Issue Date:	means the date of approval of the allotment of the Capital Securities by the CMA
Issue Price:	RO 1,000 per Capital Security
Interest Payment Dates:	Every six months from the First Interest Payment Date.
Interest Payment Amounts:	Subject to Condition 6 (*Interest Restrictions*), the Capital Securities shall bear interest semi-annually in arrears from the Issue Date. The Interest Payment Amount payable on each Interest Payment Date during the Initial Period shall be OMR 7.75% per OMR 1,000 on the outstanding principal amount of the Capital Securities and shall be payable out of Distributable Items. The Interest Rate will be reset on each Reset Date on the basis of the aggregate of the Initial Margin of 2.50% per annum and the Relevant 5 Year Reset Rate on the relevant Determination Date, as determined by the Bank (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.
Status of the Capital Securities:	The Capital Securities to the Bank will: (a) constitute Additional 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 in Chapter 1).
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 8 (*Redemption and Variation*).

Pursuant to Condition 8.1(b) (*Bank's Call Option*), the Bank may, on the First Call Date or on any Call Date 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 8.1(c) (*Redemption or Variation due to Taxation*) and 8.1(d) (*Redemption or Variation for Capital Event*).

Any redemption of the Capital Securities is subject to the conditions described in Condition 8.1 (*Redemption and Variation*).

Non-Viability Event: If a Non-Viability Event occurs, a Write-downshall occur on the relevant Non-Viability Event Write-down Date, as more particularly described in Condition 9 (*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, effective upon the date of receipt thereof by the Bank, that such Capital Security is due and payable, whereupon the same shall, subject to Condition 8.1 (*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 subject to deduction for or on account of

	withholding taxes imposed by Oman, as applicable on the date of payment of interest, subject as provided in Condition 11 (*Taxation*).
Ratings:	The Bank is rated. The Capital Securities will not be rated by any rating organisation. 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.
Governing Law and Jurisdiction:	The Capital Securities and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by, the laws of Oman.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Capital Securities in 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 and the State of Qatar and such other restrictions as may be required in connection with the offering and sale of the Capital Securities.

CHAPTER 5: TERMS AND CONDITIONS OF THE ISSUE

RECITALS

A. The following are the text of the Terms and Conditions of the Capital Securities (except for the text in italics) (the Conditions).

B. Each of the perpetual Capital Securities as Additional Tier 1 Capital Instruments, and any further perpetual capital securities issued pursuant to Condition 14 (Further Issues), is issued by Bank Sohar SAOG in its capacity as issuer.

C. Any reference to holders in relation to any Capital Securities shall mean the persons in whose name the Capital Securities are registered with the Muscat Clearing and Depository Company SAOC (the Registrar).

1 INTERPRETATION

Capitalised words have the meanings given to them in Chapter 1: Abbreviations And Definitions.

All references in these Conditions to Omani Rial and **OMR and RO** are to the lawful currency of the Oman.

2 FORM, DENOMINATION AND TITLE

2.1 **Form and Denomination**

Each Capital Security shall have a nominal value of OMR 1,000 each and shall be fully paid-up at the time of its issue. Each Capital Security will be recorded in the Register.

2.2 **Title**

The MCDC shall act as the Registrar and transfer agent with respect to the Capital Securities and shall also act as the Trustee in accordance with the terms of the Trust Deed, which shall be entered into by and between the Issuer and the Trustee. The title to the Capital Securities passes on the recordation of the transfer in the Register. The registered owner of the Capital Securities will, save as otherwise required by the Laws of Oman, be treated as the absolute owner of the Capital Securities for all purposes.

3 TRANSFERS OF CAPITAL SECURITIES

3.1 **Transfers of interest in Capital Securities**

The administration of registration of transfers of Capital Securities shall be maintained by the MCDC, the transfer agent. MCDC will act as the Registrar to the Capital Securities and maintain the Register which will include out the names and addresses, the number of Capital Securities held and the bank account details of the holders. The minimum quantity of Capital Securities that can be transferred and the process of transfer shall be in accordance with the CMA and MSM regulations.

3.2 **Costs of registration**

Any charges levied by the MCDC shall be borne by the buyer and/or the seller of the Capital Securities in accordance with the prevailing regulations. All transfers of Capital Securities and entries on the Register will be made subject to the regulations concerning transfer of Capital Securities.

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 Obligations of the Bank 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.

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 during the Initial Period at the Initial Interest Rate on the outstanding principal amount of the Capital Securities 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 OMR 38.75 per OMR 1,000 in principal amount of the Capital Securities. The Capital Securities shall bear interest from each Reset Date to the next Reset Date at the then Relevant 5 Year Reset Rate.

Subject to Condition 6 (*Interest Restrictions*), interest shall be payable on the Capital Securities semi annually in arrears 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 in OMR as an amount equal to the product of:

the applicable Interest Rate (x) the outstanding principal amount of the Capital Security (x) 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 Bank. For the avoidance of doubt, the reset shall apply to the Relevant 5 Year Reset Rate and not to the Initial Margin.

The Bank 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 holders of the Capital Securities in accordance with Condition 13 (*Notices*) as soon as possible after their determination but in no event later than the second Business Day thereafter.

(b) **Determinations of the Bank are 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 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 Bank 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 8.1 (*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 give notice to the holders of the Capital Securities in accordance with Condition 13 (*Notices*) in each case providing details of the Non Payment Election or Non-Payment Event: (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,. 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 Capital Securities

Subject as provided below, payments will be made by credit or transfer to the holder's account registered with MCDC and provided to the Bank by MCDC (**Designated Account**).

Payments of principal in respect of each Capital Security will be made to the Designated Account of the holder (or the first named of joint holders) of the Capital Security 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 Muscat) before the relevant due date. Notwithstanding the previous sentence, if a holder of Capital Security does not have a Designated Account payment will instead be made by a cheque in OMR drawn on a Designated Bank (as defined below).

Interest payments in respect of each Capital Security will be made to the Designated Account of the holder (or the first named of joint holders) of the Capital Security appearing in the Register at the close of business on the 15th day (whether or not such 15th 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 of Capital Security to the specified office of the Bank, 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 of Capital Security who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Interest Payment Amounts 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 any payment being made by cheque. 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 Payment Day

If the date for payment of any amount in respect of the Capital Securities is not a Payment Day, the holder of the Capital Security thereof shall not be entitled to payment until the next following Payment Day and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any Business Day which (subject to Condition 12 (*Prescription*)) is a day on which commercial banks are open for general business in Muscat.

7.3 **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 11 (*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 11 (*Taxation*).

8 REDEMPTION AND VARIATION

8.1 **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 10 (Events of Default) and without prejudice to the provisions of Condition 12 (*Prescription*)) only have the right to redeem the Capital Securities or vary the terms thereof in accordance with the following provisions of this Condition 8.

The redemption of the Capital Securities or variation of the Conditions, in each case pursuant to this Condition 8, is subject to the prevailing laws of Oman and 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 8.1(c) (*Redemption or Variation due to Taxation*) or 8.1(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 the Issue Date,

(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 8.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), 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 13 (*Notices*) (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 8.1(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 8.1(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 (unless the implementation date for the change in tax laws, or amendment to or interpretation of the tax laws, which results in the Tax Event occurs in less than 30 days, in which case the Bank may give notice at any time after the relevant implementation date) to the holders of the Capital Securities in accordance with Condition 13 (*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 8.1(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.

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 8.1(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 13 (*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 8.1(d) may occur on any date on or after the Issue Date (whether or not an Interest Payment Date).

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 8.1(c) (*Redemption or Variation due to Taxation*) or 8.1(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.

8.2 **Purchase**

Subject to the Bank: (a) obtaining the prior written consent of the Regulator; (b) being in compliance with the Applicable Regulatory Capital Requirements and (c) complying with any requirements of the Capital Market Authority, the Bank may at any time after the First Call Date purchase, some or all, of the Capital Securities at any price in the open market or otherwise. Such Capital Securities must be cancelled by the Bank.

8.3 **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 8.2 (*Purchase*) above shall be forwarded to the Bank and cannot be reissued or resold.

9 WRITE-DOWN AT THE POINT OF NON-VIABILITY

9.1 **Non-Viability Event**

If a Non-Viability Event occurs, a Write-down will take place in accordance with Condition 9.2 (*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.*

9.2 **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 13 (*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: (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 8.1(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 8.1(c) (*Redemption or Variation* *due to Taxation*)) or a Capital Event (pursuant to Condition 8.1(d) (*Redemption or Variation for Capital Event*)).

10 EVENTS OF DEFAULT

Notwithstanding any of the provisions below in this Condition, 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 8.1(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 registered office of the Bank, effective upon the date of receipt thereof by the Bank, that such Capital Security is due and payable, whereupon the same shall, subject to Condition 8.1 (*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, 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.

11 TAXATION

All payments of principal and interest in respect of the Capital Securities by the Bank will be made subject to any 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.

12 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 thereof.

13 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. 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.

Notices to be given by any holder of the Capital Securities shall be in writing and given by lodging the same with the registered office of the Bank.

14 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). References in these Conditions to the **Capital Securities** include (unless the context requires otherwise) any other securities issued pursuant to this Condition 14.

15 MEETINGS OF HOLDERS OF THE CAPITAL SECURITIES AND MODIFICATION

The holders of Capital Securities have the right to participate in meetings of holders of Capital Securities in accordance with the provisions of the Trust Deed and articles 91 to 94 of the CCL.

The resolutions legally adopted at a meeting of the holders of the Capital Securities shall be binding on all the holders of Capital Securities.

A meeting of the holders of the Capital Securities of a certain issue shall be convened by means of a notice published in, at least, two daily newspapers on two consecutive days and shall be sent to each holder of the Capital Securities 15 days, at least, prior to the date specified for the meeting and the invitation shall not be valid unless it includes the agenda of the meeting.

The resolutions of the holders of the Capital Securities shall not be valid unless such meeting is attended by, personally, or by proxy, a number of holders of the Capital Securities representing at least two-thirds of the Capital Securities of a certain issue. Failing such quorum, a second meeting shall be convened to discuss the same agenda. The date of the second meeting of the holders of the Capital Securities shall be notified to the holders of the Capital Securities in the same manner followed with regard to the first meeting of holders of the Capital Securities, one week, at least, prior to the date set for the second meeting. A quorum representing one-third of the Capital Securities shall be sufficient for the second meeting provided the second meeting is held within one month from the date of the first meeting. However, a resolution to reduce the interest rate of the Capital Securities or the face value of the Capital Securities or in a way to prejudice the rights of the holders of the Capital Securities, shall not be adopted unless the meeting is attended by holders of the Capital Securities who represent two-thirds of the Capital Securities.

Resolutions shall be adopted by two-thirds majority of the Capital Securities represented at the meeting.

The Bank shall send to the Trustee the same invitation as given to the holders of the Capital Securities to attend any meeting of holders of the Capital Securities. The Trustee shall attend such meetings and take part in the discussion. The Trustee shall not vote on the resolutions.

16 RIGHTS OF THIRD PARTIES

No rights are conferred on any third persons to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available.

17 GOVERNING LAW AND DISPUTE RESOLUTION

17.1 **Governing law**

The Capital Securities and any non contractual obligations arising out of or in connection with the Capital Securities are governed by, and shall be construed in accordance with, the laws of Oman. The issue of the Capital Securities shall be governed by the Laws of Oman. The courts of Oman shall have exclusive jurisdiction to settle any dispute and the Bank submits to the exclusive jurisdiction of such courts

CHAPTER 6: USE OF PROCEEDS AND ISSUE EXPENSES

Use of Proceeds

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

Estimated issue expenses

The estimated issue expenses under various heads is given in the following table:

Particulars	Amount (RO)
Financial Advisor, Issue Manager, Placement Agent and Legal Advisor's fees	410,000
CMA Fees	2,000
Marketing, Advertising, Printing & Publicity	10,000
Other Expenses	5,000
Total estimated issue expenses	**427,000**

The issue expenses will be borne by the Issuer.

CHAPTER 7: ISSUER'S OBJECTIVES AND APPROVALS

Overview

The Bank was registered on the Commercial Register, maintained by the MOCI pursuant to the Commercial Register Law (Royal Decree 3/74), in March 2007 and received its commercial banking license from CBO on 18 March 2007. As a full-fledged commercial bank, it is active in all banking segments including retail banking, corporate banking, investment banking and Islamic banking in Oman.

In addition to being regulated by CBO, as a public joint stock company whose shares are listed and traded on MSM, the Bank is also regulated by CMA. Apart from this, the Bank's business operations are subject to compliance with the Bank's own policies and procedures and the laws and regulations of Oman.

Objects of the Bank

Under the Articles of Association, the objects for which the Bank is established are as stated below:

In accordance with the applicable laws and amendments thereof in Oman, especially banking authorized activities and restrictions as defined by the regulations and laws of CBO and provisions of the Banking Law, its amendments or alternation thereafter, the objects of the Bank shall be as follows:

(1) To carry on the business of banking in all its fields, and to transact and to do all matters and things incidental thereto, or which may, at any time hereafter at any place, where the Bank shall carry on business, be usual in connection with the business of banking or dealing in money or securities for money.

(2) To advance and lend money on real, personal and mixed securities, on cash, credit or other accounts, on policies, bonds, debentures, bills of exchanges, promissory notes, letters of credit or other obligations, or on the deposit of title deeds, merchandise, bills of sale and landing, delivery orders, warehousemen and certificates, notes, dock warrants, or other mercantile or tokens, bullion, stocks and shares.

(3) To carry on the business of discounting dealing in exchanges, in species and securities.

(4) To invest money in such manner as may from time to time be thought proper.

(5) To act as agents for the sale and purchase of any shares or securities or for any other monetary transactions.

(6) To carry on the business of financiers.

(7) To contract for public and private loans, and to negotiate and issue the same.

(8) To act as executors and trustees of wills, settlements and trust deeds of all kinds made by customers and others and to undertake and execute trusts of all kinds,

(9) To deal with all types of bank notes, coins, currencies, receive and to deposit any monies in current accounts, term deposits, savings accounts and receive precious articles and financial documents for deposit in safes.

(10) To issue and negotiate bank guarantees and letters of credit, cheque payments, money orders and all other negotiable documents and their collection.

(11) To sell bonds, certificates, stocks and all other securities.

(12) To settle negotiable cheques.

(13) To sell, buy and exchange currencies, monies, bullions.

(14) To participate in all investments relating to economic activity including participation in companies' share capital.

(15) To enter into partnership with companies and organisations transacting activities similar to those transacted by the Bank.

(16) To deposit, lend or advance money with or without security and generally to make or negotiate loans and advances of every kind.

(17) To encourage saving schemes and mobilize deposits to be employed by the Bank for the purposes of its objectives. This includes acceptance of deposits, with or without interest, and the application of regulations deem fit by the Bank's Board of Directors for the encouragement of saving schemes and mobilization of deposits, in compliance with licenses and permits issued by the Central Bank of Oman.

(18) To attract local and foreign capital, arranging or obtaining local or international loans for the Bank and the acceptance of foreign deposits and external loans, provided that such activities comply with the regulations stipulated by the Government of Oman for this purpose.

(19) To finance lease and hire purchase and purchase of debts and other extraordinary finance.

(20) To acquire and discount, hire purchase or other agreements or any rights therein (whether proprietary or contractual) and generally to carry on business and to act as financiers, traders in securities and commission agents or in any other capacity in Oman and to sell, barter, exchange, pledge, make advances upon or otherwise deal in properties, houses, buildings, flats furnished or otherwise as aforesaid subject to first obtaining the Central Bank of Oman's approval.

(21) To act as insurance agents, intermediaries or financial advisors for the benefit of its customers and to advise, sell and procure the sale of such services to its customers subject to the Central Bank of Oman's and other necessary regulatory approvals.

(22) Own, lease and rent movable and real estate assets in accordance with the Banking Law and other related and applicable laws of Oman, and directives of the Central Bank of Oman.

(23) Without prejudice to the afore-mentioned conventional banking activities, the Bank may, consistent with the instructions of the Central Bank of Oman:

a) carry on the business of Islamic banking in all its fields, and provide banking services in compliance with Islamic Shariah;

b) carry on all works of finance and investment in accordance with the provisions of Islamic Shariah through different types of Islamic finance and investment, including but not limited to Murahaba, Mudaraba, Musharaka, Ijara, Istisna', etc;

c) accept Zakat and unconditional donations and contributions from third parties for the account of the Zakat fund and to spend and utilise such funds for the benefit of others and to the discharge of the Bank's social responsibilities.

Licenses

The Bank is required to obtain and maintain certain licenses, permits and memberships which are renewable, where applicable, in accordance with their terms. The Bank presently holds the following material licenses:

Authority	Description	Expiry Date
Ministry of Commerce and Industry	Commercial Registration No. 1014333	3/3/2022
Oman Chamber of Commerce and Industry	Membership Certificate No. 1779	26/03/2018
Central Bank Oman	Commercial Banking License	Ongoing as per Banking Law
Capital Market Authority	Investment related activities*	31/12/2018

*Activities covered are Issue of structured instruments, Issue management, Fund management, Portfolio management, Marketing of non-Omani securities and Investment advice & research.

Approvals

The Issue has been approved by:

- Resolution of Board of Directors dated 22 November 2016 and 16 July 2017.
- Resolution of shareholder's EGM dated 13 August 2017
- Approval received from CBO, vide its letter no. BSD/2017/BKUP/BS/296 dated 23 April 2017 and BSD/2017/BKUP/BS/501 dated 13 July 2017.
- Approval received from CMA vide its Administrative Decision No. E / 56 / 2017 dated 30 August, 2017 to approve this Prospectus.

<u>Previous issued bonds</u>

The compulsorily convertible bonds of RO 7.150 million carrying an annual coupon rate of 4.5% were issued on 28 April 2013 as part of dividend distribution. These bonds have to be converted into ordinary shares of the Bank in three equal instalments at the end of 3rd, 4th and 5th years from the date of issuance at a conversion price derived by applying a discount of 20% to the 3 months average share price of the Bank on the Muscat Securities Market prior to the date of conversion.

Accordingly, during 2016 and 2017, one-third of these bonds, amounting to RO 2.38 million each year were converted into ordinary shares of the Bank. The current outstanding as of 30 June 2017 amounts to RO 2.384 million

CHAPTER 8: OVERVIEW OF THE OMANI ECONOMY

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 kilometers and has a coastline extending over 3,100 kilometers. Oman 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 61 provinces or Wilayats. Muscat is the political and business capital. Other prominent cities are Salalah, Sohar, Sur, Nizwa and Khasab. Arabic is the national and official language, but the use of English is widespread, especially in business transactions.

Oman's current economic focus is on long-term planning. It is currently in its ninth five-year economic development plan of strategy, covering the period 2016-2020. Since 1996, the five-year plans have been designed to achieve "Vision 2020" (adopted in June 1995), which is the Government's economic planning strategy outlining Oman's long term target of economic diversification, away from reliance on hydrocarbons, and towards, among other strategies, labour sector development. According to the Oxford Business Group Report, the ninth five-year plan envisages a continued drive towards social development, economic diversification of many production sectors and the ideal utilisation of available natural resources. Also planned are the ongoing implementation of the country's mega and priority infrastructure projects such as the Al Batinah Expressway, airport projects, the railway network, the special economic zone at Duqm, key seaport upgrades and BP's Khazzan project.

RATINGS

The most recent sovereign rating assigned to Oman by Moody's is Baa1 (Stable outlook), by Standard & Poor's is BB+ (Negative outlook) and by Fitch is BBB (Negative outlook).

OUTLOOK FOR THE OMANI ECONOMY

(Source: CBO Annual Reports)

Oman registered a robust overall real economic growth of 5 % in the previous decade prior to the marked drop in oil prices. The Vision 2020 and successive Five Year Development Plans pursue the strategy of economic diversification, greater role for the private sector, improved business climate for attracting foreign direct investment etc. Over the years, the government of Oman implemented sound macroeconomic policies resulting in strong growth, moderate inflation and stable financial system.

The sharp decline in oil price since mid-2014 has turned the fiscal and external balances into sizeable deficits. In order to contain fiscal metrics within manageable limits, the authorities have implemented fiscal adjustments through spending cuts, augmenting non-oil revenues and undertaking subsidy reforms. Expectation of low oil price to prolong would warrant contingency plans of further spending restraint and revenue measures including expanding non-oil revenue, prioritizing capital expenditure, reducing current expenditure and enhancing user fees. On the other hand, gains from quick recovery in international oil prices would be an opportunity for greater fiscal savings facilitating restoration of fiscal sustainability in the medium term. With a view to enhance non-hydrocarbon revenue, additional fiscal measures have been planned. Corporate income tax is expected to be raised shortly and VAT to be introduced in 2018. There are mechanisms in place in the form of high level committees drawing participation from the Ministry of Finance, the Supreme Council of Planning, the Central Bank of Oman and the Sovereign General Reserve Fund for close coordination to address issues relating to liquidity management and financing of debt.

With a view to finance the fiscal deficit, the authorities have planned to utilize fiscal buffers, raise loans from domestic market without crowding out credit to private sector and access external markets by the Sovereign and Government related entities. Recent successful raising of sovereign debt underscores strong investor appetites.

The Ninth Five Year Development Plan (2016-2020) seeks to achieve higher economic growth through focused investment in five sectors namely, manufacturing, logistics, tourism, fisheries and mining. It is intended that the private sector would play a significant role in the expansion of activity in these sectors. The Government and CBO have instituted policies and programs to support the SME sector. CBO has been adopting an accommodative monetary stance to stimulate economic growth, provide adequate liquidity so that genuine credit needs are met and the commitment to the dollar peg, which has served the Omani economy well as a nominal anchor, is maintained.

