BANK DHOFAR SAOG

FINANCIAL STATEMENTS

31 DECEMBER 2016

Registered and principal place of business:

Bank Dhofar SAOG
Central Business District
P.O. Box 1507
Ruwi 112
Sultanate of Oman

THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2016

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present you the Bank's Financial Statements and the Auditors' Report for the financial year ended 31st December 2016.

Financial overview in 2016

The Bank continued to grow in all key areas in the year 2016 despite the current economic and financial situation driven by volatile oil prices in 2016. The Net Loans, Advances and Financing to customers reached RO 2.99 billion (USD 7.77 billion) at December 2016, showing a significant growth of 9.52% from RO 2.73 billion (USD 7.09 billion) at the end of 2015. The customer deposits mobilized by the bank achieved a growth of 11.58% from RO 2.59 billion (USD 6.75 billion) at the end of 2015 to reach RO 2.89 billion (USD 7.51 billion) at the end of 2016. The Total assets reached RO 3.95 billion (USD 10.26 billion) December 2016 as compared to RO 3.59 billion (USD 9.32 billion) at end 2015, a growth of 10.02%.

The key profitability indicators also showed positive growth with net interest and financing income achieving growth of 8.26% to reach RO 97.66 million (USD 253.67 million) for the year 2016 as compared to RO 90.21 million (USD 234.30 million) achieved in 2015. Non-interest and non-financing income such as fees and commission, foreign exchange profit, investment and other income have grown 18.67% to reach RO 29.69 million (USD 77.12 million) in 2016 as compared to RO 25.02 million (USD 64.98 million) achieved in the previous year. This strong growth in the current market condition reinforces the trust and confidence of customers towards Bank Dhofar's products and services.

The Cost to Income ratio during the year 2016 was managed at 44.58% as compared to 44.43% in 2015. The provision for loan impairment, net of recovery, during the year 2016 increased to RO 14.56 million (USD 37.82 million), as against RO 8.78 million (USD 22.81 million) during the previous year 2015. The impairment of investments during the year decreased to RO 1.59 million (USD 4.13 million) from RO 2.74 million (USD 7.12 million) in 2015.

Non-performing loans to gross loans & financing at Bank level increased from 2.29% at 31st December 2015 to 2.68% at 31st December 2016; Non-performing loans, net of interest suspense, to gross loans & financing increased from 1.1 % at 31st December 2015 to 1.41 % at 31st December 2016 year on year.

The net profit for the year 2016 achieved by the Bank is RO 47.62 million (USD 123.69 million) as against RO 46.77 million (USD 121.48 million), showing a marginal growth of 1.82 % year on year.

Maisarah- Islamic Banking Services

Total assets increased by 50.54% to reach RO 450.71 million at end of December 2016 from RO 299.40 million at December 2015. The gross financing portfolio has grown to RO 311.56 million at December 2016 from RO 209.92 million at December 2015, an increase of 48.42%. Non-performing financing continued to stand at Nil. Customer deposits also recorded a strong growth and increased from RO 192.00 million at December 2015 to RO 285.67 million at December 2016, recording a growth of 48.79% year-on-year.

The net financing income has grown by 20.07% during 2016 to RO 6.88 million against RO 5.73 million in the previous year. During 2016, Non-financing Income such as fees and commissions, foreign exchange profit, investment income and other income increased over the previous year by 69.23% to RO 1.98 million (RO 1.17 million during 2015).

Maisarah recorded Profit before tax of RO 3.18 million as compared to RO 2.57 million in 2015, showing a year on year growth of 23.74%.

Introduction of new Products by Maisarah

New products added during 2016 include Savings Account with Prize scheme, Shariah compliant credit card, Maisarah Travel Finance product for retail customers and Inventory Finance product for its corporate customers.

Capital Increase & Branch Expansion:

To support Maisarah growth, RO 15 million additional capital injected during the year 2016 from the Bank's core capital taking the total capital of Maisarah to RO 55 million.

During 2016, 5 new branches were opened taking the total to 10.