The financial health of banks in terms of assets quality, provision coverage, capital adequacy and profitability remained strong. Given the fact that banks in Oman are well capitalized and comply with the international regulatory prescriptions such as Basel III capital and liquidity standards, there is not much concern regarding the likely impact of NPLs on the capital adequacy of banks.

On the external sector front, authorities are planning measures in the medium term to bolster earnings from tourism, strengthening of manufacturing sector, and ratification of a new investment law to attract foreign investment to Oman. The law, which is in the final stage, would provide greater clarity, provides for dispute resolution and includes international arbitration and thus enhances investment security for investors. In the short-term the Omani economy is well placed to face the macroeconomic challenges emanating from low oil prices.

RECENT DEVELOPMENTS
(Source: Government announcements)

Oman's Initial Projected Results for FY 2016 vs. Budgeted

- Public Revenues: Decline of oil and gas revenue by RO 1.1 billion and non-oil revenue by RO 140 million
- Public Spending: Overall public spending totalled RO 12.65 billion against budgeted RO 11.9 billion
- Deficit –
    - About RO 5.3 billion, up by 60% compared to budget
    - Average oil price achieved was $39/bbl against budgeted $45/bbl
- Deficit Financing:
- Total domestic and external borrowings - 72%
- Drawing on reserves – 28%
- Public Debt: Increased by 29% of GDP by year-end of 2016

OMAN'S GENERAL BUDGET FOR FY 2017

Key Budget Objectives

- Ensuring State's Fiscal Sustainability

- Stimulating Growth and Sustaining Employment
- Stability of Citizens' Standards of Living through –
  - Education, Health and Social Welfare Sectors
  - Recruitment
  - Government Services
  - Housing Aid and Social Housing Scheme

Estimates of General Budget for FY 2017

Particulars	**Amount**	**Remarks**
Public Revenues	RO 8.7 billion	18% higher than 2016 results
• oil and gas revenues	RO 6.11 billion	70% of total revenues
• Non-oil revenues	RO 2.59 billion	30% of total revenues
Public Spending	RO 11.7 billion	2% less than 2016
• Current Expenditures of Ministries, Government Units	RO 4.4 billion	5% less than 2016
• Development Expenditures	RO 1.2 billion	
Security and Defence Expenditures	RO 3.34 billion	5% less than 2016
Oil and Gas Production Expenditures	RO 1.82 billion	2% more than 2016
Subsidies	RO 395 million	Same as 2016
Other Expenditures	RO 405 million	69% more than 2016 (due to high interest costs)
Deficit	RO 3 billion	35% of total revenues 12% of GDP
Deficit Financing	RO 2.5 billion - external & domestic borrowing RO 0.5 billion - drawing reserves	84% of deficit 16% of deficit

Fiscal Consolidation and Fiscal Measures taken to address budget deficit

- **Revitalising Non-Oil Revenues**
  - Amending Income Tax Law
  - Introducing selective tax, concurrently with GCC countries, on certain commodities such as tobacco, alcohol and others
  - Amending the fees of licences of bringing foreign workers
  - Amending some fees of civil services provided by Royal Oman Police
  - Limiting tax exemptions granted for companies and establishments
  - Enhancing tax collections efficiency, and activating monitoring and follow-up measures

- Amending rules and regulations pertaining to exemptions of customs duties
- Implementing the revised tariffs of large commercial consumers of electricity
- Amending the regulations of lands allocation
- Implementing the standardised fees of municipal services
- Adjusting fees of some services provided by the ministries and government units

- **Rationalising Public Spending**
    - Priority to necessary projects that serve economic and social objectives
    - Postpone implementation of unnecessary projects
    - Postpone purchasing and replacing government vehicles and equipment, as well as control capital expenditures
    - Stop expanding organisational structures of ministries (such as creating departments and directorates)
    - Assertion on economic efficiency in provision of public services and commodities
    - Stressing the importance of implementing sound corporate governance
    - Review and rationalise government subsidies
    - Engage private sector participation
    - Selling / privatise selective government assets
    - Adhere to approved allocations of the ministries and government units

- **Fiscal Planning and Discipline**
- Developing the Macro Fiscal Unit, established at Ministry of Finance, to enable it to set up a database for government financial statistics and build-up a fiscal model for public finance
- Continue the modernisation phases of Government Financial Management Information System and transition from cash-based accounting to accrual accounting
- Initiating the application of Programme and Performance Budget in FY 2017 to 4 ministries - Ministry of Education, Ministry of Health, Ministry of Civil Service, Ministry of Finance
- Improving the performance of government investments by establishing a holding company in every sector
- Issuing new edition of Standard Documents for Building and Civil Engineering Works based on new standard forms of contract issued by International Federation of Consulting Engineers
- Formation of a unit entrusted with the public debt management at the Ministry of Finance
- Improving the mechanisms of cash management at Directorate-General of Treasury and Accounts

- Continue monitoring fiscal performance of the budget and take measures needed to strike a balance by 2020
- Strive to improve Oman’s sovereign credit rating

CHAPTER 9: INDUSTRY OVERVIEW AND REGULATORY FRAMEWORK

OVERVIEW

The Oman banking system comprises commercial banks, specialised banks (such as Oman Housing Bank), Islamic banks and windows, non-bank finance and leasing companies and money exchange establishments. As at 31 December 2016, 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, Bank Muscat SAOG, National Bank of Oman SAOG, HSBC Bank Oman SAOG, Oman Arab Bank SAOC, Bank Dhofar SAOG and Ahli Bank SAOG.

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 provide 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.

Also, prominent in the sector is a group of six leasing companies, which are non-bank financial services providers. Leasing companies are regulated by the CBO 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 SMEs as well as retail and corporate customers.

ISLAMIC BANKING

In December 2012, the Oman Banking Law was amended by Royal Decree 69/2012 (promulgated on 6 December 2012) to allow the CBO to licence the conduct of banks in Oman to carry out Islamic banking business through either fully fledged Islamic banks or windows of conventional banks. Oman was the last of the GCC countries to introduce Islamic banking.

The objective behind the introduction of Islamic banking in Oman was to diversify and widen the pool of banking products available to retail and corporate customers. Along with an amendment to the Banking Law, the Islamic Banking Regulatory Framework (the "**IBRF**") was issued to provide detailed and comprehensive guidance on all aspects of Islamic banking. For example, the IBRF sets out the requirements for obtaining an Islamic banking licence from the CBO, the various accounting and reporting standards that Islamic banks licensed by the CBO are required to comply with as well as the supervisory role of the CBO in relation to various Islamic banking practices and products.

The introduction of Islamic banking in Oman added a number of new entrants to the banking system enhancing the competitive environment in terms of efficiency and innovation as well as providing customers with the benefit of choosing between conventional and Islamic banking products. As of 31 December 2014, there were two 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, National Bank of Oman and Bank Dhofar SAOG have established windows for Islamic banking.

INTERNATIONAL BANKS

The Oman Foreign Capital Investment Law (promulgated by Royal Decree No. 102/1994, (as amended)) mandates that foreign companies can take no more than a 70% stake in a locally incorporated firm. A new foreign capital investment law is currently being drafted by the Ministry of Commerce and Industry (in collaboration with the World Bank Group), among others, to allow for

100% foreign ownership in companies incorporated in Oman. There is no indication of when the new law will be issued. Local operation through 100% foreign branches is permitted (subject to certain conditions being satisfied) in many sectors, including the banking sector. The foreign banks operating in Oman through branches include Standard Chartered Bank, Habib Bank, Bank Melli Iran, Bank Saderat Iran, Bank of Baroda, State Bank of India, National Bank of Abu Dhabi, Bank Beirut and Qatar National Bank.

BANK REGULATION IN OMAN

The CBO

The CBO was established in 1974. The CBO 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 CBO. Amongst its other responsibilities, the CBO 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 CBO is responsible for accepting deposits from banks operating in Oman and other foreign central banks. In particular, the CBO accepts two types of deposits from commercial banks, namely deposits required by the Banking Law and voluntary deposits. The CBO is also responsible for advancing credit to local banks and engaging in investment activities through trading in investment products. In addition, the CBO 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 Royal Decree 114/2000 (as amended) and banking regulations issued by the CBO. Banks are also required to comply with (amongst other laws of general application) the Commercial Companies Law promulgated by Royal Decree 4/1974 (as amended), the Law of Commerce promulgated by Royal Decree 55/1990 (as amended), the Oman Labour Law promulgated by Royal Decree 35/2003 (as amended), the Capital Markets Law promulgated by Royal Decree 80/98 (as amended) and the Social Insurance Law promulgated by Royal Decree 72/1991, (as amended).

Banking laws and regulations

Several regulatory and supervisory initiatives have been implemented by the CBO to develop a competitive and sound banking system. Bringing about greater financial inclusion, developing sound risk management systems, and broadening prudential norms have been the core of the recent regulatory and supervisory directives issued by the CBO. Below is a summary of the main Omani banking laws and regulations:

Capital Requirements

Pursuant to CBO Circular BM 1019 issued on 9 April 2007, a minimum paid up capital requirement of RO 100 million is required to establish a new local commercial bank and a minimum paid up capital requirement of RO 20 million is required to establish a foreign bank in Oman. Existing banks (such as the Bank) are required to meet this requirement progressively.

Capital adequacy

The CBO issued two concept papers relating to Basel III implementation in Oman in November 2013. The two concept papers provide guidelines on regulatory capital and disclosure requirements under Basel III. The guidelines also emphasise 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 CBO require banks operating in Oman to have a robust capital adequacy framework which comprises a total capital adequacy ratio of 12% of risk weighted assets. Common equity tier 1 capital should be maintained at a minimum level of 7%, and Tier 1 capital at a minimum level of 9%, of risk weighted assets, with effect from 31 December 2013. In addition, commencing on 1 January 2014, a capital conservation buffer of 2.5% of risk weighted assets, comprised of common equity tier 1 capital, has to be achieved over four years in four equal increments of 0.625%.

Net Stable Funding ratio ("**NSFR**") together with Liquidity Coverage ratio is the key reform proposed by the Basel Committee to promote a more resilient banking sector. The NSFR will require the banks to maintain a stable funding profile in relation to the composition of their assets and off balance sheet activities. The NSFR limits overreliance on short term wholesale funding and encourages better assessment of funding risk across all on and off balance sheet items, and promotes funding stability.

The CBO introduced a Prompt Corrective Action framework (the "**PCA**") in 2005, which makes it mandatory for banks to take corrective actions if their total capital adequacy ratio falls below a certain level. The corrective actions consist of certain mandatory and discretionary actions that apply to each relevant trigger point set by the CBO. Currently, the PCA will be triggered if the total capital adequacy ratio of a bank falls below 13%.

Instruments issued in excess of the Basel III limits for recognition will be phased out by 31 December 2022. The Basel Committee's Liquidity Coverage Ratio ("**LCR**") promotes the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario lasting thirty calendar days. Effective 1 January 2016, the standard LCR has been set at a minimum of 70% in Oman. The ratio will increase by 10% each year until it reaches 100% in 2019.

Lending ratio

Pursuant to CBO Circular BM 1051 issued on 23 December 2008, no licensed bank in Oman is permitted to lend (whether by loans, discounts, advances or overdrafts and whether secured on unsecured) when such lending in aggregate exceeds 87.5% 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 CBO, in an amount, which when added to the aggregate amount of currency and coin, foreign and domestic, held by such bank shall be:

- not more than 40% of the total daily amount of all demand and saving deposits made with such bank within Oman; and

- not more than 30% of the total daily amount of all time deposits with such bank within Oman.

Pursuant to CBO 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%.

Lending limits

To maintain financial stability, the CBO has issued a number of limits and rules with the objective of limiting potential losses arising out of excessive concentration of credit risk:

Loans to a single borrower: pursuant to Article 68(b) of the Banking Law, the total direct or contingent obligation to any licensed bank by any borrower, other than the Government, shall not exceed 15% of the total net worth of such licensed bank. Article 5 of the Banking Law defines net worth as the aggregate amount of the assets less liabilities both within and outside Oman, other than capital and surplus, of a licensed bank.

Lending to non-residents: Pursuant to CBO Circular BM 1120 issued on 31 March 2014, a bank operating in Oman must not lend:

- more than 2.5% 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 CBO directions;
- more than 20% of its local net worth in aggregate to all non-resident borrowers (other than banks) and their related parties; and
- more than 30% 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 may 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 CBO took measures to encourage prospective entrepreneurs. In particular, the CBO has directed banks to implement a liberal lending policy for SMEs and to achieve a minimum of 5% of their total credit allocation to SMEs by 31 December 2016. SMEs are:
- micro enterprises, being those which have between 1 and 5 employees and an annual turnover of less than RO 100,000;
- small enterprises, being those which have between 6 and 25 employees and an annual turnover of between RO 100,000 and 500,000; and
- medium enterprises, being those which have between 26 and 99 employees and an annual turnover of between RO 500,000 and 3,000,000.

Loans to directors and senior management: pursuant to Article 68(b) of the Banking Law, the total direct or contingent obligation to any licensed bank by a senior member in the management of the licensed bank and any related parties shall not exceed 10% of the net worth of that bank. The aggregate of lending to all senior members and any related parties shall not exceed 35% 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 CBO requires banks to remove members of senior management who have doubtful or classified loans with the bank.

Loans secured by real estate: in accordance with Article 68(e) of the Banking Law, a bank operating in Oman is not permitted to make any loan secured by real estate when either the total value of real estate held by the bank, or the aggregate amount of the outstanding loans against which the real estate is held, whichever is lower, exceeds 60% of the net worth of that bank within Oman or 60% of all time and saving deposits, other than Government and inter-bank deposits, of that bank, whichever is greater.

Ceiling on personal loans and housing loans: pursuant to CBO Circular BM 1109 issued on 23 May 2013 and in light of a rise in personal loan indebtedness, the ceiling imposed on the aggregate of personal loans banks may advance was reduced from 40% to 35% of total credit with effect from 30 June 2014. Housing loans continue to have a ceiling of 15% of total credit.

Bank Credit and Statistics Bureau

Pursuant to CBO Regulation BM/53/9/2011, the board of governors of the CBO adopted a Bank Credit and Statistics Bureau (BCSB). The BCSB is a centralised statistical bureau maintained by the CBO. 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 CBO 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 CBO Circular BM 977 issued on 25 September 2004, non-performing loans should be classified as either standard, special mention, sub-standard, doubtful or loss depending on the number of days the credit has been due.

The CBO circular provides that any proposed settlement for less than full value of delinquent debt of directors or management requires the prior approval of the CBO. Loans in arrears for more than 90 days are classified as non-performing. Of these, banks have to provide 25%, 50% and 100% against loans classified as sub-standard, doubtful and loss, respectively. In addition to specific provisions for classified loans, banks are required to create general loan loss provisions, at a minimum of 1% of their loans which are categorised as standard and special mention. Further, a minimum general loss provision of 2% of personal loans categorised as standard and special mention must be maintained by all banks operating in Oman.

Bank deposit insurance scheme

Pursuant to Royal Decree No 9/1995 (as amended), a bank deposit insurance scheme was established by the CBO. The objectives of establishing the scheme are to provide comprehensive deposit insurance cover, sustain public confidence in the financial soundness of the banking system and assist banks in financial difficulty. Deposits placed by a natural or juristic person with any bank operating in Oman are protected by the scheme up to an amount of RO 20,000 or 75% of the net deposit whichever is less. 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 scheme and to pay an annual insurance premium of 0.05% of annual average deposits to the CBO to support the scheme.

Loan and interest rate ceilings

As a result of the rising level of individual loan indebtedness, the CBO imposed an aggregate quantitative ceiling on personal loans and housing loans. A debt service ratio has been capped at 50% of net salary receipts on personal loans and 60% on housing loans. Further, banks in Oman are only permitted to advance personal loans (other than housing loans) after 24 months of satisfactory conduct of an existing loan or after 50% of an existing loan is repaid.

In light of the global decline in interest rates, the CBO decided to reduce the interest rate ceiling on personal loans and housing loans from 7% to 6% with effect from October 2013. The CBO requires banks in Oman to treat the 6% 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 SMEs.

Maturity mismatch ceiling

Pursuant to CBO Circular BM 955 issued on 7 May 2003, cumulative gaps in Omani Rial, U.S. dollars and other currencies may not exceed 15% 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 CBO Circular BM 938 issued on 13 May 2002, the total aggregate value of a bank's investment in Government development bonds must not exceed 30% 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 CBO, and utilise the CBO 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% of the bank's net worth and that any investment in a particular security does not exceed 5% of the bank's net worth. Investments in companies domiciled outside Oman should not exceed 25% of the 10% 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% 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 CBO, and that any such investment in a particular security does not exceed 5% of the shares of such corporation and that all such investments by the bank do not exceed 20% of the bank's net worth. Further, investment in companies domiciled outside Oman should not exceed 25% of the 20% 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 CBO expects banks to be reasonably conservative in investment decisions and to appropriately balance any risks associated with such investments. In addition, the CBO directs banks to implement a comprehensive investment policy approved by the bank's board of directors and to submit such policy to the CBO.

Foreign exchange trading

Pursuant to CBO 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 positions, of up to 40% of the bank's capital and reserves in Oman. The limit applies to all foreign currencies without exception. Banks in Oman are required to submit data to the CBO which shows their foreign exchange positions on a monthly basis. Specialised banks and leasing companies are not permitted to take positions in foreign exchange.

Exchange Control and Foreign Exchange Rates

The CBO is responsible for Omani exchange rate and monetary policy. Since 1986 a stable exchange rate has been maintained between the Omani Rial and the U.S. Dollar through the Omani Rial being pegged to the US Dollar (RO 1= USD 2.6008). There are no exchange controls (other than in relation to the Israeli currency) and capital may move freely to and from Oman.

OTHER BANKING LAW REQUIREMENTS

The Banking Law imposes, among other things, the following requirements:

Regular reports: Pursuant to Article 72 of the Banking Law, each licensed bank must submit to the CBO an annual report, audited by independent auditors, and certain interim reports and monthly reports as prescribed from time to time by CBO regulations. 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 the bank and the amount, nature and maturities of all items and instruments, securities and other investments owned or held by the bank, to the extent that such information is related to the conduct of banking business, both within and outside Oman. In addition, licensed foreign banks must file copies of reports prepared within Oman for submission to banking authorities which have jurisdiction over them and which reflect the aggregate financial condition of all operations of the licensed bank.

Real and personal property and secured transactions: Pursuant to Article 66 of the Banking Law, a bank operating in Oman may purchase, acquire or hold, lease or otherwise convey real and personal property which has been conveyed to it in satisfaction of debts previously contracted in the normal course of banking business, which it has acquired at sales under judgment decrees or as the result of foreclosure sales and mortgages. However, all real property acquired by the bank or which has been transferred to it in these ways must be sold or otherwise disposed of by the bank within 12 months of the date of acquisition.

Omanisation of personnel in the banking sector: With the objective of raising job opportunities for Omanis, the CBO requires all banks operating in Oman to achieve an Omanisation ratio of at least 90% By December 2015, all banks operating in Oman were required to have achieved an Omanisation ratio of 65% in relation to their senior management. This ratio is increased to 75% by December 2016. As regards middle management, a ratio of 90% 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.

CHAPTER 10: BUSINESS OVERVIEW

INTRODUCTION

The Bank is a full scale retail and commercial bank which commenced business in 2007. Its operations are focused on Oman and it is the fourth largest bank in the country in terms of total assets and has been the fastest growing bank in Oman in terms of total assets since 2007.

The Bank's wholesale banking division provides products and services to large corporates, mid-sized corporates, SMEs and the government and public sector in Oman. The SME business is relatively small, but is being expanded. The Bank also provides advisory services to entrepreneurs and works closely with government departments responsible for promoting SMEs in the country.

The Bank's retail banking business has grown substantially over the years, although the rate of growth has slowed since 2014 reflecting a general concern that individual indebtedness in the country is rising. Since 2013, the Bank has also provided Shari'a-compliant banking through an Islamic finance window.

Within a short period of 10 years of business, the Bank has achieved relatively significant market presence. As on 31 December 2016, the market share of the Bank was 8.83% in Total Credit, 9.22% in credit to private sector, 8.50% in deposits from private sector, 7.59% in total deposits and 8.59% in total banking assets in Oman.

Awards and Recognition

The Bank has received a number of awards and recognition within its short operating history. Some of the recent awards are –

Award	Institution
Business Excellence Award	Oman Web Awards
Best Public Awareness Campaign Award	Qatar Transport Safety Awards
Best Financial Brand Oman 2014	Global Brands Magazine, UK
Diamond Eye Award for Quality, Commitment & Excellence	Other ways Management & Consulting Association, France
Peak of Success Trophy	Texas-based World Confederation of Businesses
Strategic Award for the Bank’s corporate website	Pan Arab Excellence Awards Academy, Lebanon
Strategic Award from Oman Web Awards	Oman Web Awards
Best Mid-Size Bank – Asset Quality Award	Oman Banking & Finance Awards.
Fastest Growing Bank in Oman 2014	International Finance Magazine, UK

Pan Arab Excellence Awards Academy	Web of the Year Award 2016
Top 5 Large Corporate Enterprises in Oman (for third consecutive year)	AIWA Magazine, Oman
Straight Through Processing Award	J.P. Morgan Chase Bank
Best Customer Service (Retail Banking)	CPI Financial, Dubai
Best Cash Management	Global Brands Magazine (GBM) – UK Based
Best Financial Brand, Oman	Global Brands Magazine from United Kingdom
Best Corporate Card Award	International Finance Magazine (IFM)
Best Customer Service Brand, Oman	Global Brands Magazine (GBM) – UK Based
Green Campaign for the year	United Press & Publishing at OER Oman Green Awards
Best Call Center Award	Banker Middle East Product Awards 2015, UAE
Bizz Awards	World Confederation of Businesses (WORLDCOB)
Best Customer Service	Banker Middle East Product Awards 2015, UAE

STRENGTHS

The Bank's core strengths are its:

- **Significant indirect government shareholding**: The Bank's shares are majorly held by government entities including long-term investors such as pension funds and sovereign wealth funds.

- **Strong asset quality**: The Bank enjoys a good asset quality built over years with appropriate balancing of marketing considerations and risk management policies.

- **Strong growth**: the Bank has been one of the fastest growing banks in Oman in terms of total assets since 2007. This reflects its initial strategy which has been achieved with appropriate implementation.

- **Strong management**: The Bank possesses an experienced senior management team, largely from the Omani market, and this team has successfully grown the Bank's assets and profitability with a prudent balancing of risk. Most of the Bank's original senior management team continue to serve the Bank and

- **Islamic banking window**: The Bank's Islamic window under the name 'Sohar Islamic' was established in full compliance with Shari'a requirements and CBO regulations. Islamic Banking provides the Bank with significant flexibility in allowing customers to choose the type of banking service they prefer.

BUSINESS STRATEGY

The Bank started operations in March 2007. Its mission is to provide a wide range of banking products and services to Omani residents and to become a strong financial institution within Oman. The Bank is currently in the third phase of the three-phase strategy that it adopted when it commenced business.

First phase – build market share

Initially, the Bank focused on gaining market share in the Omani banking sector. The aim was to do this by growing the Bank's balance sheet. The Bank sought to engage new customers, both retail and corporate, with a view to converting them to loyal customers.

This strategy was implemented by hiring a mix of experienced senior personnel from the local market, each with at least 10 years' experience in the Omani banking industry. These personnel came with an existing set of contacts and in-depth knowledge of industry practices and risks and were successful in rapidly building the Bank's balance sheet. The increased risk associated with this phase was mitigated largely by restricting loans to government entities or AAA rated entities in Oman.

Second phase – build profit share

In the second phase of its strategy, the Bank shifted its focus to increasing its profitability. This strategy was implemented by increasing pricing and providing better service and turn-around times. The Bank also increased its focus on customers that provided higher levels of business to improve the Bank's efficiencies of scale. In addition, the Bank sought to ensure that its capital was just more than adequate, thus reducing the cost of excess capital.

Since 2011, the Bank has been the most profitable bank in Oman based on published financial statements. It achieved this without any significant increase in its NPLs or decline in its coverage ratios and the Bank continues to have one of the lowest NPL ratios among banks in Oman based on published financial statements.

Third phase – build life share

The third phase of the Bank's strategy focuses on cementing its relationships with its customers through the launch of new products and services which are designed to meet the needs of the Bank's customers.

For example, the Bank's real-time online payment system virtually provides a branch in the offices of each of its corporate clients. This web-enabled and highly secure system allows the Bank's clients to deposit cheques, make payments and download reports from their offices. The Bank's gold loan scheme allows its retail customers to secure their loans with gold jewellery and its certificates of deposit allow investors to earn better interest rates. The Bank also launched an Islamic window to address the needs of its clients who wish to access Shari'a-compliant banking in May 2013. Further, the Bank has established an investment banking division to handle the investments and capital market needs of its clients. The division manages a private equity fund focused on green-field investments in Oman.

The Bank is also targeting increased government business and is engaging with government-related entities who offer the potential for low cost deposits and sizable loan assets. The Bank has identified the government as a key player in the Omani economy and is focussing in particular on projects initiated by the government and executed by the private sector.

The Bank continues to focus on achieving greater efficiencies with a view to driving profitability in a challenging environment. Oman's general budget for 2016 has sought to reduce expenditure whilst aiming also to stimulate economic growth through continued development, spending on economic and social priority projects, and providing the necessary support to further private sector investments. The Bank's strategy aims to leverage anticipated growth of these sectors which is expected to benefit both its retail and corporate businesses.

The Bank has set strategic initiatives that aim to improve branch network performance and ensure the creation of sustainable service models and a multi-channel model. The Bank strives to retain its existing customers and to attract new customers, especially in the SME sector.

The Bank constantly reviews both its product offerings and pricing to ensure that it meets the expectations of its clients.

BUSINESS

The Bank has six operating segments based on products and services as follows:

- **Wholesale Banking**, principally loans and deposits (including current accounts) for corporate and trade finance customers;
- **Retail Banking**, principally deposits from retail customers and consumer loans, overdrafts, credit card and funds transfer;
- **Investments and FIG**, principally proprietary investments and relationships with international banks and corporates, institutions and governments;
- **Treasury**, which comprises the Bank's treasury function;
- **Islamic Banking**, which comprises all Islamic financing activities, current accounts, unrestricted investment accounts and other Shari'a-compliant products and services provided to corporate and individual customers
- **Head office**, which includes the pool of resources considered for transfer pricing and absorbs the portfolio impairment loss and income tax expense.

Segmental information for 31 December 2016

(in RO '000)

	Retail banking	***Wholesale banking***	***Government institution, FI & PFS****	***Investments***	***Treasury***	***Head Office***	***Islamic banking***	***Total***
Income Statement								
Interest income	33,672	47,560	10,817	1,334	4,567	(7,374)	-	90,576
Interest expense	(14,276)	(27,045)	(6,899)	(563)	(3,972)	7,236	-	(45,519)
Net interest income	19,396	20,515	3,918	771	595	(138)	-	45,057
Net income from Islamic financing and investing activities	-	-	-	-	-	-	2,688	2,688
Other operating income	2,956	14,403	1,889	(1,749)	3,866	(3,124)	574	18,815
Operating income	22,352	34,918	5,807	(978)	4,461	(3,262)	3,262	66,560

Operating expenses	(17,443)	(9,158)	(1,488)	(380)	(1,885)	(425)	(2,274)	(33,053)
	4,909	25,760	4,319	(1,358)	2,576	(3,687)	988	33,507
Impairment on available-for-sale investment securities	-	-	-	(2,973)	-	-	-	(2,973)
Impairment allowance on portfolio basis	-	-	-	-	-	(2,428)	(315)	(2,743)
Impairment allowance on specific basis	(3,694)	(2,026)	-	-	-	(6)	(10)	(5,736)
Segment profit / (loss) for the year	**1,215**	**23,734**	**4,319**	**(4,331)**	**2,576**	**(6,121)**	**663**	**22,055**
Income tax expense	-	-	-	-	-	(2,943)	-	(2,943)
Profit / (loss) for the year	**1,215**	**23,734**	**4,319**	**(4,331)**	**2,576**	**(9,064)**	**663**	**19,112**
31 December 2016								
Balance sheet								
Assets								
Cash and balances with Central Bank	-	-	-	-	-	102,503	17,110	119,613
Due from banks and other money market placements	-	-	29,506	-	54,917	-	14,219	98,642
Loans and advances (net)	543,605	1,013,371	260,494	-	-	-	95,816	1,913,286
Investment securities	-	-	-	19,171	322,077	-	10,023	351,271
Property, equipment and fixture	-	-	-	-	-	14,430	1,294	15,724
Investment properties	-	-	-	-	-	2,900	-	2,900
Other assets	-	-	-	-	-	17,540	1,125	18,665
	543,605	**1,013,371**	**290,000**	**19,171**	**376,994**	**137,373**	**139,587**	**2,520,101**
Liabilities								
Due to banks and other money market borrowings	-	-	-	-	553,546	-	22,001	575,547
Customers' deposits	332,074	365,828	676,029	15,087	44,262	-	98,409	1,531,689
Other liabilities	-	-	-	-	-	27,856	1,190	29,046
Subordinated loans	-	-	-	-	-	86,615	-	86,615
Compulsorily convertible bonds	-	-	-	-	-	4,805	-	4,805
Certificate of	-	-	-	-	18,513	-	-	18,513

deposits								
	———	———	———	———	———	———	———	———
Shareholder's equity	**-**	**-**	**-**	**-**	**-**	**255,719**	**18,167**	**273,886**
	———	———	———	———	———	———	———	———
	332,074	**365,828**	**676,029**	**15,087**	**616,321**	**374,995**	**139,767**	**2,520,101**
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* FI stands for Financial Institutions & PFS stands for Project Finance Syndication

Wholesale banking

Principal customers

The Bank's wholesale products and services are targeted at government and public sector entities in Oman as well as companies and individuals undertaking commercial activities in Oman. The wholesale banking segment operates through six specific departments:

- **Large corporate banking**, which caters to businesses with an annual turnover of more than RO 5 million. This department focuses on providing superior service to its customers and customised banking products to suit their individual requirements. It caters to both the domestic and overseas needs of large corporates by offering a wide range of corporate finance products ranging from traditional working capital finance to syndicated project finance. The department's clients include multinational companies and domestic companies engaged in a wide range of economic activities including contracting, trading, power, water, telecommunications, oil and gas, aviation, shipping, airport and ports, petrochemicals and real estate. The department has particular expertise in oilfield service and engineering financing and in large infrastructure projects, particularly in the hospitality and education sectors.

- **Mid-corporate banking**, which was established in 2013 to serve medium-sized companies. This department focuses on sub-contractors within the oil and gas, hospitality, education, retail and contracting sectors. It seeks to provide value added products and services to its clients and is well positioned to exploit the synergies of combined operations with other departments, such as the large corporates department, the SME department and the project finance department.

- **Small- and medium-sized enterprises**, which targets businesses having an annual turnover of up to RO 1.5 million. This department principally services SMEs and the businesses of Omani individuals. The SME sector in Oman has been growing steadily in terms of business and, in an effort to enhance coverage and visibility, the SME department interacts with other local bodies and government organisations dedicated to promoting SMEs and Omani entrepreneurial potential. The department principally provides trade finance and foreign exchange services to its customer base.

- **Government institutions and public sector banking**, which serves the needs of the Government, its ministries and public sector entities with a direct or indirect Government holding of more than 50 %. The unit aims to ensure fast credit approval processes and efficient service and to deliver customised solutions in the area of remittances, trade finance, other retail products and corporate credit cards. It also focuses on ensuring regular client contact.

- **Trade finance**, which focuses on the export and import business for the Bank's whole corporate and retail customer base. This unit regularly conducts workshops for its clients and provides a full spectrum of trade finance products, including import and export letters of credit, standby letters of credit, import and export bill financing, bill discounting, discounting against export credit guarantee agency cover and bank lines, buyers' credit financing, structured trade finance, contract and financial letters of guarantee and pre- and post-shipment financing and

- **Project finance and syndication**, which was also established in 2013. This department brings together a project finance team that has experience in structuring, appraising and syndicating projects related to sectors like oil and gas, metals, mining and minerals, real estate, power, road, ports, airports and railways. The department has participated in a number of syndicated financings, as arranger and lead manager since it was established.

Principal products and services

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

- ***Working capital finance***: The Bank offers a range of funded facilities, such as overdrafts, money market loans and trade finance products denominated in Omani Rial and a number of major currencies, and unfunded facilities such as letters of credit and guarantees.

- ***Term loans***: The Bank offers fixed and floating rate term loans, typically with a maturity of at least one year, in Omani Rial and U.S. dollars for the acquisition of capital assets as well as for other corporate purposes.

- ***Contract finance***: The Bank offers contract finance facilities to finance projects sponsored by the government and certain private companies. These facilities are structured based on the cash flows of the specific contract being financed. Funded facilities include discounting of certified bills and invoices, contract loans, contract overdrafts and loans against trust receipts and unfunded facilities include bid bonds, performance bonds, advance payment bonds and sight and usance letters of credit.

- ***Special finance***: The Bank offers a range of special finance facilities to its large corporate and government sector clients designed to meet their specific requirements. These include share trading loans and overdrafts, real estate development loans, seasonal finance, bridge loans, intra-month financing, specific order financing, investment loans, general purpose corporate loans, asset purchase loans and cash flow financing.

- ***Project finance***: The Bank offers project finance facilities for the construction and development of large projects to its large corporate and government sector clients. These facilities can either be structured with recourse to the project sponsor or, alternatively, on the basis of the project strength without recourse or with only limited recourse to the project sponsor. The facilities include syndicated and bilateral loans, guarantee facilities and letter of credit facilities and

- ***Real estate finance***: The Bank offers real estate loans to finance property acquisition and development. Projects are assessed by in-house expert teams, who also monitor the progress and supervise project specifications and compliance to required standards.

Other services and products offered by the Bank include advice in relation to the viability and technical aspects of projects, advice on managing foreign exchange and interest rate risks, cash management services, trade finance consultancy services, a range corporate current, demand and time deposits, internet banking, sweeping and pooling facilities for surplus funds and corporate credit cards.

Retail banking

The Bank's retail products and services are targeted at both Omani nationals and expatriates working in Oman. The Bank believes that the key attractions of its retail products and services are:

- its fast turnaround times
- its structured loan products that are tailored to its customers' requirements
- its multiple banking channels, including branches, internet, mobile and ATMs,
- flexible approach in meeting customer requirements and
- the fact that it targets all segments with tailored products and services

Principal products and services

The principal retail products and services offered by the Bank are:

Current, savings and term deposit accounts

The Bank offers a range of deposit products in local and foreign currencies including:

- Current accounts which, provided that a minimum balance of RO 200 is maintained, offer free and unrestricted access for deposits and withdrawals and a cheque book facility;
- Al Mumayaz term deposit accounts which can be opened in a range of currencies and offers a range of tenors. The account is interest bearing and requires a minimum balance of RO 1,000;
- Al Mumayaz savings accounts (both interest bearing and non-interest bearing). The non-interest bearing accounts enable the holder to participate in periodic draws with cash prizes being rewarded to the winning retail customers and
- Ready cash, which is a term deposit account that provides instant liquidity through an associated overdraft facility. The account offers terms of one, two, three, four or five years at fixed rates of interest with the overdraft being capped at 75% of the account. Deposits can be made only in multiples of RO 1,000.

Lending

The Bank offers a range of general and specific-purpose loans as follows:

- **Smart loan**, which aims to provide a quick and flexible borrowing option through simple documentation and rapid processing. Smart loans have a tenor up to 10 years for Omani nationals and six years for expatriates and are granted without the need for the borrower to undergo any medical examination for loans of less than RO 100,000. Borrowers of smart loans are also entitled to a free classic card for life;
- **Al Mumayaz personal financial solutions**, which are available to Omani residents and nationals only with a minimum monthly salary of RO 500 who are employed by a company within the Bank's approved list. The loan offers a special interest rate, a tenor of up to 10 years and flexible repayment plans and is designed to appeal to customers wishing to consolidate loan balances from other banks;

- **Al Mumayaz educational services**, which offers tailored financial solutions for students in higher education and employees undertaking additional studies;

- **Al Bait Al Mumayaz home solutions**, which are available to finance residential property construction, the purchase of residential property or land and home furnishing. The amount of the loan is limited to 80 % of the property valuation and the loans can have tenors up to 25 years. The loan interest rates are fixed for two years and reviewed thereafter and the loans are available only to Omani employees of government, semi-government or private companies within the Bank's approved list; and

- **Al Mumayaz auto loan**, which is a rapid car finance solution for new or used cars secured against a salary assignment or post-dated cheques.

Cards

The Bank offers retail customers a variety of debit, credit and prepaid cards. The Bank's basic debit card, which is a Visa electron card, is available to all Al Mumayaz account holders and can be used for cash withdrawals at ATMs and for payment of purchases at point-of-sale machines. The card can be used in Oman and worldwide at over one million ATMs and 29 million merchant locations where Visa electron cards are accepted. Use of the card for cash withdrawal at OmanNet ATMs is free of charge for the Bank's customers. The Bank also offers a platinum debit card which offers higher cash withdrawal and purchase limits and has a range of additional benefits.

The Bank also offers a prepaid Visa electron card and four categories of credit card: classic, gold, platinum and infinite.

The Bank's classic credit card is free for life in the sense that no fees are charged, whilst its gold and platinum cards are free for the first year and holders of the infinite card can benefit from a fee waiver based on their annual spending. All three card categories also offer a discounted first year interest rate on outstanding balances and comprehensive insurance cover. Entitlement to the different cards is based on the card holder's annual salary.

The Bank's Mukaaf Al Mumayaz loyalty programme provides points for spending using the Bank's platinum or infinite credit cards.

Privilege banking

Privilege banking (Al Khaas) customers benefit from a dedicated account relationship manager, who introduces them to a growing portfolio of exclusive services and cards and attends to all their banking needs. Al Khaas customers benefit from an account relationship manager who aims to bring banking to the customer and provides all required assistance as well as a wide range of privileges and services, including:

- valuable gifts

- unique personalised current account cheque books

- a free swap facility between the customer's savings and current account

- free cash withdrawal facilities at the Bank's and OmanNet ATMs and per day withdrawal limits from ATMs of RO 1,000

- a Black Platinum Debit card free of charge and higher purchase limits for point of sale debit card transactions

- SMS and internet banking customer facilities
- infinite and platinum cards
- no minimum balance charges and
- preferential interest rates on loans and fixed-term deposits

Privilege banking customers are those whose monthly salary is RO 2,000 or more (or equivalent) or whose current and savings accounts have a minimum balance of RO 75,000 (or equivalent).

Investments and FIG

Investments

The investment banking department manages the Oman Development Fund, which provides seed capital and support to mid-sized, green-field projects so as to encourage the manufacturing sector and diversify Oman's economy. The department also sources funds and other specialised investment vehicle solutions for high networth investors and designs investment products to address the needs of its investment clients.

Financial institutions group

The Bank's FIG is responsible for managing the Bank's relationships with a wide network of correspondent banks around the world with a view to facilitating free flow of trade transactions across borders to help the Bank's clients facilitate their business and access superior facilities across the globe so as enhance their trade volumes. FIG offers its customers an efficient, responsive and reliable service that includes:

- Omani Rial clearing and settlement;
- Omani Rial payments to accounts with the Bank as well as to accounts at other banks having a presence in Oman and
- Treasury and foreign exchange related services, including an income-generating portfolio of syndicated loan assets which it makes available to foreign banks.

FIG also studies country and bank risks across the world and sets prudential exposure levels in line with the Bank's risk appetite and is responsible for managing the Bank's contact with its ratings agencies.

Treasury

The Bank's treasury offers its customers a range of treasury services including foreign exchange, fixed income, interest rate and derivatives products. The treasury accepts demand, term, structured and foreign currency deposits principally from large organisations on a fixed, floating or variable interest rate basis. Its foreign exchange products and services include same day value cash payments, spot, forward and future settlement transactions and currency swaps and options in all major currencies, including euro, pounds sterling, Japanese yen, Swiss francs and Australian dollars. The treasury also provides derivative instruments and associated advice to enable clients to effectively hedge a range of risk exposures.

In 2014, the treasury department introduced its Remote Online Payment System. Through this innovative system, corporate clients are able to schedule payments, monitor account activity, handle their foreign exchange and trade finance requirements, clear cheques and have real time access to their accounts, thereby improving the efficiency of cash management and reducing bank visits.

In 2015, the treasury department also introduced commodity trade products for its clients, enabling them to trade on a spot and forward basis for hedging purposes only.

In addition, the treasury provides regular up to date information on various markets and products to the Bank's large corporate clients, SMEs, government departments and fund managers. It also provides comprehensive cash management and risk management solutions to clients.

Islamic Banking

In April 2013, the Bank obtained a license to operate its Islamic banking window, "Sohar Islamic". Sohar Islamic currently provides Shari'a-compliant solutions to retail, corporate, trade finance and treasury customers.

Retail

Sohar Islamic's retail products include current accounts and profit-bearing savings and term deposit accounts with a range of tenors, supported by a debit card, SMS and internet banking. Sohar Islamic also offers its retail customers a car finance product with and without salary transfer and construction and housing finance products.

Corporate

Sohar Islamic's corporate products include investment accounts (a deposit product based on a pooled Shari'a-compliant investment strategy which generates the returns paid) and working capital, asset purchase, import, project, commercial vehicle and equipment and construction financing for corporate and SME customers.

Trade finance and treasury

Sohar Islamic provides a range of Shari'a-compliant trade finance solutions, including:

- letters of guarantee, including bid bonds, tender bonds, performance bonds and advance payment guarantees;
- export bills under collection; and
- letters of credit (sight and usance).

Sohar Islamic's treasury products include both spot and forward products designed to facilitate export and import transactions.

Branch network and product distribution

The Bank's products and services are offered through its branches and a range of other channels described below.

Branches

On 31 December 2016, the Bank had a network of 27 branches for conventional banking and 5 Islamic banking branches for Sohar Islamic customers in Oman. The Bank's branch network continues to be the principal channel through which retail and corporate customers conduct their banking business.

Other distribution channels

The Bank's other distribution channels comprise:

- *Call centre*: the Bank's call centre operations are located in Muscat and commenced in 2007, which serves both retail and corporate customers;

- *Direct sales agents*: direct sales agents target sales by offering bundled and tailor-made products and services to existing and potential customers.

- *Internet banking*: the Bank provides online banking services to its corporate and retail customers. The Bank's retail and corporate internet banking services include local and international payment transfers, bill payments (for retail customers), trade finance and payroll services (for corporate customers), balance enquiries, account statements and other services;

- *ATMs and CDMs*: on 31 December 2016, the Bank had a network of 55 ATMs and 20 customer deposit machines across Oman. In addition, the Bank's customers are also able to access more than 1,000 OmanNet ATMs across the country; and

- *Mobile banking*: any Bank customer can register his mobile telephone number to receive SMS text message alerts for transactions without charge.