Funding and Capital Raising initiatives

As part of the planned capital augmentation program and strengthening the liquidity base, Bank successfully completed a rights issue of RO 40 million in 2016; also our Bank successfully closed club deals and syndicated borrowings of USD 350 million at competitive rates, with encouraging participation from major banks in the region. This facility demonstrates the confidence of the global markets in the financial strength of BankDhofar.

Corporate Governance

The Bank has fully complied with all directives of the Code of Corporate Governance issued by the Capital Market Authority. The Bank has also assessed and reviewed the internal control procedures of the Bank during the year 2016.

In compliance with Article (101) of the Commercial Companies Law No. 4/1974 and its amendments, the Board of Directors would like to disclose that the total amount received in 2016 as sitting fees was RO 76,900 and the proposed remuneration is RO 123,100, complying with total cap of RO 200,000.

Proposed Dividends

The Board of Directors in their meeting held on 25 January 2017 proposed a cash dividend of 13.5% (2015: 15%) for the year ended 31 December 2016 amounting to RO 25.64 million (2015: RO 23.17 million) and a bonus share issue of 7.5% (2015: 10%) amounting to 142,440,105 shares

(2015: 154,472,855 shares) of RO 0.100 each subject to Regulatory and Shareholders Approvals.

The percentage of dividends distributed to the Shareholders in the last five years is as follows:

Year	2011	2012	2013	2014	2015
Cash Dividends	7%	15%	14%	5%	15%
Bonus Shares	20.2%	10%	11%	15%	10%

Corporate Social Responsibility (CSR) initiatives

As in the past, Bank Dhofar initiated several CSR initiatives during the year 2016, participating actively in National day, Child protection, Physical education, Teachers day, SME symposium, Oman Automobile to encourage young Omanis, Various cultural and traditional activities including Quran recitations

Awards and Accolades during 2016

Our Bank won several awards during the year 2016 with some of them listed here:

1. Best Bank Performance award at the Al Roya Economic Award 2016.
2. No. 1 in Large Sized Banks Category at Best Banks Report by Oman Economic Review.
3. Best Performing Company Award at the AIWA Awards for Oman's Best Performing MSM-listed Companies.
4. Best Retail Bank - Oman 2016 by The Banker Middle East.
5. Best SME Bank 2015 by Global Business Outlook.
6. Best SME Bank Oman 2016 by Global Banking & Finance Review.
7. Islamic Bank of the Year – Oman 2016 by The Banker.
8. Oman Domestic Technology and Operations Bank of the Year award in the ABF Wholesale Banking Awards 2016.
9. Digital Banking Initiative of the Year - Oman award in the ABF Retail Banking Awards 2016.
10. Mobile Banking Initiative of the Year - Oman award in the ABF Retail Banking Awards 2016.
11. Best Mobile Banking Implementation in the Middle East at the Asian Banker Technology Implementation Awards Programme 2016
12. STP Award 2015 for financial payments in Euro by Commerzbank, USD by CITI Bank.
13. Best E-Commerce Bank Oman 2016 by Global Banking & Finance Review.
14. Best Customer Service Bank Oman 2016 by Global Banking & Finance Review.
15. Customer Delight Award by MENAA Awards 2016.
16. Best Contact Centre Experience – Oman at the Customer Experience Benchmarking Index 2015 by Ethos Integrated Solutions.
17. Top CEO Award at the Top CEOs in the GCC Awards by TRENDS Magazine and INSEAD Business School.
18. Best Business Leader Award by MENAA Awards 2016.
19. Best Bank for Human Resources Oman 2016 by Global Business Outlook.

The Year Ahead (2017)

2017 state budget plan released by Oman's government projected relatively reduced deficit of RO 3 billion compared to 2016 plan of RO 3.3 billion (2016 estimated actual deficit RO 5.3 billion). With oil prices improving, the government budget continue to maintain tight curbs on spending and focusing on increasing non oil and gas revenues. GDP is projected to grow by 2%. Government spending for 2017 is projected to RO 11.7 billion (USD 30.4 billion) and revenues RO 8.7 billion (USD 22.6 billion). Debt to GDP projected for 2016 is 29%. Diversification of economy set to receive a boost under the National Economic Diversification Programme (Tanfeedh).

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Board of Directors and the Executive Management. Also I thank the shareholders for their continuous support and Chairman, members of Sharia Supervisory Board of Maisarah Islamic Banking Services, Management and Staff for their efforts and contributions in the year 2016.