Business concentration (as on 31 December 2016)

Lending :

Particulars	**31-Dec-16 Loans and advances RO'000**	**Percentage**
Concentration by sector		
Corporate	1,351,878	69.17%
Personal	602,428	30.83%
Sovereign	-	
Banks	-	
	1,954,306	
Concentration by location		
Middle east	1,946,581	99.60%
Europe	-	
North America	-	
South America	-	
Africa	-	
Asia	7,725	0.40%
Australia	-	
	1,954,306	

BANK SOHAR SAOG		
LOCATION WISE BREAK DOWN OF LOANS		
	IN RO '000	
Countries	**Gross Loans**	**Percentage**
Oman	1,923,944	98.45%
Other GCC Countries	11,058	0.57%
OECD Countries	17,284	0.88%
India	0	
Pakistan	0	
Others	2,020	0.10%
Total	**1,954,306**	

Deposits:

Particulars	**31-Dec-16**	**Percentage**
	Total RO'000	
Retail customers:		
Term deposits	67,593	4.41%
Demand deposits	22,605	1.48%
Saving deposits	283,243	18.49%
Corporate customers:		
Term deposits	837,136	54.65%
Demand deposits	308,203	20.12%
Margin deposits	12,909	0.84%
	1,531,689	

The top 10 depositors in the Bank contributed about 36% of the total deposits of the Bank, sub-divided as under –

Category	% of the total deposits
Pension Funds	18%
Government Establishments	17%

The top 20 borrowers from the Bank constituted about 22% of the total loans given the Bank, sub-divided as under –

Category	% of the total loans
Private companies	15%
Government companies	4%
Individuals	3%

In terms of lending by economic sectors, the composition of the Bank's outstanding loan book is as follows –

Economic Sector	% of outstanding loan book
Personal Loans	30.83%
Construction	22.22%
Services	14.44%
Wholesale & Retail Trade	11.15%
Manufacturing	7.25%
Mining & Quarrying	3.86%
Financial Institutions (Excluding Commercial Banks)	3.18%
Electricity , Gas & Water	3.00%
Import Trade	2.06%
Lending to non-Residents	0.96%
Transport & Communication	0.69%
Agriculture & Allied Activities	0.24%
Others	0.12%
TOTAL	**100.00%**

Capital Adequacy

The Bank's capital adequacy ratio, calculated as Total regulatory capital as a percentage of total risk-weighted assets, was 13.96% as on 31 December, 2016. While the international requirement as per BIS is 8 %, CBO regulations stipulate that banks maintain a capital adequacy ratio of 13 % or more. The Bank's Tier I capital was RO 265 million and Tier II capital was RO 63 million. The Total Tier I capital as percentage of total risk-weighted assets was 11.26% as on 31 December, 2016.

Asset quality and Provisioning

The Bank evaluates the asset quality of its loan portfolio using two primary measures- the provisioning ratio and the non-performing loans ratio. The provisioning ratio is the annual charge for provisions as a percentage of total loans. The non-performing loans ratio is the ratio of non-performing loans as a percentage of total loans. Further, the risk movement is tracked through portfolio analysis with focus on concentrations. The Bank adheres to the extant regulatory guidelines of assigning risk weights to its credit exposures based on counterparties involved and risk weights for non-funded exposures after application of credit conversion factors. It has adopted standardized approach in computing capital adequacy. The classification of credit exposures is considered by the Bank for identifying impaired credit facilities, as per CBO circular number BM 977 dated 25 September 2004.

As on June 2017, the Bank has a provision of approximately RO 22 million for non-performing assets which is about 2.3% of total net loans & advances.

Information Technology

The Bank's IT strategy is focused on providing reliable and available information and systems to its customers and employees in a secure environment. It also assesses the Bank's future operational needs and develops and implements new IT systems to meet them, in each case with reference to the Bank's overall technology strategy and with the primary aim of delivering efficient and cost-effective systems.

For the Bank's customers, the focus is on delivering a convenient and efficient banking service, offering a range of remote banking applications including ATMs, internet and telephone banking. For the Bank's internal businesses, the focus is on providing effective methods and processes for promoting and delivering services to their customers.

The Bank has implemented a disaster and recovery site on remote premises that can be activated when required, to ensure that critical systems and data continue to be fully operational and to provide essential services to its customers. The Bank carries out daily and other periodic data back-ups which are stored at a location in Oman away from its head office.

The Bank also carries out annual intrusion tests on its IT network with the assistance of an external vendor who performs continuous remote intrusion monitoring on the Bank's behalf, providing the Bank with a daily activity report. There is no evidence of successful intrusion attempts to date.

Legal Proceedings

The Bank does not have any major/material legal proceedings pending in a court of law in Oman or outside, either instituted by, or against the Bank, other than normal cases filed by clients in the normal course of business. The cases filed by the Bank against its borrowers are in the course of its normal business practice.

Corporate Social Responsibility

On the Corporate Social Responsibility (CSR) front, the Bank has implemented multi-faceted CSR activities to improve the lives of individuals who need special care and attention. The principal recipients of the donations include Al Noor Association, Omani Bahja Orphan Society, Al Wafa Centre for Handicapped Children Education, Oman Cancer Association, Oman Association for the Disabled, Association for the welfare of handicapped children, Omani Association for Elderly Friends, Autism Centre of the Association for the welfare of handicapped children and the Al Amal Association.

Channels of Contact with Shareholders and investors

The Bank is committed to ensure timely disclosure and communication of all material to the shareholders and the market regulators. The Bank prepares, publishes and sends investor related information in the quarterly, half-yearly reports and the Annual Report as per the statutory guidelines.

The management takes responsibility for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report of the Bank.

The financials of the Bank are available on MSM website viz, www.msm.gov.om and also on the website of the Bank at www.banksohar.net.

CHAPTER 11: RISK MANAGEMENT

OVERVIEW

The primary objective of the Bank's risk management system is to safeguard its capital and financial resources from a range of risks, including the following financial risks:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated responsibility for monitoring risk to its Risk Management Committee, which is also responsible for handling all facets of risk. The Risk Management Committee submits periodic reports to the Board, appraising it on various aspects of risk and movements in the risk profile of the Bank. The Board Audit Committee is also responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit department, which undertakes both regular and *ad-hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

A management committee, the Risk and Control Committee, provides assurance to the Board Audit Committee and the Board Risk Management Committee on the effective management of risk within the Bank. Another management committee, the Assets and Liabilities Committee ("**ALCO**"), manages the risks in the balance sheet arising out of liquidity management, interest rate management and the tenor of exposures taken by the Bank and a third management committee, the Operational Risk Committee ("**ORCO**"), is responsible for managing operational risk within the Bank. A separate ALCO has been established to monitor the performance of the assets and liabilities of Sohar Islamic.

Risk management involves identification, measurement, mitigation and monitoring of risks in such a way as to consistently meet the objective of maximising risk-adjusted returns within the defined risk parameters set by the Board. The Bank's risk management unit sets limits which are consistent with the Bank's risk appetite, monitors and reports on compliance with those limits and provides supervision in relation to the management of risk. The Bank also has in place documents approved by the Board detailing the responsible management of risk.

The risks in the Bank are managed through a 'Three Lines of Defence' model. All the businesses act as the first line of defence through ownership and management of their respective risks. The second line of defence is shared by the risk and compliance functions. Risk provides functional leadership to the businesses by educating and training managers on the Bank's risk policies, processes and controls. It also identifies risks, measures them and reports to the management. Compliance ensures the application of policies and processes in conformity with the current regulatory guidelines and the applicable laws of Oman. The Bank's Internal Audit department acts as the third line of defence and reviews and exercises supervision of the first two tiers of defence. The review findings act as a risk reporting tool for the Board and as inputs for upgrading of processes and closing any gaps in controls by Risk.

Please see the full financial statements of the Bank for more details on the various risks and its analysis.

CREDIT RISK

Overview

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations in relation to lending, trading, settlement and other financial transactions. In addition, losses may also result from a reduction in portfolio value arising from the actual or perceived deterioration in credit quality of one or more of the Bank's counterparties.

The Board has delegated responsibility for monitoring credit risk in both the Islamic and conventional banking operations to its Risk Management Committee. The Bank has a Chief Risk Officer ("**CRO**") who heads the management of risk and reports to the Risk Management Committee. Credit risk is managed by the following:

- establishing risk limits and boundaries, within the regulatory guidelines, for risk origination to be within the approved risk appetite of the Bank;
- managing the origination of credit risk through a credit appraisal process which includes independent credit risk review of individual corporate credit proposals and a Board-approved retail products policy and template lending, with exceptions being reviewed by the credit risk function;
- continuous monitoring of credit risks in the wholesale and retail portfolios through an independent loan review group that reports to the CRO;
- portfolio credit risk measurement through tracking a set portfolio risk parameters, such as concentration risk;
- refusing credit proposals from entities or individuals listed in the CBO classified list maintained by the Bank Credit and Statistical Bureau, although exceptions may be made in the retail business unit where there are strong justifications and risk mitigations provided that the loans are approved by appropriate delegated authorities in accordance with the retail loan policy;
- limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities);
- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Credit origination

The Bank has established a clear segregation of responsibilities relating to credit acquisition, credit risk appraisal and credit delivery. Wholesale credit applications are prepared by a relationship manager, along with the necessary information and analysis to support the relationship manager's recommendation. These applications are then reviewed by a credit officer on the basis of the Bank's approved product policy and risk assessment criteria. The credit officer's assessment is based on an evaluation of externally and internally compiled data on the applicant and analysis of relevant risks, covering financial, business, structural and management risks, to ascertain the proposed borrower's repayment capability and cash flow. The application is also analysed in terms of the intended transaction amount, tenor, security and any relevant delinquency records.

In conjunction with Moody's, the Bank has developed an internal credit rating model, which is used for rating debtors in the wholesale segment that have audited financial statements. The rating system uses a combination of objective and judgmental parameters.

For wholesale borrowers without financial statements, the Bank uses an internally developed score card model to generate a rating. This model was approved by the Board Risk Management Committee and has been validated using rank order testing.

Once the responsible credit officer has approved a credit proposal, it is submitted for approval by the appropriate approving authority. The Bank has the following levels of credit approving authority which are based on both the size of the proposed loan and its perceived level of risk:

	Low risk	**Medium risk**	**High risk**	**Very high risk**
Up to RO 2.5 million	Head of corporate banking and CEO	Head of corporate banking and CEO	ECC[1]	ECC
Up to 10% of the Bank's net worth	ECC	ECC	ECC	ECC/CAC[2]
Up to 15% of the Bank's net worth	CAC	CAC	CAC	Board

Notes:

(1) The Executive Credit Committee which comprises members of management, including the CEO.

(2) The Credit Approval Committee which comprises members of the Board.

In the retail loan businesses, the credit cycle is managed through appropriate front-end credit, operational and collection processes. For each product, programmes defining customer segments, underwriting standards, security structure and other important factors are specified to ensure consistency of credit granting patterns. The Bank extends consumer loans only against the assignment of salary and to customers meeting certain pre-qualification requirements, such as a satisfactory debt service ratio, the age of the applicant and loan insurance coverage.

Credit monitoring

All wholesale credit ratings serve as a key input in the credit monitoring processes and are reviewed at least annually. The Bank has also conducted a transition matrix analysis and has observed that rating movements in its debtor base closely match the macro economic trends measured in the Omani economy, which provides added assurance to management on the accuracy of the rating model adopted. The Bank's rating model classifies its wholesale credits into four categories, as follows:

Satisfactory risk – these are loans which are fully performing and otherwise generally satisfactory. These accounts as sub-rated from 1 through 6;

Viable but monitoring – these are loans which are performing but which are monitored on regular basis as regards financial ratios and other parameters, including as to their credit or compliance with approval conditions. They are rated as 7 and may be between 60 and 89 days past due or otherwise show potential weaknesses which, if left uncorrected, may result in deterioration of the repayment prospects at a future date;

Past due but not impaired – a loan is past due where a due date for payment in respect of the loan or any part of it has occurred and the payment has not been made within 90 days of the due date. A loan payable on demand is treated as past due when a demand for payment has been made and not met within 90 days;

Impaired – these are loans in respect of which a specific impairment provision has been made.

The Bank also conducts a portfolio rating for each industry or sector using its internally developed portfolio rating model. The Bank's exposure to sensitive sectors, such as commercial real estate and capital markets, are regularly monitored by senior management. In addition, real estate exposures are monitored by the Board Credit Approval Committee (the "**CAC**") on a quarterly basis. For exposures against capital market securities, valuations are performed on a weekly basis or, during periods of high volatility, on a daily basis. The Bank's exposure to residential mortgages remains well within prudential and regulatory guidelines.

Industry knowledge is also constantly updated through interactions with clients, regulatory bodies and industry experts. The Bank believes that sustained post-disbursement credit monitoring is a critical component for maintaining its loan quality and that overall portfolio diversification and reviews also facilitate mitigation and management. The Bank has an independent loan review department to assess the quality and grading of its wholesale loans.

With the granularity of individual exposures, retail credit risk is managed largely on a portfolio basis, across various products and customer segments. In the Bank's retail credit operations, all products, policies and authorisations are approved by the Board or the CAC. The Bank continuously reviews the retail credit parameters based on portfolio analytics.

The Risk Management Department updates senior management with a comprehensive monthly risk profile, which covers credit, market and operational risk within the Bank and highlights the level and trend of the Bank's sensitive exposures.

The loan review process also investigates the existing provisions of the Bank's credit policy and process documentation and suggests additions or changes where necessary. An important objective of the loan review process is the capture of the early warning signals for changes in asset quality. With these signals, suitable pre-emptive action can be initiated.

Concentration of credit risk

Concentrations of credit risk arise when a number of counterparties 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 their 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 Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or group of customers in specific locations or businesses.

Collateral policy

The Bank follows a risk mitigation practice of identifying business cash flows as the primary driver for the wholesale advances extended by it. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the cash flows into the client's account with the Bank. To cover unforeseen risk which reduces the cash flows, additional tangible security is typically taken, such as real estate mortgages or charges over equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collateral for loans and advances are:

- mortgages over properties;
- charges of assets under Murabaha agreements
- ownership/title of assets under Ijara financing
- charges over business assets such as premises inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equities.

While real estate security is professionally and independently valued once every three years (except when a loan is individually assessed as impaired), listed shares are valued on a fortnightly basis.

Loan loss provisioning

The CBO provides guidelines for classifying credit exposure in the following categories.

Type	**Number of days past due**	**Provision**
Standard(1)	Normal accounts, including past due up to 60 days	—
Special mention(2)	Past due from 60 and up to 90 days	Management discretion
Substandard(3)	Past due from 90 and up to 180 days	25%
Doubtful(3)	Past due from 180 and up to 365 days	50%
Loss(3)	Past due for 365 days and above	100%

Notes:

(1) Loans rated by the Bank as 1 through 6 would typically also be classified as Standard under CBO guidelines.

(2) Loans classified by the Bank as past due for less than 90 days would typically also be classified as Special mention under CBO guidelines.

(3) Loans classified by the Bank as past due but not impaired or as impaired would typically fall under one of the following CBO categories: Substandard, Doubtful or Loss.

In addition to the above, the exposure can be classified based on qualitative factors. The Bank has introduced an additional category for delinquent exposures that operates in advance of the timings dictated by the CBO guidelines for credit exposures. This additional category draws attention to accounts which exhibit potential weaknesses and require pre-emptive action. The result is that an account which is identified in this category is placed on a "watch list" so that it may be monitored and reviewed by relevant management.

Although the CBO provides a provision range for delinquent accounts in different categories, the Bank provides for a maximum in any exposure under the above-mentioned delinquent categories. The Bank is also required to maintain a 1.5% provision annually on the total loans and advances portfolio in addition to any specific provision for any exposure.

In addition to the CBO regulatory requirements described above, the Bank has its own internal policy in relation to provisioning and follows IFRS provisioning methodology in the preparation of its financial statements. Under IFRS, the Bank assesses whether there is objective evidence that a loan may be impaired based on whether a loss event has occurred and, if so, whether the loss event has a negative impact on the future cash flows expected under the loan. Objective evidence may include significant financial difficulty being experienced by a borrower, a borrower's loans being restructured in a manner that reduces their future cash flows, indications that the borrower may become bankrupt or the occurrence of economic conditions that correlate with increased defaults.

Under IFRS, management assesses all individually significant loans and advances for impairment. Where loans are impaired as a result, the amount of the impairment is the difference between the carrying value of the loan and the present value of the future cash flows expected discounted at the loan's original effective interest rate, after taking account of the value of collateral net of the estimated costs of realising that collateral.

Individually significant loans which are not determined to be impaired and all other loans are also collectively assessed for impairment by grouping together loans with similar risk characteristics and considering factors such credit quality, portfolio size, concentrations and economic factors. In order to determine the amount of the collective provision, assumptions are made to define the manner in which inherent losses are modelled and to determine the necessary inputs, based on historical experience and current economic conditions.

The Bank's recorded provision is made based on CBO guidelines and IAS 39, whichever is the higher. The CBO requires all Omani banks to discuss their individually significant provisions with the CBO before a final determination is made on the classification of the loan and the appropriate provisions to be made.

The early detection of accounts which demonstrate the potential to become a non-performing loan (defined as a loan in respect of which payments of principal or interest are overdue by more than 90 days) is central to the Bank's remedial management process. Risk Management decides whether to include an account in the watch list based upon predefined early warning sign criteria. Factors considered would include, for example, circumstances in which an account is overdrawn and has been inactive for three months, or where a loan is three or more instalments in arrears or any other qualitative factors.

The Bank aims to ensure that any sign of deterioration in asset quality is promptly recognised and rehabilitation of the account is initiated. For corporate and institutional accounts, the relationship manager has direct responsibility for knowing the condition of each of the customers within his portfolio and it is therefore the relevant relationship manager's responsibility to identify any sign of deterioration and initiate remedial action. The relationship manager is the primary person tasked with the identification of problem accounts. In addition, various reports covering daily excess positions, dormancy and loan instalment delinquency are circulated by Risk Management throughout the Bank to the different business divisions and these are examined as appropriate on a daily, weekly or monthly basis by the Bank's relationship managers.

Loan write-offs

After all possible means of recovery are exhausted or where the Bank determines that there are no other means of recovery, the accounts are transferred to the legal department so that legal proceedings may be instituted in order to recover funds through litigation. In the case of personal accounts, collection efforts are based on clearly defined and strict collection criteria and processes until the account is passed over to the legal department for action.

The Bank writes off a loan or an investment debt security balance, and any related allowances for impairment losses, once it has determined that the loan or security is uncollectible and after CBO approval. This determination is made after considering information such as the occurrence of significant changes in the debtor's financial position such that the debtor can no longer pay the obligation, or that proceeds from collateral will not be sufficient to repay the entire exposure. For smaller balance standardised loans, write-off decisions are generally based on a product specific past due status.

Other credit risk exposures

In addition to the customer credit risk arising from credit extended, the Bank also has credit risk exposure in respect of its investment securities and its money market placements.

In addition, the Bank has settlement risk in relation foreign exchange trades which it manages through the execution of bilateral netting agreements.

LIQUIDITY RISK

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. The Bank has an approved contingency liquidity plan to facilitate liquidity management.

Liquidity risk is managed by the Bank through closely monitoring the liquidity gap against the limits fixed and through contingency liquidity planning and policy.

ALCO is responsible for liquidity risk management with day to day liquidity risk management being carried out by the treasury based on information supplied by other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The treasury is also responsible for the Bank's contingency funding plans. In this process due care is taken to ensure that the Bank complies with all applicable CBO regulations.

All liquidity policies and procedures are subject to review and approval by the ALCO. ALCO's objective is to:

- maintain a consistent earnings-to-growth plan and net worth to assets within acceptable and controllable levels;
- provide for growth that is sound, profitable and balanced without sacrificing quality of service; and
- manage and maintain policies and procedures that are consistent with the Bank's short- and long-term strategic goals.

- The Bank also focuses on developing more low cost but stable funding sources, such as retail deposits.

- As required by applicable regulation, the Bank monitors two liquidity ratios:

- The lending ratio, which is the ratio of the total loans and advances to customer deposits and capital, is monitored on a daily basis. Internally the lending ratio is set at a more conservative level than required by regulation.

- The liquid ratio, which is a ratio of net liquid assets to total assets, is monitored on monthly basis. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market.

The Bank also prepares a liquidity gap report to monitor the Bank's short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unused committed lines of credit, if any. This statement of short term liquidity is reported to the ALCO on a monthly basis.

MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, equity prices and commodity prices. The Bank's exposure to market risk arises from its trading and asset-liability mismatches and its role as a financial intermediary in customer-related transactions. The objective of market risk management is to minimise the impact of losses on the Bank's earnings and equity capital due to market risk.

Overall authority for market risk is vested in the ALCO. The Bank's risk management function is responsible for the development of detailed risk management policies (subject to approval by the ALCO and the Board Risk Management Committee). The Bank's market risk policy is periodically reviewed to keep it up to date with market developments. The ALCO meets on a monthly basis to discuss any maturity mismatches and liquidity risks that the Bank is exposed to in order to mitigate those risks. The ALCO also discusses and finalises action plans to manage interest rate risks. With the guidance of the ALCO, the Bank's treasury manages liquidity risk, interest rate and foreign exchange risk, adhering to the treasury policy guidelines and market risk limits laid down in the market risk policy.

The Bank has a well-defined structure to manage market risk with clear segregation of duties among the front office, back office and mid-office. The mid-office tracks and monitors market risk and reports the position of market risk on a daily and monthly basis. It also reviews risk limits through the ALCO and monitors the actual exposures against the limits. The Bank manages its interest rate risk through asset liability management limits, gap analysis and studying the impact of interest rate shock through the use of stress testing. It manages its foreign exchange risk through implementing a limit framework and reporting tools such as currency position reports, risk analysis of currency positions and breach reporting. In addition, the Bank's investment policy addresses issues related to investments in various trading products.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Interest rate risk

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

The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The principal interest rate risk to which the Bank's non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. This risk is managed principally through monitoring interest rate gaps, which is undertaken by the risk management function supervised by the ALCO.

The Bank also assesses interest rate risk by assessing the interest rate impact (both from an earnings and economic value perspective) of interest rate shocks of 50 basis points, 100 basis points and 200 basis points and takes measures to reduce the impact of these shocks.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the Bank's overall foreign currency open position and on the open position for each foreign currency. The open position limits include overnight and intra-day open positions. Open positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within established limits.

Investment value risk

Investment value risk is the risk of reduction in the market value of the Bank's investment securities portfolio as a result of diminution in the market value of individual investments. The responsibility for management of investment value risk rests with the Management Investment Committee and the Board Executive Committee. The Bank's investments are governed by an investment policy approved by the Board. The rating and price of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The portfolio is revalued at market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments remains within the acceptable parameters.

OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to a variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external events and includes other than credit, market and liquidity risks.

In line with the risk management guidelines issued by CBO, the Bank has established an operational risk management framework based on an operational risk management policy approved by the Board and monitored by the Operational Risk Committee. This broadly covers all areas of operational risk and supporting policies, such as the risk and control self-assessment policy and the loss data management policy. The policies are applicable across the Bank and aim to ensure clear directions, responsibility and accountability for managing the Bank's operational risk. The Bank has also assessed the risks and controls of certain important business areas through a risk control self-assessment model.

The operational risk management framework comprises the operational risk policy, methods of identifying risks, assessment of risks, monitoring of risks, and controls to mitigate the risks. In addition, the Bank has identified 25 key risk indicators of operational risk. The Bank has set threshold benchmark levels for these indicators and they are monitored periodically.

The primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards in the following areas for management of operational risk:

- clear reporting lines;
- proper delegation of powers;
- appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix;
- ownership reconciliation and monitoring of accounts;
- documentation of controls and processes;
- compliance with regulatory and other legal requirements;
- periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified;
- reporting of operational losses and incidents triggering operational losses and remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation through insurance, wherever desirable.

DERIVATIVES

The Bank transacts in derivative financial instruments both as principal, to manage its own financial risk, and on behalf of its clients. In the latter case, the Bank covers the exposure which it assumes on a back to back basis with market counter parties to avoid taking any market risk.

The Bank uses currency forward agreements to hedge mismatches between loans and deposits denominated in different currencies.

COMPLIANCE

Compliance with regulatory requirements is based on a framework and culture designed to manage regulatory and reputational risk, while keeping informed about local, regional and international developments and industry best practices.

The values of accountability, fairness, responsibility and transparency are an integral part and a cornerstone of the Bank's philosophy. The Bank seeks to adhere to the highest standards of integrity when carrying out business, and at all times strives to observe the spirit as well as the letter of the law. In order to ensure this, the compliance function is tasked with the ensuring conformance to the current regulatory guidelines and the applicable laws of Oman.

The compliance function ensures the Bank's timely compliance with rules, regulations, circulars and directives issued by regulatory authorities such as the CBO and the CMA. In addition, the Bank has implemented a FATCA compliance programme.

The compliance function disseminates regular alerts, aiming to increase awareness of issues and emerging trends in the world of compliance. It also provides training on anti-money laundering and know your customer requirements and procedures for all staff across the Bank.

The Bank uses relevant systems and software to ensure it satisfies all of its obligations in relation to the sanctions regimes to which it is subject. This involves screening at the customer and transaction level. In addition, it uses automated alert generating software to monitor all of its transactions and reports any suspicious transaction to the Financial Intelligence Unit in Oman as and when they arise.

INTERNAL AUDIT

The internal audit function reviews and assesses the Bank's internal control, risk management and governance systems and processes. Through the use of risk-based assessment techniques, the internal audit function is able to form an independent and informed view of the risks faced by the Bank. Internal audit reports its findings and recommendations to the Board Audit Committee and to the Board.

Internal audit uses automated audit management software to capture the entire audit process and also uses a data mining tool in the audit and fraud prevention process. The Bank has established a dedicated fraud unit within internal audit to conduct proactive fraud audits and in turn deter and detect fraud. In addition, identified risk areas and activities are examined continuously on a monthly basis to provide advance notice to management about anomalies and errors detected for fraud prevention and early resolution.

CHAPTER 12: FINANCIAL REVIEW

The following information has been extracted from the audited financial statements. For full financial statements, please visit MSM website at www.msm.gov.om or Bank's website at www.banksohar.net.

Statement of Financial Position

(RO million)

	At 30 June 2017*	At 31 December 2016	2015	2014
Assets				
Cash and balances with Central Bank	119	120	122	219
Due from banks and other money market placements	106	99	128	154
Loans, advances and financing (net)	1,998	1,913	1,647	1,423
Investments	403	351	277	241
Property, equipment and fixtures	17	16	14	13
Investment properties	3	3	3	3
Other assets	29	18	16	24
Total assets	**2,674**	**2,520**	**2,207**	**2,075**
Liabilities				
Due to banks and other money market borrowings	595	575	382	244
Customers' deposits	1,660	1,532	1,464	1,552
Other liabilities	32	29	32	29
Subordinated loans	87	87	51	51
Compulsory convertible bonds	2	5	7	7
Certificates of deposit	19	18	18	–
Total liabilities	**2,395**	**2,246**	**1,954**	**1,883**
Shareholders' equity				
Share capital	178	160	144	114
Share premium	18	17	17	–
Legal reserve	19	19	17	14
General reserve	1	1	1	1
Fair value reserve	(1)	(1)	(7)	(5)
Subordinated loans reserve	50	50	40	24
Retained earnings	15	27	41	44
Total shareholders' equity	**279**	**274**	**253**	**192**
Total liabilities and shareholders' equity	**2,674**	**2,520**	**2,207**	**2,075**

**un-audited*

Statement of Comprehensive Income

(RO million)

	H1 2017*	FY 2016	FY 2015	FY 2014
Interest income	52	91	75	73
Interest expense	(30)	(46)	(25)	(26)
Net interest income	**22**	**45**	**50**	**48**

	H1 2017*	FY 2016	FY 2015	FY 2014
Net income from Islamic financing and investing activities ..	2	3	2	2
Other operating income..	12	22	19	21
(Losses) / gains from available-for-sale investment securities…………………..	0	(4)	1	–
Total operating income..	**36**	**67**	**71**	**70**
Operating expenses				
Staff costs..	(10)	(20)	(20)	(19)
Other operating expenses	(6)	(11)	(11)	(10)
Depreciation..	(1)	(2)	(2)	(2)
Total operating expenses	**(17)**	**(33)**	**(33)**	**(31)**
Operating profit	18	34	38	39
Impairment on investment securities	(1)	(3)	(3)	–
Impairment allowance on portfolio basis	(1)	(3)	(2)	(2)
Impairment allowance of specific basis..............................	(3)	(6)	(1)	(4)
Net profit before tax	**14**	**22**	**32**	**33**
Income tax expense	(2)	(3)	(4)	(3)
Net profit for the period	**12**	**19**	**28**	**30**
Net changes in fair value of available for sale financial assets net of income tax (re-classifiable to profit or loss)		6	(2)	(5)
Other comprehensive income for the year net of income tax..		6	(2)	(5)
Total comprehensive income for the period..................	**12**	**26**	**26**	**25**

un-audited

Statement of Cash Flows

(RO million)

	H1 2017*	FY 2016	FY 2015	FY 2014
Net cash (used in)/from operating activities	289	(185)	(135)	204
Net cash (used in)/from investing activities	5	16	(74)	(6)
Net cash (used in)/from financing activities.......................	(11)	23	32	(4)
Cash and cash equivalents at beginning of period............	120	266	444	251
Cash and cash equivalents at end of period	403	120	266	444

un-audited

Selected Ratios

	As at 31 December		
	2016	2015	2014
Earnings Per Share (RO)	0.012	0.020	0.025
Book Value Per Share (RO)	0.171	0.176	0.168
Capital Adequacy	13.96%	13.39%	13.05%

	As at 31 December		
	2016	2015	2014
Return on Average Assets	0.81%	1.30%	1.51%
Return on Average Equity	7.25%	12.46%	16.45%
Cost to Total Income	28.56%	34.30%	32.66%
Net Interest Margin	2.53%	3.25%	3.34%
Net Profit Margin	16.51%	28.83%	31.15%
NPA to Net Loans & Advances	1.61%	1.26%	1.54%
NPA coverage	133%	173%	145%
Loans to Deposits	124.91%	112.48%	91.72%

CHAPTER 13: RELATED PARTY TRANSACTIONS

Related parties comprise of the Shareholders and its affiliates, directors, key management personnel, business entities that have the ability to control or exercise significant influence in financial and operating decisions.

Prices and terms of these transactions, which are entered into in the normal course of business, are on mutually agreed terms and conditions.

The Company had the following significant transactions with related parties during the year:

	FY 2016	FY 2015
Loans and advances (balance at end of year)	15,471	31,010
Loans disbursed during the period	118,852	164,255
Loans repaid during the period	(122,378)	(158,394)
Deposits (balance at end of period)	18,836	11,686
Deposits received during the period	21,133	7,793
Deposits paid during the period	(13,875)	(10,728)
Interest income (during the year)	802	875
Interest expense (during the year)	339	39
Senior management compensation		
Salaries and other short term benefits	3,354	4,279
Directors’ sitting fees and remuneration	202	213
Shari’ah Supervisory Board members	52	49

CHAPTER 14: RISK FACTORS AND MITIGANTS

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. The order in which the risks are presented below does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Bank. 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 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.

The occurrence of any of the risks described below, or any other risks not currently known to the Bank, could have a material adverse effect on the Bank's financial condition, results of operations, liquidity and future prospects and could affect its ability to make payments under the Capital Securities and/or the market price of the Capital Securities. It should be also noted that the Bank intends to undertake steps and/or necessary measures in order to mitigate the risks referred to below apart from those that may be caused by factors that are beyond the Bank's control, including, in particular, factors of political and economic nature.

Prospective investors should also consult their own financial and legal advisers about risks associated with an investment in the Capital Securities and the suitability of investing in the Capital Securities in light of their particular circumstances, without relying on the Bank. Prospective investors are advised to make, and will be deemed by the Bank to have made, their own investigations in relation to such factors before making any investment decision.

1 FACTORS THAT MAY AFFECT THE BANK'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE CAPITAL SECURITIES

1.1 The Bank's business, financial condition, results of operations and prospects are and will continue to be affected by economic conditions and any deterioration in economic conditions in Oman could materially adversely impact the Bank

The Bank's business is focussed on Oman and its results of operations are affected by economic conditions in Oman which, in turn, may be affected by regional and global economic conditions. At 31 December 2016, all of the Bank's credit risk exposure was to counterparties located in the Middle East, principally in Oman.

The economies of Oman and most other countries in the Middle East are dependent on oil and gas and related industries, as well as the prices and production quantities of these commodities. For example, oil and gas revenues accounted for a major input to Omani GDP. Oil and gas prices have, however, been volatile in recent years. The OPEC Reference Basket annual average crude oil price was in excess of U.S.$100 in each of 2011, 2012 and 2013. However, in 2014, the annual average price was U.S.$96.29, with prices falling sharply in the second half of that year. The average near month WTI Crude Oil Futures contract price for January to December 2016 was U.S.$42.97 and the average near month WTI Crude Oil futures price for July 2017 was U.S.$ 47.62. OPEC Reference Basket price movements are shown solely to illustrate the historic volatility in international crude oil prices and no implication is intended that the Bank's revenue from crude oil production is directly linked to the price of the OPEC Reference Basket.

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

- reducing the demand from its customers for financing and by adversely affecting the quality of its outstanding financing, thus potentially increasing its impairment losses and so reducing profitability; and/or

- causing certain large depositors of the Bank to withdraw their deposits (in whole or in part) to address their own liquidity needs, resulting in the Bank having to source alternative and more expensive sources of funding. See also "*—The Bank's customer loans, advances and financing and its deposit base are concentrated in the Middle East, principally Oman"* below and *"—The Bank is subject to the risk that liquidity may not always be readily available or may only be available at significant cost*" below.

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

Mitigant: Relatively improved crude oil prices, ongoing fiscal reforms and satisfactory financial performance of the Bank.

1.2 The Bank is exposed to credit risk and has a significant customer concentration of credit risk

Risks arising from adverse changes in the credit quality and recoverability of loans, securities and amounts due from counterparties are inherent in a wide range of the Bank's businesses, principally in its lending and investment activities. In particular, the Bank is exposed to the risk that borrowers may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. The Bank continuously reviews and analyses its loan portfolio and credit risks, and the Bank assesses its potential losses on loans based on, among other things, its analysis of current and historical delinquency rates and loan management and the valuation of the underlying assets, as well as numerous other management assumptions. However, these internal analyses and assumptions may give rise to inaccurate predictions of credit performance, particularly in a volatile economic climate.

Credit losses could also arise from a deterioration in the credit quality of specific borrowers, issuers and other counterparties of the Bank, or from a general deterioration in local or global economic conditions, or from systemic risks within financial systems, any or all of which 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.

The Bank's credit risk is increased by concentrations of risk. The Bank has significant customer risk concentrations. For example, the Bank's top 20 customer loan exposures at 31 December 2016 amounted to 21.6% of its total customer loan, advances and financing and the Bank's top 10 customer loan exposures at 31 December 2016 amounted to 12.9% of its total customer loan, advances and financing. In addition, the Bank has a significant geographic risk concentration. See "*—The Bank's customer loans, advances and financing and its deposit base are concentrated in the Middle East, principally Oman*" below.

At 31 December 2016, the Bank had made specific impairment allowances amounting to RO 17.726 million and carried total impairment allowances (including its portfolio allowances) of RO 41.020 million compared to total impairment allowances of RO 35.826 million at 31 December 2015. Any failure by the Bank to maintain the quality of its assets through effective risk management policies could lead to higher loan loss provisioning and result in higher levels of defaults and write-offs. In addition, the CBO 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 are 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. See also "*—A significant decrease in the quality of the Bank's customer loans, advances and financing could materially adversely affect its business*" below.

Mitigant: The Bank has been able to grow its lending portfolio without much increase in non-performing loans, which augers well for the credit risk management of the Bank. The non-performing loans at the end of 2016 were 1.82 per cent (2015 non-performing loans were 1.32 per cent) of the gross loans.

1.3 The Bank's customer loans, advances and financing and its deposit base are concentrated in the Middle East, principally Oman

At 31 December 2016, the Bank's personal loans amounted to RO 602 million, or 31.5% of its total loans, advances and financing. The ability of its customers, particularly those employed in the private sector in Oman, to repay these loans will remain strongly linked to economic conditions in Oman, with increases in unemployment levels and interest rates among the main factors that will adversely impact the Bank's retail credit exposures.

As a result, any deterioration in general economic conditions in Oman or the Middle East generally or any failure by the Bank to manage effectively its geographic risk concentrations could lead to a deterioration in the credit quality of counterparties of the Bank. See "*—The Bank's business, financial condition, results of operations and prospects are and will continue to be affected by economic conditions and any deterioration in economic conditions in Oman could materially adversely impact the Bank*" above.

The Bank's customer deposits constituted 69.01% of its total liabilities at 31 December 2016 and 99.0% of its customer deposits at 31 December 2015 had been accepted from Omani counterparties. At 31 December 2016, the Bank's top 20 customer deposits constituted 44.2% of its total customer deposits and its top 10 customer deposits constituted 35.7% of its total deposits. A substantial portion of the Bank's funding requirements are met through short term and long term deposits by government-related entities. At 31 December 2016, government-related entities and pension funds accounted for approximately 34.5% of the Bank's customers' deposits.

Any withdrawal of a significant portion of these large deposits (which is more likely to occur at times when government revenues are under pressure) could have a material adverse effect on the Bank's business, results of operation and financial condition, as well as its ability to meet CBO regulations relating to liquidity. Any such withdrawal could 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 replacement funding would be likely to 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.

1.4 A significant decrease in the quality of the Bank's customer loans, advances and financing could materially adversely affect its business

The Bank's non-performing loans (NPLs, defined as loans in respect of which payments of interest, principal or other amounts are more than 90 days in arrear) were RO 33 million at 31 December 2016 compared to RO 21 million at 31 December 2015 and RO 22 million at 31 December 2014. The Bank's NPL ratio (defined as the ratio of NPLs to total gross customer loans, advances and financing) amounted to 1.7% at 31 December 2016 compared to 1.2% at 31 December 2015 and 1.5% at 31 December 2014. The increase in NPLs in 2016 principally reflected a single large corporate exposure and deterioration in the personal loan portfolio, principally from lower income borrowers, while the slight improvement in 2015 principally reflected an improvement in the construction segment.

The Bank's past due (less than 90 days) but not impaired loans amounted to RO 70,591 at 31 December 2016 compared to RO 22.273 53 million at 31 December 2015 and RO 52.727 million at 31 December 2014 and, as a percentage of total gross customer loans, advances and financing, amounted to 3.61%, 1.35% and 3.62% respectively. The increase in 2016 principally reflected delays faced by contractors on government projects in receiving payment following a change in the process for payment of bills on government projects while the decrease in 2015 largely reflected an improvement in this position, especially in the up to six day category. Bank's renegotiated loans amounted to RO 3.773 million at 31 December 2016 compared to RO 4.285 million at 31 December 2015 and RO 42.283 million at 31 December 2014.

Any significant future deterioration in the Bank's portfolio of customer loans advances and financing could result in increased impairments and thus materially adversely affect its business.

Mitigant: The Bank has put in place a system of portfolio rating of its corporate portfolio and the portfolio rating has remained stable at medium risk.

1.5 The Bank's credit risk may be increased by the fact some of its debtors are unable or unwilling to provide the quality and quantity of financial data sought by the Bank and by limitations on its ability to enforce security in Oman

Although the Bank requires regular disclosure of its debtors' financial information, some debtors, especially retail customers and small to medium-sized enterprises (**SME**s), 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 impairment allowances, particularly at times when economic conditions deteriorate.

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 Omani 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 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 12 months of it being acquired unless an extension has been obtained from the CBO, which could result in the Bank being required to sell the assets at a time when their market price is depressed or otherwise being unable to realise the full value of the assets concerned.

Mitigant: This risk is mitigated by regulatory stipulation that all borrowers with exposure of RO 250,000 from the Bank or RO 500,000 from the banking system has to submit audited financials before the close of 120 days from the financial year end.

1.6 The Bank is exposed to declining property values in Oman on the collateral supporting its retail and wholesale loans secured by mortgages over real estate

The Bank's total customer loans, advances and financing at 31 December 2016 was RO 1,913 million, of which loans secured by mortgages over real estate amounted to 6.1%, or RO 100 million. Negative economic and other factors could lead to a contraction in the residential mortgage and commercial lending markets and to decreases in residential and commercial property prices. This would adversely affect the value of the Bank's collateral and could lead to increased impairment charges which would reduce the Bank's profitability.

Mitigant: The existing loan portfolio of the Bank is well covered against expected losses through adequate provisions with coverage ratio (provisions to non-performing loans) of 53.58 per cent (123.99 per cent including general provisions).

1.7 The Bank has significant credit-related contingent liabilities and commitments that may lead to potential losses

The Bank issues irrevocable loan commitments, guarantees and letters of credit, all of which are accounted for off the Bank's balance sheet until such time as they are actually funded or cancelled. Although these commitments are contingent, they nonetheless subject the Bank to both credit and liquidity risks. Although the Bank anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, the Bank may need to make payments in respect of a greater portion of such commitments than it anticipated, particularly in cases where there has been a general deterioration in market conditions. This would result in the Bank needing to obtain additional funding, potentially at relatively short notice, which could have an adverse effect on its business. At 31 December 2016, the Bank had RO 433 million in such contingent liabilities outstanding, equal to 18.4% of its combined customer loans, advances and financing and contingent liabilities.

Mitigant: The underwriting standards adopted for non-funded exposures are the same as that of funded exposures in the Bank eliminating increased credit risk for contingent liabilities.

1.8 The Bank could be adversely affected by the weakness or the perceived weakness of other financial institutions and counterparties, which could result in significant systemic liquidity problems, losses or defaults. Exposures to overseas entities from Treasury is limited to very short tenors under a month. In addition, to address liquidity, most of our funding is sought to be longer term such as 1 year borrowing and syndicated funding for 3 years.

Against the backdrop of constraints on liquidity and the high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions that became most evident following the bankruptcy of Lehman Brothers in 2008, the Bank is subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008 and 2009, concerns about, or a default by, one institution could also lead to significant liquidity shortages, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is 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 other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing agencies, clearing houses, securities firms and exchanges, with whom the Bank interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Bank's ability to raise new funding and on its business and prospects.

Mitigant: The Bank currently adopting long-term financing strategy to avoid short-term liquidity problems and well diversified counterparties within the region and outside the region in our portfolio. The Bank is diversifying more through syndicated sources of funding, which is more stable. This mitigates risk of weakness of counterparties and their failure, and the Bank is continuously seeking to attract more commitment lines to support liquidity and enhance reserves in the form of highly liquid sovereign assets.

1.9 The Bank is subject to the risk that liquidity may not always be readily available or may only be available at significant cost

Liquidity risk is the risk that the Bank will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008 and the first half of 2009. Since then, market conditions have been volatile with financial institutions continuing to experience periods of reduced liquidity.

The perception of counterparty risk between financial institutions has also increased significantly since the final quarter of 2008, which has led to reductions in certain traditional sources of liquidity, such as the debt markets, asset sales and redemption of investments. The Bank's access to these traditional sources of liquidity may be restricted or available only at a higher cost.

In addition, uncertainty or volatility in the capital and credit markets may limit the Bank's ability to refinance maturing liabilities with long-term funding or increase the cost of such funding. The Bank's access to any additional financing it may need will depend on a variety of factors, including 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.

The Bank has historically relied on customer deposits, which are mainly short-term in nature, to meet most of its funding needs. The availability of deposits is subject to fluctuation due to factors outside the Bank's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time. At 31 December 2016, approximately 18.44% of the Bank's total deposits (including amounts due to banks and other money market placements) had remaining maturities of three month or less or was payable on demand and approximately 53.86% had remaining maturities of one year or less or was payable on demand. In addition, the Bank is reliant on certain large deposits from a limited group of government-related and private sector corporate customers. See "— *The Bank's customer loans, advances and financing and its deposit base are concentrated in the Middle East, principally Oman*" above.

If a substantial portion of the Bank's depositors withdraw their demand deposits or do not roll over their time deposits at maturity, the Bank may need to seek other sources of funding or may have to sell assets to meet its funding requirements. There can be no assurance that the Bank will be able to obtain additional funding as and when required or at prices that will not affect the Bank's ability to compete effectively and, if the Bank is forced to sell assets to meet its funding requirements, it may suffer material losses as a result. In extreme cases, if the Bank is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, through deposits, the interbank markets, the international capital markets or through asset sales, this would have a material adverse effect on the Bank's business and prospects and could, potentially, result in its insolvency.

Mitigant: The Bank has established diversified clientele base spread across different types of customers, network of relations with other banks, both locally and internationally, to mitigate this risk. Furthermore, the Bank maintains liquid assets at prudent levels to ensure that cash can be made available quickly to honour its obligations, even under stressed conditions. To further address liquidity risk, the Bank's management has established Liquidity Contingency Policy, and well established ALCO policy. Bank maintains a statutory deposit with the CBO and has a range of credit lines from banks and financial institutions.

1.10 The Bank is subject to extensive regulation and compliance with changes in, or the interpretation and enforcement of, this regulation may be costly and any failure by the Bank to comply with this regulation may result in the application of penalties to the Bank

The Bank is subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. These controls include laws and regulations promulgated by the CBO, the CMA and the MSM and these controls are further described under "*The Oman banking system and prudential regulations*".

In addition, 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, its ability to achieve its strategic objectives could be impaired.

The regulations to which the Bank is subject may limit its ability to carry on certain parts of its business, increase its loan portfolio or raise capital or may impose significant additional costs on the Bank. For example, the CBO is implementing Basel III in Oman and currently requires banks operating in Oman to have a total capital adequacy ratio of 12% of risk weighted assets. In addition, commencing on 1 January 2014, a capital conservation buffer of 2.5% of risk weighted assets, comprised of common equity tier 1 capital, has to be achieved on 1 January 2019 in four equal increments of 0.625%, commencing on 1 January 2016. In addition, Omani banks are required to comply with the Basel Committee's Liquidity Coverage Ratio (LCR). From 1 January 2016, the standard LCR has been set at a minimum of 70% in Oman. The ratio will increase by 10% each year until it reaches 100% in 2019.

Changes in applicable regulations (including new interpretations of existing regulations) may also increase the Bank's cost of doing business. It is not always possible for the Bank to anticipate when a new regulation will be introduced by the Omani authorities. This creates a risk that the Bank's profitability may be adversely affected as a result of it being unable to adequately prepare for regulatory changes. In addition, increased regulations or changes in laws and regulations and the manner in which they are interpreted or enforced may have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The Bank is also required to comply with applicable know your customer, anti-money laundering and counter-terrorism financing laws and regulations, including those related to countries subject to national or international sanctions, and applicable anti-corruption laws in the jurisdictions in which it conducts business. To the extent that the Bank fails or is perceived to fail to comply with these and other applicable laws and regulations, its reputation could be materially damaged, with consequent adverse effects on its business and prospects. Furthermore, non-compliance by the Bank with any applicable regulations could expose the Bank to potential liabilities and fines, which may be significant.

Mitigant: The banking regulator is expected to formulate policies that are aimed at improving the banking sector and its long term growth. Further, the Bank has a well-experienced management team to appropriately respond to such developments.

1.11 A negative change in the Bank's credit ratings could limit its ability to raise funding and may increase its borrowing costs

The Bank currently has long-term foreign currency ratings of BBB- with a negative outlook from Fitch and BBB with a stable outlook from Capital Intelligence. These ratings, which are intended to measure the Bank's ability to meet its debt obligations as they mature, are an important factor in determining the Bank's cost of borrowing funds.

Both rating agencies expressly note that the sizeable direct and indirect government shareholding in bank is a significant factor supporting the rating. In July 2017, Fitch downgraded the ratings/outlook of a number of Omani banks, including the Bank, on the basis of its view that the Omani government's ability to support the banking system had weakened, principally as a result of the low oil prices.

However, it is important to note that the Omani government is under no obligation (contractual or otherwise) to support any Omani bank (including the Bank) and there is no certainty that the government will do so in the future. As a result, investors should not rely on there being any such future support in making their investment decision.

A downgrade of either of the Bank's credit ratings, or a change in outlook to negative, may increase the Bank's cost of borrowing, which could adversely affect its business, financial condition, results of operations and prospects. A downgrade of either of the Bank's credit ratings (or announcement of a negative ratings outlook) may also limit the Bank's ability to raise capital. Moreover, actual or anticipated changes in the Bank's credit rating may affect the market value of the Capital Securities.

In addition, the credit rating assigned to the Bank may not reflect the potential impact of all risks related to an investment in the Capital Securities, the market or any additional factors discussed in this document, and other factors may affect the value of the Capital Securities. 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.

Mitigant: No rating downgrade has happened specific to the Bank.

1.12 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, including foreign 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 its customers will not choose to transfer some or all of their business to its competitors or seek alternative sources of financing from those competitors. Such choices could have a material adverse effect on the Bank's business.

The Oman banking industry is currently dominated by three banks which account for more than half of the total credit in the banking system. The Bank was the fourth largest bank in Oman by total assets, in the Omani banking system. 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.

<u>Mitigant:</u> Notwithstanding the above, the Bank keeps updated in the market environment, has studied the market and expected competition and has designed, and will continue to do so, appropriate products and services to meet the needs of the market in what the Board of Directors believes is the best possible manner. The Bank has an established track record of fast growth and quickly establishing itself as a significant player in a short time as it can be observed from the short history of the Bank.

1.13 The Bank's financial condition and results of operations could be adversely affected by market risks, including volatility in interest rates, prices of securities and foreign exchange rates

The Bank's financial condition and results of operations could be affected by market risks that are outside its control, including, without limitation, volatility in interest rates, prices of securities and foreign exchange rates. Fluctuations in interest rates could adversely affect the Bank's financial condition and results of operations in a number of different ways. In particular, an increase in interest rates generally may decrease the value of the Bank's fixed-rate loans and the debt securities in its investment securities portfolio and may raise the Bank's funding costs. As a result, the Bank may experience a reduction in its net interest income. See note D3.3 to the 2016 financial statements of the Bank which illustrates it's interest rate sensitivity and also "*Risk Management—Market risk—Interest rate risk*". Interest rates are sensitive to many factors beyond the Bank's control, including the policies of central banks, such as the CBO and the U.S. Federal Reserve, political factors and domestic and international economic conditions.

The Bank's financial condition and results of operations may also be affected by changes in the market value of its investment securities portfolio. The Bank earns interest income on the debt securities comprised in the portfolio. It also realises gains and losses on the sale of securities and records unrealised gains and losses resulting from the fair valuation of the securities at each balance sheet date in its statement of comprehensive income. The level of the Bank's income from its investment securities depends on numerous factors beyond the Bank's control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. In addition, the fair value of the Bank's fixed rate investment securities changes in response to perceived changes in the credit quality of the issuers of the securities as well as changes in interest and currency exchange rates. For example, in an increasing interest rate environment the fair values of the Bank's fixed rate investment securities are likely to decline which could expose the Bank to fair valuation losses or losses on the sale of such securities. Similarly, a decline in the credit quality of any of the issuers of the debt securities held by the Bank could result in the Bank making impairments or write-offs in respect of those securities.

Adverse movements in foreign exchange rates may also adversely impact the revenue and financial condition of the Bank's depositors and borrowers which, in turn, may impact the Bank's deposit base and the quality of its exposures to certain borrowers. 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 enters into derivative instruments to match the currencies of its assets and liabilities. Any open currency position is maintained within the limits set by the CBO. However, where the Bank is not hedged, it is exposed to fluctuations in foreign exchange rates and any hedging strategy that it uses may not always be effective. Any volatility in foreign exchange rates, including as a result of the re-fixing of the Rial–dollar exchange rate (or the elimination of that rate altogether), could have a material adverse effect on its business.

Mitigant:

Interest rates in the market are a dynamic one arising out of macroeconomic factors, bank’s ability to raise liquidity at reasonable and competitive rates. This is coupled with the type of customers the bank relies for funding, their trust in the bank, and efficient pricing of the products. The Bank has a vibrant ALCO which takes stock of the interest rate risk of the bank, ensuring smooth liquidity management, market risk management, and managing foreign exchange risk. Although the interest rates keep changing, ALCO ensures reasonable spread, (Net Interest Margins) by appropriate pricing of incremental business of the bank, and is monitored on constant basis.

Foreign exchange risk: As a financial intermediary, the Bank is exposed to foreign exchange rate risk. The Bank is an active player in the foreign currency market in the country and is having all the challenges associated with the business. 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 CBO. Further, the Bank has matched most of the foreign currency liabilities with foreign currency assets, thereby reducing the gap and keeps the foreign currency related risks to the minimum.

1.14 Any failure of the Bank's information technology systems could have a material adverse effect on its business and reputation

The Bank depends on its information technology 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 proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology 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 these information technology systems or communications networks. Such failures can be caused by a variety of factors, many of which are wholly or partially outside the Bank's control including hardware and software failures, natural disasters, extended power outages and computer viruses or other malicious intrusions.

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 of their information systems and technology could impair the quality of the Bank's operations and could impact its reputation.

The proper functioning of the Bank's information technology 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. The Bank has implemented and tested business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective and any failure may have a material adverse effect on the Bank's business and reputation.

Mitigant: The Bank has Business Continuity Management System (**BCMS**) in place that include framework, governance, policies and procedures. We have also established Business Continuity and Disaster Recovery sites that cover identified mission critical systems of the Bank. This will allow the Bank to recover its operation at a recovery site in case of a major incident that might affect its head office and other buildings. The BCMS is reviewed and updated on annual basis to include all major changes and new critical systems and services in the scope of the BCMS.

1.15 The Bank's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks

The Bank's risk management strategies and internal controls may not be effective in all circumstances and may leave the Bank exposed to unidentified or unanticipated risks. There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Bank's risk management systems. Some of the Bank's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures, which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Bank's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Bank operates, its clients or other matters that are publicly available or information otherwise accessible to the Bank. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any material deficiency in the Bank's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Bank's business.

Mitigant: The Bank has a robust risk management system involving Board oversight through policies, Board level Committees, Management Committees and independent Risk Management Department. This ensures that the known risks are mitigated effectively. Bank is maintaining regulatory capital. Further, the Bank has taken insurance cover for all possible and foreseen risks.

1.16 The Bank's ability to manage operational risks is dependent upon its internal compliance systems, which might not be fully effective in all circumstances

Operational risks and losses are the result due to lack of or inadequate process, systems and people. Examples are fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisations, failure to comply with regulatory requirements and business rules, failure of internal systems, equipment and external systems and the occurrence of natural disasters. Although the Bank has implemented risk controls and loss mitigation strategies and substantial resources have been devoted to developing efficient procedures, it is not possible to eliminate in their entirety any of these or any other operational risks.

Mitigant: The Bank already has in place appropriate risk management policies and procedures to address these issues so that these do not have a material adverse impact on the Bank’s operations should the risks materialize. This is ensured through:

- the Board level oversight through approved Policies, Board level Risk Management Committee
- at management level, bank has an Operational Risk Management Committee
- the Bank has established Standard Operating Processes (SOP) for all business operations

- the Bank has robust IT systems that support business activities. This system is secured for transactions, data maintenance, secrecy and having Disaster Recovery capabilities

- the Bank has competent people resource to handle various businesses and operations. Knowledge levels of the people are kept updated through regular training and workshops.

- risk mitigants like insurance, outsourcing etc are resorted to reduce the Operational risk.

1.17 The Bank may need to raise further capital in the future for a variety of reasons and such capital may be difficult to raise when needed

At 31 December 2016, the Bank's tier 1 and total capital adequacy ratios (each as determined in accordance with Basel III requirements as adopted by the CBO) were 11.26% and 13.96%, compared to the CBO's requirements of a minimum tier 1 capital adequacy ratio of 10.25% and a minimum total capital ratio of 13.25%.

A variety of factors affect the Bank's capital adequacy levels, including, in particular, changes in its risk weighted assets and its profitability from period to period. A significant increase in lending in the future is likely to reduce the Bank's capital adequacy ratios and any future losses experienced by it would have a similar effect. In addition, regulatory requirements in relation to the calculation of capital adequacy and required levels of capital adequacy change from time to time. The Bank may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies. In particular, as a result of ongoing implementation of a capital conservation buffer, the regulatory required total capital adequacy ratio in Oman will increase to 13.250% in 2017 and 13.875% in 2018.

As a result, the Bank may need to obtain additional capital in the future. Such capital, whether in the form of debt financing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Bank's capital ratios fall close to regulatory minimum levels or the Bank's own internal minimum levels, the Bank may need to adjust its business practices, including reducing the risk and leverage of certain activities. If the Bank is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase.

<u>Mitigant:</u> The current risk management systems in place take care of any eventuality that will lead to inability to raise capital.

1.18 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.

<u>Mitigant:</u> The Bank has code of ethics and conduct rules to ensure quality services and to win the trust of customers, thus maintaining its image in the market.

1.19 The Bank may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy

The Bank's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in the Middle East is intensely competitive and the Bank could face challenges in recruiting and retaining such personnel to manage its businesses.

The Bank depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Bank from implementing its strategies. The Bank is also not insured against losses that may be incurred in the event of the loss of any member of its key personnel.

Mitigant: The Bank continues to review and align its compensation and benefit policy to effectively position itself in the market so that it can attract and retain the required talent. The Bank also has in a place performance management process, staff development programs, staff reward and recognition schemes, annual promotional and salary reviews and staff CSR activities in order to create a better work environment and to increase staff engagement and retention.

1.20 The Bank could unintentionally report incomplete or inaccurate information while adhering to IFRS as reported to investors, regulators and rating agencies

Accounting policies and methods are fundamental to how the Bank records and reports its financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

Management has identified certain accounting policies in the Capital Securities to its financial statements as being critical because they require management's judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. See notes to the financial statements of the Bank. These judgments include, for example, the determination of impairment allowances and fair values of assets and liabilities.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Bank has established policies and control procedures that are intended to ensure that these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Bank's judgments and the estimates pertaining to these matters, the Bank cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

Mitigant: The Bank's accounting policies and internal controls are critical to the accurate reporting of its financial position and results of operations. These policies and internal controls also cover instances where management is required to make estimates about matters that are uncertain. These are approved at Board level and reviewed annually by both the internal and external auditors.

1.21 The interests of the Bank’s shareholders may, in certain circumstances, conflict with those of the holders of the Capital Securities

Investors should be aware that the interests of the Bank’s shareholders may, in certain circumstances, be different from those of the Bank's creditors (including the holders of the Capital Securities) and, in those circumstances, the holders of the Capital Securities could be disadvantaged.

2 RISKS RELATING TO OMAN

2.1 Emerging markets such as Oman 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 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 other emerging market countries and may cause investors to 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 adversely affect its economy. 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 Oman's economy remains relatively stable, financial turmoil in any other emerging market could adversely affect the Bank's business, as well as result in a decrease in the price of the Capital Securities. Companies located in 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.

2.2 The Omani legal system continues 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 may face uncertainty as to the security of their investments. Any unexpected changes in the legal system in Oman 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.

2.3 The statistical data contained in this document should be treated with caution by prospective investors

Statistics contained in this document, including in relation to GDP, balance of payments and revenues of the government, have been obtained from governmental and other sources, including the CB and the IMF. Such statistics, and the component data on which they are based, may not have been compiled in the same manner as data provided by other sources and may be different from statistics published by other parties, reflecting the fact that the underlying assumptions and methodology may vary from source to source.

There may also be material variances between preliminary, estimated or projected statistics set forth in this document and actual results, and between statistics set forth in this document and corresponding data previously published by or on behalf of Oman. Consequently, the statistical data contained in this document should be treated with caution by prospective investors.

2.4 Regulation of interest rates under Omani law

The CBO and 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%. The Ministerial Decision does not apply to transactions conducted by commercial banks regulated by the CBO. Interest rates (other than those for consumer loans) are currently unregulated under the CBO regulatory regime. It is not clear however, whether the issuance of the Capital Securities by the Bank would constitute a transaction conducted by commercial banking regulated by the CBO, and as such whether it would fall to be regulated by Ministerial Decision 172/2016 of the MOCI referred to above.

In addition to the regulations of the MOCI and the CBO, 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.

3 RISKS RELATING TO THE CAPITAL SECURITIES

3.1 The Capital Securities are subordinated and unsecured obligations of the Bank

Prospective investors should note that the Obligations of the Bank under the Capital Securities are subordinated to the Senior Obligations, rank *pari passu* with the *Pari Passu* Obligations and rank in priority only to all Junior Obligations. Accordingly, the Obligations 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 Obligations 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 Obligations.

Further, the Obligations (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 10 (*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.

3.2 No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital 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 or creation of any such Senior Obligations 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*".

3.3 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 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, 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;

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 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. 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.

3.4 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 occurs. The Bank has the option to redeem the Capital Securities in certain circumstances as more particularly described in Condition 8 (*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 8 (*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.

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

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 9 (*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 8.1(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.

3.6 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 9 (*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.

3.7 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.

3.8 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 8.1(c) (*Redemption or Variation due to Taxation*) or 8.1(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.

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 the Issue Date (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 8.1 (*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.

3.9 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 13 (*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 8.1(c) (*Redemption or Variation due to Taxation*) in relation to a Tax Event, and Condition 8.1(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 8.1(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 payable, as the case may be. Potential investors should consider the re-investment risk in light of other investments available at that time.

3.10 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 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 8.1(c) (*Redemption or Variation due to Taxation*) and Condition 8.1(d) (*Redemption or Variation for Capital Event*). See "*—Variation upon the occurrence of a Capital Event or a Tax Event*" above.

3.11 Resettable fixed rate instruments have a market risk

A holder of an instrument with a fixed interest rate that will be reset during the term of the instrument (as will be the case for the Capital Securities with effect from each Reset Date if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating interest rates and uncertain interest income. While the expected interest rate on the Capital Securities is fixed until the Reset Date (with a reset of the initial interest rate on the Reset Date as set out in the Conditions and every five years thereafter), the current investment return rate in the capital markets (the market return rate) typically changes on a daily basis. As the market return rate changes, the market value of the Capital Securities may also change, but in the opposite direction. If the market return rate increases, the market value of the Capital Securities would typically decrease. If the market return rate falls, the market value of the Capital Securities would typically increase. Holders of the Capital Securities should be aware that movements in these market return rates can adversely affect the market value of the Capital Securities and can lead to losses for the holders of the Capital Securities if they sell the Capital Securities.

3.12 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).

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.

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 11 (*Taxation*) requires the Bank to make payments in respect of the Capital Securities subject to any withholding or deduction imposed by Oman in respect of such payments. In such circumstances, payments under the Capital Securities received by the holders of the Capital Securities will not include such amount of withholding or deduction.

CHAPTER 15: CORPORATE GOVERNANCE

Shareholders

The table below shows the Bank's 10 largest shareholders on 25 July, 2017.

Shareholder Name	Number of Shares	Ownership %
Oman Investment and Finance Company SAOG	277,013,306	15.52
Royal Court Affairs	260,005,713	14.57
Oman Investment Fund	135,889,557	7.61
Ubhar Financial Investments-Asset Management/Trust Account RO	129,755,183	7.27
Al Ratib Establishment Trading	103,170,095	5.78
State General Reserve Fund	86,756,665	4.86
Oman Holding International SAOC	76,165,978	4.27
Abdul Hafidh Salim Rajab Al Ojaili	59,551,627	3.34
Sultan Special Forces Pension Fund	58,475,540	3.28
Royal Guard of Oman Pension Fund	39,826,517	2.23

Corporate governance framework

The Bank's corporate governance philosophy has been developed within the directives and guidelines of CBO, the Capital Market Authority (including the "Code") and the Commercial Companies Law and requires that the Board and management shall:

- maintain the highest standard of corporate governance and regulatory compliance
- promote transparency, accountability, responsiveness and social responsibility
- conduct their affairs with stakeholders, customers, employees, investors, vendors, government and society at large both fairly and in an open manner and
- create an image of the Bank as a legally and ethically compliant entity.

Board

The Board is the highest governing authority within the Bank's structure. The Bank believes that its Board is broad-based and that the predominance of independent directors (as defined in the Code) enables the Board to have meaningful discussions and take an unbiased and qualitative view on matters placed before it.

The Board has overall responsibility for the Bank, including overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values. The Board also appoints the Bank's Chief Executive Officer and certain other members of the executive management team. It also monitors and oversees the actions of the executive management team, including their performance against the performance targets set by the Board.

The roles of the Board Chairman and the CEO are separate and independent of one another and there is a clear segregation of duties and responsibilities. The Chairman's responsibilities include ensuring that Board decisions are taken on a sound and well-informed basis, building a constructive relationship between the Board and executive management and ensuring high levels of corporate governance within the Bank.

There is a clear segregation between the ownership of the Bank and the management.

Powers of the Board

The Board shall have full authority to perform all acts required for the management of the Bank pursuant to its objects. Such authority shall not be limited or restricted except as provided by law or by the Articles of Association or by a resolution of the Shareholders. Some of the principal functions of the Board include:

A. To approve the Bank's commercial and financial policies together with its estimated budget with a view to achieving the objects of the Bank and to maintain and promote the rights of its Shareholders

B. To develop, review and update necessary plans from time to time in order to put into operation the Bank's objectives and carry out its activities in the light of the purpose underlying its establishment

C. To adopt the Bank's disclosure measures and to follow up the implementation thereof in accordance with the disclosure rules and guidelines issued by CMA

D. To supervise the performance of the executive management and to ensure that the work proceeds in a manner which achieves the Bank's objectives in the light of the purpose underlying its establishment

E. To review the material transactions with the related parties, which are not in the ordinary course of business prior to the same being brought before the general meeting of the Bank

F. To reviewing the Bank's performance to evaluate whether the business is being properly managed

G. To nominate the members of the subcommittees and specify their roles, responsibilities and power

H. To provide accurate information to the Shareholders on the dates specified by CMA in the disclosure rules and guidelines

I. To appoint the Chief Executive Officer or the General Manager provided that neither of them shall be the Chairman of the Board of Directors and to appoint staff who shall work with any of them pursuant to the organizational structure of the Bank and to specify their rights and duties

J. To appraise the performance of the employees mentioned in the previous item and to assess the work carried out by the committees formed by the board pursuant to Article 102 of the Commercial Companies Law

K. To approve the financial statements related to the Bank's business and work results as submitted to the executive management to the Board quarterly, in a way which reflects the exact financial position of the Bank

L. To include in the annual report presented to the General Meeting the reasons which justify the ability of the Bank to pursue its specified activities and the achievement of its objectives

M. To appoint a Secretary to the Board in its first meeting and to hold four meetings per annum provided that a maximum period of four months should not lapse between two consecutive meetings

N. To include in the financial statements a full statement of all amounts which a director might have received during the course of each year including money paid to directors in their capacity as employees of the Bank.

CBO has also outlined the responsibilities of the Board of Directors of a licensed bank and some of the key aspects of these responsibilities include:

a) The Board shall exercise its collective mind independently on all policy matters and shall not be limited by the submissions or presentations made to it.

b) The Board shall ensure that it has an organisational structure in place to provide adequate checks and balances and functionality for guarding licensed banks from the undue influence of any internal and external sources having a bearing on corporate governance.

c) The Board shall recruit and develop talented and capable senior management who will enjoy the Board's confidence. It is of crucial importance for the Board to have in place a well thought out management succession plan.

d) It is the responsibility of the Board to approve and monitor a risk management framework that reflects best practices and implements the risk management strategies approved by the Board, across all business activities and operations.

e) While the Board depends on the management's expertise to run licensed banks' daily operations, it remains ultimately responsible for monitoring thereof. The Board is expected to exercise utmost caution to ensure that, while bearing of ultimate responsibility for monitoring operations, it does not overstep into the jurisdiction of the management (constricting their freedom of operation).

The Board of Directors shall not perform the following acts unless expressly authorized to do so by the Articles of Association or by a resolution of an OGM:

- Make donations, except business donations wherever they are small and customary amounts.
- Sell all or a substantial part of the Bank's assets.
- Pledge or mortgage the assets of the Bank, except to secure debts of the Bank incurred in the ordinary course of the Bank's business.
- Guarantee debts of third parties, except guarantees made in the ordinary course of business for the sake of achieving of the Bank's objectives.

The Bank shall be bound by all acts performed by its Board of Directors, its Chairman, Managing Director and all other executives, (if any) as long as they act in the name of the Bank and within the scope of their powers.

Composition of the Board

The Board comprises seven members, elected in the AGM held on 29 March 2016. Details of the current Board members are as follows:

Name of Director	Capacity	Category	Represents
Abdullah Humaid Said Al Mammary, Chairman	Non-Executive	Independent	
Hassan Ahmed Mohamed Al Nabhani,	Non-Executive	Independent	

Deputy Chairman			
Salim Mohammed Al Mashaikhy	Non-Executive	Independent	
Omar Ahmed Abdullah Al Shaikh	Non-Executive	Independent	
Ghazi Nasser Salim Al Alawi	Non-Executive	Independent	
Said Ahmed Safrar	Non-Executive	Independent	Oman Investment & Finance Company SAOG
Tahir Salim Al Amry	Non-Executive	Non - Independent	Oman Investment & Finance Company SAOG

Brief profile of directors

Abdullah Humaid Said Al Ma'amary

Abdulla Humaid Said Al Ma'amary is a holder of higher degree in Business administration from UK Universities and has over 20 years of experience in Administration, Finance and Project Management. Currently, he is heading one of the local government Pension Funds, and sits on the boards of numbers of prominent Public Companies. He has been the Chairman of the Bank since March 2013 and actively participates in its vision and strategies.

In addition to his position as the Chairman of the Board of Directors at Bank Sohar, he also holds the position as the Chairman of the Credit Approval Committee and as a member of the Board Executive Committee.

Hassan Ahmed Mohamed Al Nabhani

Hassan Ahmed Mohammed Al-Nabhani is the Chief Executive Officer of Oman Investment Fund. He is also the Chairman of OIF's Investment Committee and Management Committee. He joined OIF in 2007 as a Deputy CEO and has been active in establishing OIF's presence in the global investment market. He has been the Chief Executive since May 2009.

He has more than 25 years of experience in Project development and Management, Investment assessment, analysis and management. He has a significant track record in the development and delivery of various Real Estate and infrastructure projects throughout Oman.

He was educated at the University of North Carolina, USA and graduated with an Engineering Degree, a Post Graduate Degree in Ground Water Engineering, a Master's Degree in Hydraulic Engineering and a Harvard Certificate in Advanced Management Program.

Besides being the Deputy Chairman of Bank Sohar, he is the Deputy Chairman of Oman International Development & Investment Co. SAOG and Dubai Mercantile Exchange. In Bank Sohar, he is the Chairman of the Board Executive Committee, a member of the Credit Approvals Committee and the Chairman of the Human Resources & Remuneration Committee.

Salim Mohammed Al Mashaikhy

Salim Mohamed Masaud Al Mashikhi holds a Bachelor's Degree in Mathematics. He is currently employed in the Expenditure Department of the Royal Court Affairs. He is the Deputy Chairman of Oman Fixed Income Fund and is also a member of the Izdihar Fund.

In Bank Sohar, he is the Chairman of the Board Audit Committee and is a member of the Risk Management Committee.

Omar Ahmed Abdullah Al Shaikh

Omar Ahmed Abdullah Al Shaikh holds an MBA from the University of Southern Colorado USA and a Bachelor of Science in Business Administration major in Management from the same University.

He was Finance Director of Shanfari & Partners Co LLC from 2001 to 2013 and currently serves as Vice President for Dhofar Insurance Co. SAOG, Board Member for Dhofar International Development & Investment Co. SAOG, Oman Development Co. SAOC and Omani Vegetables Oil & Derivatives Co LLC.

In Bank Sohar, he serves as the Chairman of the Risk Management Committee and as a member of the Board Audit Committee.

Ghazi Nasser Salim Al Alawi

Ghazi Nasser Salim Al Alawi is a holder of a Bachelor Degree in Business Management from the Modern Academy in Egypt and a Masters in Management Studies from Glamorgan University in UK. He is currently working with Royal Court Affairs.

He is a Board Director in Dunes Oman LLC & Abi Showatech Oman LLC and the Managing Director of Manaba Al Ata'a Trading & Services LLC.

Ghazi is a member of the Bank's Board Executive Committee, the Credit Approvals Committee and the Human Resource & Remuneration Committee.

Tahir Salim Al Amry

Mr. Tahir Salim Al Amry is an experienced finance, accounting and treasury professional. He holds a B.Sc degree in finance and accounting from Salford university, UK. He spent more than 17 years of his experience in senior positions at the Ministry of Finance, Oman. He was and is also a member on the Boards of Directors of several public and private entities. For the last two years since May 2015, Mr. Tahir has been holding the position of Deputy Chief Executive Officer in Oman Investment & Finance Co. SAOG

Said Ahmed Safrar

Said Ahmed Safrar holds a Master in Business Administration from the University of Hull in the UK, a Business Management Diploma from King's College Bournemouth in the UK and a Specialised Diploma in banking from the Arab Academy for Banking and Financial Science in Jordan.

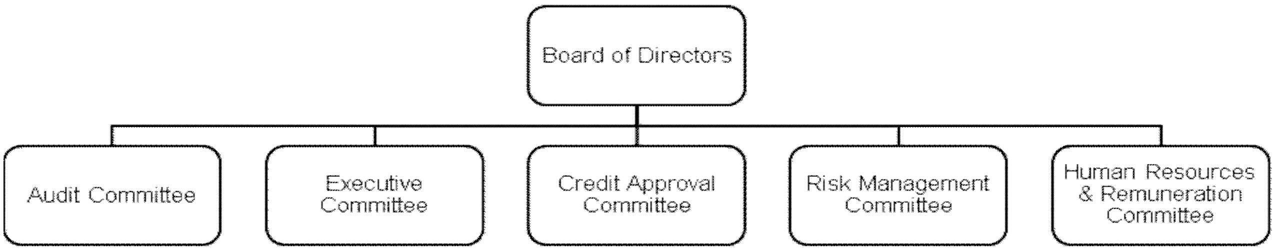
He has over 25 years of experience in the Banking and Telecommunications sector. He is Board member of The Financial Corporation SAOG and Dhofar Power Co. Currently, he is the Chief Executive Officer of Oman Investment & Finance Co. SAOG.

In addition to the above, he is a member of three Board subcommittees at Bank Sohar viz; Executive Committee, Credit Approvals Committee and HR & Remuneration Committee.

Board committees

Article 4 of CBO Circular BM 932 permits the board of directors of licensed banks to set up sub-committees of its members with "comprehensive terms of reference, specifying purpose, membership, delegation, powers, frequency of meetings, tenure, duties, responsibility, authority, accountability etc." CBO Regulation "BM/REG/42/11/97" (Article 3 (c)) also provides that the board of directors may delegate part of its functions either to a committee comprising some of its members and/or that of executive management who are required to submit their decisions to the board of directors for ratification. Final responsibility shall rest with the board of directors.

The Board has created various subcommittees for specific purposes with clearly defined terms of reference and responsibilities. The committees' mandate is to ensure focused and specialized attention to specific issues related to the Bank's governance. The various sub-committees of the Board together with the Internal Audit and Compliance department form an important tool in the process of corporate governance. These sub-committees were re-structured with effect from April 27, 2011 and the current corporate governance structure of the Bank is depicted below:



Audit Committee

The main functions of Audit Committee are to assess and review the financial reporting system of the Bank to ensure that the financial statements are correct, sufficient and credible. The committee reviews with the Management the quarterly / annual financial statements before their submission to the Board for adoption. The Committee also reviews the adequacy of regulatory compliance, regulatory reporting, internal control systems structure of internal audit departments, and compliance their staffing and holds discussions with the internal auditors / external auditors on significant finding and the control environment.

Members -

Salim Mohammed Al Mashaikhy

Omar Ahmed Al Shaikh

Tahir Salim Al Amry

Executive Committee

The committee ensures implementation of appropriate codes of business conduct to nurture ethical behaviour to protect the bank's integrity and that of its shareholder. The committee reviews and recommends the Annual Budget and Business Plan to the Board of Directors.

Members -

Abdullah Humaid Al Mamary

Said Al Safrar

Hassan Al Nabhani

Ghazi Nasser Salim Al Alawi

Credit Approval Committee

The Credit Approvals Committee assists the Directors to discharge the Board's responsibilities of oversight and governance in relation to the credit performance of the Bank. In this role, the Committee is responsible for approving loans which are above the lending mandate of the CEO.

The Committee is responsible to review loan proposals forwarded to them by the CEO or his senior lending management team on a case by case basis and accept or reject such proposals as they so determine.

<u>Members</u> -

Abdullah Humaid Al Mamary

Hassan Al Nabhani

Said Al Safrar

Ghazi Nasser Salim Al Alawi

Risk Management Committee

The Risk Management Committee assists the Directors to discharge the Board's responsibilities of oversight and governance in relation to the risk performance of the Bank. The Committee is responsible for making recommendations to the Board of Directors on the risk appetite of the Bank in relation to credit, interest rate, market, liquidity and operational risk.

The committee ensures the implementation of risk strategy and policy in addition to ensuring that a robust risk framework is in place within the Bank which optimises the quality and return on deployment of assets. The Committee also provides guidance and direction on all credit, market, interest rate, liquidity and operational risk policy matters.

<u>Members</u> -

Omar Ahmed Al Shaikh

Salim Mohammed Al Mashaikhy

Tahir Salim Al Amry

Human Resources & Remuneration Committee

This committee assists the Directors to discharge the Board's responsibilities of oversight and governance in relation to the strategy setting and implementation regarding Human Resource Management. In this role, the Committee is responsible for making recommendations to the Board of Directors on the adequacy of HR Policy, compensation and benefits, the appointment of senior management and any other HR related matters.

The objective of the Committee is to ensure to provide direction and guidance that enables the Bank to have the right Chief Executive Officer and Senior Management Team and that this team operates under a Human Resources policy which is fair, transparent and ethical, complies with regulations and is competitive and in alignment with business strategy. In this regard, the Committee will closely liaise with the Chief Executive Officer and senior management of the Bank to provide the required guidance and support. The Committee will be responsible to ensure that the Bank continues to have a Human Resources Strategy and that it is implemented to support Bank's Business Strategy.

Members -

Hassan Al Nabhani

Ghazi Nasser Salim Al Alawi

Tahir Salim Al Amry

Said Al Safrar

SHARI'AH SUPERVISORY BOARD

The role of the Bank's Shari'ah Supervisory Board is to ensure that all activities of Sohar Islamic are conducted in accordance with the principles of Shari'ah. The Board regularly reviews and monitors the products and transactions. The Bank's Shari'ah Supervisory Board comprises of three Islamic scholars, as follows:

Dr. Hussain Hamed Hassan

Honorable Dr. Hussain is a Professor of Shari'ah and Comparative Law at Cairo University, he did his PhD in the Faculty of Shari'ah from Al Azhar University, Egypt and Master of Comparative Jurisprudence from University of New York, USA and graduated in Law and Economics from University of Cairo, Egypt, and he has an honourable PhD in Civil Law from Durham University in United Kingdom. He has over 50 years of experience in Islamic Banking and is the Chairman of Shari'ah Supervisory Boards of more than 30 banks and financial intuitions. He is also the author of more than 50 books and research papers, has written over 400 extensive articles and has also supervised the grand plan of translating 200 Islamic books into different languages. Additionally, he has successfully converted many conventional banks and financial intuitions into Islamic ones.

Dr.Mudassar Siddiqui

Dr. Mudassar Siddiqui is an internationally renowned expert of Islamic Studies and Western laws. He did his PhD in law from Chicago Kent College of Law, USA; Master of Law from Harvard Law School, USA and Islamic Studies from, Islamic University of Al-Madina Al-Munawwarah, Kingdom of Saudi Arabia. He is a member of the AAOIFI Shari'ah Standards Committee; the Fiqh Council of North America and a Research Fellow at the International Shari'ah Research Academy for Islamic Finance in Malaysia. He has more than 30 years of experience in providing Shari'ah and Law consultancy, Islamic banking documentation, research, lectures and arbitration for more than 40 worldwide organizations, universities and research centres.

Sheikh Azzan bin Nasir Farfoor Al Amri

Holding Bachelor's degree in Islamic Studies and with a specialisation in Judiciary, Sheikh Azzan bin Nasir Farfoor Al Amri has been working as the secretary to the Grand Mufti of Oman in the Fatwa Section since 2001. He is also well versed in Shari'ah Law, having done numerous courses in relevant fields and participated in many related workshops and conferences.

Sheikh Fahad Al Khalili

Fahad graduated from the Florida Atlantic University USA after which he joined the Central Bank of Oman. At CBO, he was part of the Treasury and Investment Division with the responsibility of managing billions of USD in the international markets.

Thereafter, Fahad joined Al Madina Investment where he quickly became the Deputy General Manager of Investment Banking. At Al Madina Investment, he was instrumental in promoting and raising equity for several successful companies including Al Madina Takaful, Al Madina Real Estate, Tilal Fund and others. His key responsibilities included portfolio management, promotion of Greenfield ventures and handling high net worth individuals.

Recently, Fahad founded Bayan Investment House, which is focused on building long term relationships by provided investment banking and advisory services.

Senior management

The Bank's senior management team is responsible for day-to-day supervision and control of the Bank's business, particularly with respect to ensuring functionality of compliance and risk control, independence of functions, and separation of duties. Business policies, accounting policies and operations procedures and controls are documented and communicated through policies and standard operating procedures manuals which cover all areas and activities of the Bank. All significant policies are reviewed and approved by the Board.

The Bank's senior management team comprises of:

Name and position	**Brief CV**
Sasi Kumar *Acting Chief Executive Officer*	Sasi Kumar joined Bank Sohar in March 2007. Prior to that, he was the Sr. Vice President at SREI Venture Capital Limited and Director of SAS Investment Fiduciary Ltd before joining Bank Sohar. He is a Gold medallist and Fellow of Institute of Cost & Management Accountants and a Fellow of Institute of Chartered Accountants. He has held senior management positions in a number of Organizations before his stint with Bank Sohar.
Ms. Munira Macki *General Manager, Human Resources and Corporate Affairs*	Ms. Munira has been with the Bank since 2006. Ms. Munira was the Head of Corporate Affairs at Alliance Housing Bank, prior to which, she was the Deputy Director for Educational Activities at the Ministry of Education. She holds a Bachelors degree in Philosophy & Psychology from Beirut Arab University, Lebanon and a Masters degree in Educational Activities from University of Sheffield, UK. She has also completed the programme on 'Human Resource Strategy in Transforming Organizations', at London Business School.
Khalfan Al Tal'ey *Deputy General Manager& Head, Operations*	Khalfan has been with the Bank since February 2007. Khalfan is a well known banker in Oman with over 38 years of experience. He has worked with British Bank of Middle East and Oman International Bank previously and holds a Diploma in Executive Management from the University of Virginia.
Mustafa Ali Mukhtar *Deputy General Manager & Head*	Mustafa joined the Bank in January 2007 when it was formed.

Corporate Banking	He has been working for the Bank since its inception and is currently the Deputy General Manager & Head Corporate Banking at the Bank. He started his career in banking in 1986 with BOBK, later joining OIB, followed by Majan International Bank. He has garnered around 30 years of experience in the banking industry, over 24 of which are in Trade Finance. Mustafa has attended various specialized training courses in India, Singapore, Hong Kong, Egypt and UK as well as OTJ with Midland Bank – UK, BHF Bank in Germany and ABC France, in addition to various other training programs in Oman. He is also a holder of an ILM degree and is a member of Export Development Working Group of The Public Authority for Investment Promotion and Export Development (Ithraa). He has also conducted workshops for Corporate Clients and various Ministries in the area of Trade Finance.
Salim Khamis Al Maskry *Deputy General Manager & Head, Sohar Islamic*	Salim Joined the Bank in January 2007 as AGM- Head of Branches. He has 29 years of experience in Banking. Salim has extensive knowledge and experience in Retail Business, Marketing Retail Products, Branch Operations and handling Corporate and Retail clients. He was also actively involved during the establishment stage of both Bank Sohar as well as Sohar Islamic. In view of his keen interest in Islamic Banking and personal preference for Sharia complaint banking, he played an active role in making key decisions for Sohar Islamic before and after the launch. He holds a Master of Business Administration through Hull University, UK a Diploma in Business English from Business Training Ltd. UK, a Diploma from the Institute of leadership and Management UK and holds a CIMA Certificate for Islamic Banking and Takaful Products. Prior to joining Bank Sohar, Salim held several supervisory and senior managerial roles in Bank Muscat and Oman International Bank.

Rajeev Kumar Arora *Deputy General Manager & Head - Retail*	Rajeev Arora is a banker with experience of over 24 years in financial services sector in strategic planning, building new businesses and managing large scale transformation programs in multiple geographies. Before joining Bank Sohar, he was with Yes Bank for over 7.5 years in various roles in establishing its retail banking in north & east India. His last position at Yes Bank was President and Head North & East – Salary, Capital Market, Branch Banking. He has also worked earlier in ICICI Bank, Raw Bank (Congo, Africa), HDFC Bank, Max New York Life Insurance and HSBC India. He did MBA in Business Management in Finance and Marketing from IMT, Ghaziabad and is a Certified Associate of Indian Institute of Bankers. He holds a Bachelor's Degree in Commerce from Ramjas College, Delhi University and completed his schooling from St. Xavier's School, Delhi.
Mujahid Said Al-Zadjali *Deputy General Manager & Head – IT & Alternate Channels*	Prior to joining Bank Sohar in 2006, he had worked for Bank Dhofar. He has over 17 years of experience in Banking Technology sector in Oman. He is a pioneer in setting up Bank Sohar's Information Technology Division. He was also instrumental in setting up the state of art Technology with many accolades viz, First Bank in the Sultanate with ISO/IEC 27001:2005 Certification for IT Division and fastest Core Banking System implementation which was recognized and awarded in the Banking Technology Award from London. Mujahid holds a Master's Degree in Business Administration and a Bachelor's degree in Computer Science. He has also completed General Management Program from Harvard Business School, U.S.A. in 2013.
Arvind Kumar Sharma *Senior Asst. General Manager & Head – Risk Management*	Arvind K Sharma had been associated with State Bank of India for last 24 years, where he successfully handled various assignments in areas such as Risk, Treasury, Credit, Trade Finance, Retail Business and Branch Management etc. He had been closely associated with implementation of Advance Approaches (Basel II) in Risk Management and was involved in designing and implementation of risk architecture, policy formulations (retail and corporate covering more than 15000 branches across the globe), development and maintenance of risk reporting system, modelling, analytics and industry guidance for domestic and international operations. He handled Business Process Re-engineering project across 900 branches and implemented Central Processing outfits. He holds Masters in Economics, CAIIB from Indian Institute of Bankers and Post Graduate Diploma in Financial Engineering & Risk Management. He has attended many programmes on Risk Modelling, Credit, Market and Operational Risks at various premier Indian management institutes.

Elsamawal Abdulhadi Idris *Senior Chief Manager Legal*	Before joining the service of Bank Sohar, Elsamawal worked for major banks and law firms in Sudan. He brings about around 13 years of extensive legal experience, during which he helped organizations and clients doing business in a legal and compliant way and was able to prove himself consistently in major transactions and disputes. He is singled out by legal directories as an individual with exceptional understanding of Oman's banking system. He is also commended for his wide-reaching initiatives to improve efficiency and performance in his function. He holds an LLM in the field of law from the University of Khartoum. He has attended many programs on various legal and compliance matters and has also published articles on the subjects.
Pieter Burger De Witt *Chief Financial Officer*	Mr. Pieter De Witt is a qualified chartered accountant with over 20 years of experience in the Banking Sector. Before joining Bank Sohar, he served as Head of Financial Reporting & Review with Arab National Bank and Saudi Hollandi Bank in the Kingdom of Saudi Arabia (KSA). Mr. Pieter has previously worked at globally recognized institutions, such as Merrill Lynch and PricewaterhouseCoopers (PwC) in London, and PwC and KPMG in South Africa.
Khalid Khalfan Al Subhi *Asst. General Manager & Head of Compliance*	Khalid Khalfan Rashid Al Subhi is AGM & Head of Compliance. Before joining the service of Bank Sohar, Mr. Khalid Al Subhi associated with Central Bank of Oman for last 19 years' experience in banking. He has worked as a Bank Examiner conducting on-site examinations of Banks and Finance and Leasing Companies, including Islamic Banks and the operations of Islamic banking windows. Mr. Khalid holds a Bachelor in Banking and Financial Sciences from Arab Academy for Banking and Financial Sciences.

Employees

The Bank's human resources policies are designed to attract, retain and motivate high-calibre, professional, skilled and knowledgeable employees. The Bank protects and abides by the rights provided to employees which include, but are not limited to: a transparent working environment; employee talent-management schemes; a transparent remuneration and compensation structure and access to a whistle blowing policy (which enables employees to raise concerns in good faith and confidence directly up to the level of the Chairman).

As at 31 December 2016, the Bank employed 702 full-time staff.

The Bank is committed to identifying, attracting and developing Omani nationals in its workforce. The Omani government's recommended policy is that 90% of a bank's total personnel should consist of Omani nationals. The Bank's Omanisation level as at 31 December 2016 was 92.6% and it is currently in compliance with all other applicable employment regulations.

CHAPTER 16: DIVIDEND POLICY

The Bank's dividends policy complies with the CBO & CMA guidelines.The board of directors follows a conservative dividend policy and recommend on the distribution of the dividends to the shareholders after due consideration of the regulatory guidelines, the future growth expectations and other factors.

The historical dividend details of the Bank are given below –

Year	Cash dividend	Stock dividend
2014	4%	6%
2015	5%	10%
2016	5%	10%

CHAPTER 17: RIGHTS AND LIABILITIES OF TRUSTEE AND HOLDERS OF CAPITAL SECURITIES

The following describe the responsibilities and rights of Trustee and rights of holders of Capital Securities. Please note that these rights, responsibilities etc. are subject to the terms and conditions given in Chapter 5. In case of any variations between the provisions contained in Chapter 5 and this Chapter, the provisions of Chapter 5 shall prevail.

RESPONSIBILITIES OF TRUSTEE

The following are the main responsibilities of Trustee -

- Monitor material contracts, events, actions & announcements (including publication of annual financial statements) entered into or announced by the Issuer, from time to time. The Issuer shall inform the Trustee of any material transaction or contract that could be judged to affect the rights of holders of Capital Securities.

- Periodically confirm the compliance by the Issuer with its obligations to make interest payments.

- Generally oversee that the terms and conditions of the Capital Securities, and of the trust deed, are adhered to by the Issuer.

- Act upon any reasonable request of holders of Capital Securities, the auditors of the Issuer, the MOCI, CBO, MSM, CMA, or the Issuer itself, who may alert MCDC to a situation which may constitute an event or breach which has, or potentially may have a material effect on the rights of the holders of Capital Securities.

- Act as intermediary in resolving any material dispute arising between the Issuer and any individual holder of Capital Security, or collective number of holders of Capital Securities, on issues directly relevant to the Capital Securities.

- In the event that the Issuer breaches any condition, fails to make any timely payment due and payable to a holders of Capital Securities, or in the event that any material event takes place which in the opinion of the Trustee is deemed to have, or potentially materially affect the rights of the holders of the Capital Securities, the Trustee shall have the right to take actions in accordance with the procedures set out in the Trust Deed, so as to maintain and protect the rights of the holders of Capital Securities as a separate class of stakeholder of the Issuer.

Trustee shall monitor the company's performance in respect of its obligations and to protect the holders of Capital Securities interests, to the extent and as per the terms & conditions of the Issue given in this Prospectus. Some of the responsibilities are –

- Calling for periodical reports from the Company and inspecting its books of accounts, records, registers, the Company's assets and the documents and reports related to the credit rating of the Company.

- Ensuring that the interest due on the Capital Securities has been paid to the holders of Capital Securities on each Interest Payment Date, subject to the terms of Chapter "Terms and Conditions of the Issue".

- Verifying that the Capital Securities are redeemed in accordance with the provisions and conditions contained in this Prospectus.

- Calling or causing to be called, the general meeting of holders of Capital Securities on any event which may affect the interests of the holders of Capital Securities or on a requisition by one or more holders of Capital Securities who own at least 10% of the total issued Capital Securities.

- Ascertaining that the funds raised through the issue of the Capital Securities are utilized in accordance with the Prospectus.

- Carrying out such other acts as necessary for the protection of the interests of the holders of Capital Securities.

The Trustee may seek the assistance of experts and professionals to perform its duties, without prejudice to their responsibility.

RIGHTS OF THE TRUSTEE

The Trustee shall have the following specific rights, in addition to any other rights that may be conferred upon it by the Laws of Oman-

- The Trustee shall forthwith upon any breach, regulatory failure, negligent act, or similar act or omission on the part of the Issuer, bring such matter to the attention of the issuer, by way of written letter addressed to the Chief Executive of the Issuer. The parties shall use their best endeavour to restore any procedural issue, breach, and/or reach a fair and reasonable settlement of such matter. Where appropriate and agreed with the Issuer, the Trustee shall be entitled to decide and rule upon matters on behalf of the holders of Capital Securities without calling a meeting of holders of Capital Securities.

- In the event that the Issuer fails to remedy any breach or action a reasonable time period of having been given due notice by the Trustee to do so, or in the event that the Issuer unilaterally commits an act which may have a material effect on the holders of the Capital Securities, the Trustee shall be entitled to take such actions as it seems appropriate. Where possible and practical, depending on circumstances, Trustee shall act upon a decision of a meeting of holders of Capital Securities, by decision on a vote by the applicable majority. The Trustee shall also act upon an order or the guidance of duly empowered regulatory authorities in Oman.

- Where the issue to be decided upon is of a legal nature or based upon a dispute of facts, the Trustee shall have the right to approach an Attorney, or a court of law. The Trustee shall be entitled in all matters, unless it is proven that it acted negligently, recklessly, or not in the collective interest of the holders of Capital Securities, to be reimbursed by the issuer within reasonable limits, for defending any legal actions arising from, or conducting any case relating to its office as Trustee, or matter of dispute as described above.

- In the event of meeting of the holders of Capital Securities taking place, it shall be convened and held in accordance with the procedure for meetings as contained in the Terms and Conditions of the Issue of Capital Securities.

- The Issuer shall provide the following documentation to the Trustee:

    - Quarterly and yearly financial results of the Issuer.

    - A copy of all notices of General Meetings of Shareholders of the Issuer.

- The Trustee shall be entitled to attend General Meetings of the Issuer and, where applicable, shall be entitled to address such meeting as and when deemed appropriate by the Chairman of such meeting.

- The Trustee shall be entitled to request certain information from the Issuer in order to perform its functions appropriately and diligently. All reasonable requests of the Trustee shall be duly considered by the Issuer, who shall manage all ongoing communication with the Trustee through the office of its internal legal department. The Issuer shall not be obliged to provide information beyond what may be reasonable or deemed to be appropriate.

RIGHTS OF HOLDERS OF CAPITAL SECURITIES

The holders of Capital Securities shall enjoy following rights to the extent and as per the terms & conditions of the Issue given in this Prospectus –

- The right to receive principal amount of the Capital Securities.

- The right to receive interest payable on the Capital Securities

- The right to transfer/sell the Capital Securities as per the Laws of Oman and the terms and conditions of this Prospectus

- The right to share the distribution of the Company's assets upon its liquidation (subordinated to all other creditors of the Company and in priority only to the equity shares of the Bank)

- The right to participate in meetings of holders of Capital Securities and to vote at such meetings as per the provisions of the Trust Deed, CCL and CMA regulations.

CHAPTER 18: SUBSCRIPTION CONDITIONS AND PROCEDURES

Eligibility for subscription

The subscription to the Capital Securities is being offered only to select investors on private placement basis.
As per CBO regulations, local banks are not eligible to subscribe to these Capital Securities.
Neither the Bank nor a related entity can directly or indirectly purchase and own the Capital Securities, nor can the Bank directly or indirectly finance the ownership and purchase of the Capital Securities.

Issue Period

Issue period opens on – 06 September,, 2017

Issue period ends on – 20 September, 2017

The Issuer may extend the subscription closing date with the approval of CMA.

Minimum and Maximum Application

The minimum application can be for 250 Capital Securities and the maximum application can be for 70,000 Capital Securities.

Mode of Subscription

1. Any person who desires to subscribe to the Issue must have an investor account with MCDC as per its working form, which may be obtained from the MCDC Head Office or its website or from brokerage companies. Each Applicant may open this account through the following outlets:

- Head Office of MCDC based in Commercial Business District, Muscat
- Branch of MSM based in Salalah
- Office of the Brokerage Companies that are licensed by MSM
- By fax No. 24817491
- By opening an account through the MCDC website

2. With regard to the investors who presently hold accounts with MCDC, all investors shall be required, before the subscription, to confirm whether their accounts contain their basic particulars totally, that being the name in full, postal address, Civil Status No., as mentioned in the Personal Card (Civil) or Civil No., furnished in the Passport or Civil No., as provided for in the new Birth Certificate and details of the bank account. Every Capital Security holder may update his particulars through the outlets mentioned above.

3. All correspondence including notices and cheques shall be sent to the Applicant at the address recorded at MCDC. Therefore, all Applicants shall verify the correctness of such addresses.

4. Each Applicant shall be required, after opening of the account or updating of his particulars, to secure from MCDC, the right number so as to have it registered in the Application for the subscription. The investor himself shall be responsible for verification of the number furnished in the Application for the subscription. The applications not bearing the correct account numbers shall be rejected without contacting the Applicant.

For more information on these procedures, please contact:
Muscat Clearing and Depository Company SAOC
Tel. +968 24822222, Fax. +968 24817491

Particulars of the bank account

1) Each Applicant shall be required to furnish the particulars of his bank account (registered in the name of the Applicant). The Applicant shall not use the bank account number of any other person except in case of minor children only.

2) If the bank account of the Applicant is registered with a bank other than the one receiving the subscription, he shall be required to submit a document in evidence of correctness of the bank account particulars as provided for in the Application. This can be done by submitting any document from the bank of the Applicant furnishing therein number and name of the account holder like the upper portion of the account statement issued by the bank containing these particulars only or a letter or any document issued by the said bank containing the said information. The Applicant shall ensure that the evidence submitted is readable in a clear manner, containing number and full name of the account holder. As additional clarification, it is made known that the Applicant is not obliged to submit the evidence with regard to correctness of his bank account if he is subscribing through the bank wherein he is maintaining his account. In this case, the bank shall be required to verify and confirm the correctness of the Applicant's account through its specific system and procedure or through the evidence submitted to it by the Applicant.

3) In accordance with the instructions issued by the CMA, the particulars of the bank account referred to above shall be recorded in the registers of MCDC and this account shall be used in the transfer of the excess funds of the subscription and distribution of the interest payable to the Capital Security holder available with the MCDC. Whereas, with regard to the Applicants who have their bank accounts registered presently with the registers of MCDC, the bank account number provided for in the Application for the subscription would be utilized only for the purpose of transfer of the excess sums.

4) The Application for subscription containing the bank account number of a person other than the Applicant shall be rejected.

Documentation Required

1) Submission of a document confirming correctness of the bank account number as provided for in the application for subscription in one case only that is being subscription through a bank other than the one with whom the Applicant has his account.
2) Copy of a valid Power of Attorney duly endorsed by the competent legal authorities in the event the subscription is on behalf of another person.
3) In case of applications by non-individuals, which are signed by a person in his/her capacity as an authorized signatory, a copy of adequate and valid documentation should be attached.

Mode of Subscription

1) The Applicant shall be required to fill in the Application for the subscription and furnish all his particulars including the Shareholder Number available with MCDC, Civil Number/Passport Number/ Commercial Registration Number or similar.
2) The Applicant shall be responsible for furnishing all his particulars, ensuring correctness and validity of the information provided for in the application. While emphasizing on it, the bank receiving the subscription have been instructed to accept the applications for subscription that comply with all the requirements as provided for in the Application for subscription and Prospectus.
3) The Applicant shall be required, before filling the Application for subscription, to peruse the Prospectus and read the conditions and procedures governing the subscription with total care and importance.
4) The Applicant shall be required to submit the Application to the Collecting Bank along with the payment towards the Capital Securities and also ensure that the documents in support of the information furnished referred to above are enclosed.

5) Payment of the value of the subscription can be made by cash / cheque / bank transfer to the following account-
Bank Sohar Capital Securities a/c
A/c no. 00010032007001
Bank Sohar
BSHROMRUXXX

Bank receiving the subscription

The applications for subscription shall be accepted by Bank Sohar SAOG ("the Collecting Bank") during the official working hours only.
The bank receiving the subscription shall be required to accept the application for subscription after confirmation of compliance of the procedure and subject matter in line with the requirements as provided for in the Prospectus. Hence, the bank must instruct the Applicants to comply and fulfill any requirement that may appear in the application submitted.
The Applicant shall be responsible for submission of his application for subscription to the bank receiving the subscription before closing of the period for subscription. In this regard, the bank shall have the right not to accept any application for subscription that reaches it after the official working hours on closing date of the period for subscription.

Acceptance of the Applications for subscription

The bank receiving the subscription shall neither receive nor accept the Applications for subscription under the following circumstances:
1) If the Application for subscription does not bear the signature of the Applicant.
2) In case of failure to pay the value of the Capital Securities subscribed in accordance with the conditions provided for in the Prospectus.
3) If the value of the Capital Securities subscribed is paid through cheque and if the same is dishonored for whatever reason.
4) If the Application for subscription is not bearing the MSM No., available with MCDC.
5) If the Folio Number furnished in the Application for subscription is noted to be incorrect.
6) If the Applicant submits more than one application in the same name, all of them shall be rejected.
7) If the supporting documents referred to in the Prospectus are not enclosed with the Application for subscription.
8) If the Application does not contain all the particulars of the bank account of the Applicant.
9) If all the particulars of the bank account held by the Applicant as provided for in the Application are noted to be incorrect.
10) If the particulars of the bank account provided for in the Application are found to be not relevant to the Applicant.
11) In case of failure to have the Powers of Attorney attached with the Application as provided for in the Prospectus in respect of the person who subscribes and (sign) on behalf of another person.
12) If the Application has not complied with the legal and organizational requirements as provided for in the Prospectus.

If the Collecting Bank observes, after receipt of the application and before expiry of the time schedule prescribed for handing over of the applications in a final manner to the Issue Manager, that the application has not complied with the legal requirements as provided for in the Prospectus, due effort would be taken for contacting the Applicant so as to correct the mistake detected. In case of failure to have the mistake corrected within the period referred to, the Collecting Bank receiving the subscription shall be required to return the application for the subscription together with the subscription value before expiry of the period specified for handing over of the applications to the Issue Manager.

Refusal of subscription Applications

The Issue Manager may reject the subscription Applications under any of the conditions referred to above, after securing the approval of the CMA and submission of a comprehensive report furnishing the details of the subscription Applications that are required to be rejected and reasons behind such rejection.

Enquiry & Complaints

The subscribers who intend to seek clarification or file complaints with regard to the issues related to the allotment or rejected applications may contact the Branch of the Bank where the subscription was made. In case of absence of any response from the Branch, the subscriber may contact the person concerned as hereunder –

Saeed Ali Al Hinai
Bank Sohar SAOG
PO Box 44, PC 114, Oman
Tel: +968 24730239, Fax: +968 24730280
E-mail: saeed.alhinai@banksohar.net

Allotment

The allotment of Capital Securities to investors shall be at the total discretion of the Issuer and subject to the approval of CMA.

Once allotment is made, the applicant will be sent an allotment advice with the details of his allotment.

Listing

The Capital Securities shall be listed on MSM.

Proposed Timetable

The following is only an indicative proposed time table for the Issue –

Activity	Date*
Issue Opening Date	06 September,2017
Issue Closing Date	20 September, 2017
Presenting Issue results to the CMA	24 September, 2017
CMA approval for allotment	26 September, 2017
Listing of Capital Securities on MSM	28 September, 2017

*The actual dates may vary.

Responsibilities & Obligations

The Issue Manager, the Collecting Bank and the MCDC shall abide by the responsibilities and duties specified under the Regulations issued by the CMA and shall comply with by any other responsibilities and obligations set out in the agreements entered into between them and the issuer. The parties concerned shall be required to take remedial measures with regard to the damages arising from any negligence committed in the performance of the functions and responsibilities assigned to them. In such event the Issue Manager shall liaise with relevant authorities such as CMA and MSM for taking suitable steps and measures for repairing such damages.

CHAPTER 19: UNDERTAKINGS

Bank Sohar SAOG

The Board of Directors of the Bank jointly and severally undertake that:

1. The information provided in this Prospectus is true and complete.

2. Due diligence was done to ensure that no material information has been omitted, the omission of which would render this prospectus misleading.

3. All provisions of Capital Market Law, the Commercial Companies Law and the rules & regulations issued thereunder have been complied with.

Signed on behalf of the Board of Directors

Sd/-

Director   Director

Issue Manager

Pursuant to our responsibilities under Article 3 of the Capital Market Law, the executive regulations thereof and the directives issued by CMA, we have reviewed all relevant documents and other material required for the preparation of the Prospectus pertaining to the issue of Capital Securities by Bank Sohar SAOG.

The Board of Directors of Bank Sohar SAOG shall bear the responsibility for the validity and correctness of the information provided in this Prospectus, and they have confirmed that no material information has been omitted from it, the omission of which would render this prospectus misleading.

We do confirm that we have taken necessary due care as required by our profession with regard to the Prospectus that has been prepared under our supervision. On the basis of the review work referred to above and discussions held with the Issuer, its Directors, officials and other related parties with regard to the subject matter of the Issue and contents of the documents submitted to us, we confirm as under:

1. We have taken necessary and reasonable care to ensure that the information given to us by the Issuer and that contained in the Prospectus are consistent with the facts available in the documents and other material pertaining to the Issue.

2. To the best of our knowledge and on the basis of our perusal and information given to us by the Issuer, the Issuer has not omitted any material information, the omission of which would render the Prospectus misleading.

3. The Prospectus and the Issue to which it relates is consistent with all the rules and terms of disclosure stipulated for in the Capital Market Law, the Executive Regulations of the Capital Market Law and prospectus models applied by CMA and is in conformity with the Commercial Companies Law and decisions issued in this regard.

4. The information contained in this Prospectus in Arabic (with its unofficial translation in English) is correct, reasonable and adequate as per our perusal to assist the investor in taking an appropriate decision whether or not to invest in the securities offered.

Sd/-

Gulf Baader Capital Markets SAOC

Legal Advisor to the Issue

The Legal Advisor, whose name appears below, hereby confirms that all the procedures undertaken with regard to the offering of the securities the subject matter of the Prospectus are in line with the laws and legislations related to the Issuer's business, the Commercial Companies Law, the Capital Market Law and the regulations and directives issued pursuant to them, the requirement and rules for the issue of securities issued by the CMA, the Articles of Association of the Issuer and the resolutions of the general meeting and board of directors of the Issuer. The Issuer has secured all the consents and approvals of the official authorities required to carry out the activities which is the subject matter of the prospectus.

Sd/-

Nasser Al Habsi & Saif Al Mamari Law Firm in association with Addleshaw Goddard (Middle East) LLP