The Board of Directors also wishes to thank the Central Bank of Oman for its valuable guidance to the local banking sector.

Finally, on behalf of the Board of Directors, employees and the management I would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	**2016 RO'000**	2015 RO'000
Assets			
Cash and balances with Central Bank of Oman	5	**265,889**	439,833
Loans, advances and financing to banks	7	**340,060**	138,036
Loans, advances and financing to customers	8	**2,988,592**	2,729,306
Available-for-sale investments	9	**36,236**	35,802
Held-to-maturity investments	10	**218,535**	169,391
Intangible asset	11	**1,589**	1,986
Property and equipment	12	**8,328**	8,795
Other assets	13	**92,814**	69,912
Total assets		**3,952,043**	3,593,061
Liabilities			
Due to banks	14	**350,549**	308,864
Deposits from customers	15	**2,885,189**	2,592,371
Other liabilities	16	**128,430**	111,422
Subordinated loans	17	**53,875**	103,875
Total liabilities		**3,418,043**	3,116,532
Shareholder's equity			
Share capital	18 (a)	**189,920**	154,473
Share premium	19	**59,618**	40,018
Special reserve	20 (d)	**18,488**	18,488
Legal reserve	20 (a)	**45,176**	40,214
Subordinated loan reserve	20 (b)	**31,550**	62,025
Investment revaluation reserve	20 (c)	**1,459**	327
Retained earnings	21	**72,289**	45,484
Total equity attributable to the equity holders of the Bank		**418,500**	361,029
Perpetual Tier 1 Capital Securities	18 (b)	**115,500**	115,500
Total equity		**534,000**	476,529
Total liabilities and equity		**3,952,043**	3,593,061
Net assets per share (Rial Omani)	22	**0.220**	0.234
Contingent liabilities and commitments	32	**1,045,948**	844,318

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

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Abdul Hakeem Omar Al Ojaili
Acting Chief Executive Officer

The attached notes 1 to 38 form part of these financial statements.

BANK DHOFAR SAOG

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Notes	2016 RO'000	2015 RO'000
Interest income		**141,536**	118,173
Interest expense		**(50,750)**	(33,695)
Net interest income	23	**90,786**	84,478
Income from Islamic financing		**12,774**	7,683
Profit expenses		**(5,900)**	(1,954)
Net income from Islamic financing and investment activities		**6,874**	5,729
Fees and commission income		**17,878**	17,019
Fees and commission expense		**(3,169)**	(1,729)
Net fees and commission income		**14,709**	15,290
Other income	24	**14,982**	9,729
Operating income		**127,351**	115,226
Staff and administrative costs	25	**(53,360)**	(47,862)
Depreciation	12	**(3,407)**	(3,337)
Operating expenses		**(56,767)**	(51,199)
Profit from operations		**70,584**	64,027
Provision for loan impairment	26	**(19,925)**	(14,305)
Recoveries from allowance for loan impairment	26	**5,364**	5,522
Bad debts written-off		**(1)**	(1)
Impairment of available-for-sale investments	20 (c)	**(1,593)**	(2,742)
Profit from operations after provision		**54,429**	52,501
Income tax expense	27	**(6,807)**	(5,736)
Profit for the year		**47,622**	46,765
Profit for the year		**47,622**	46,765
Other comprehensive income:			
Items that are or may be reclassified to statement of income:			
Net changes in fair value of available-for-sale investments	9	**5**	(2,238)
Reclassification adjustment on sale of available-for-sale investments	20 (c)	**(466)**	(131)
Impairment of available-for-sale investments	20 (c)	**1,593**	2,742
Other comprehensive loss for the year, net of tax		**1,132**	373
Total comprehensive income for the year		**48,754**	47,138
Earnings per share basic and diluted (Rial Omani)	28	**0.023**	0.024

The attached notes 1 to 38 form part of these financial statements.

BANK DHOFAR SAOG

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

		Attributable to equity holders of Bank									
	Notes	**Share capital RO'000**	**Share premium RO'000**	**Special reserve RO'000**	**Legal reserve RO'000**	**Subordinated loans reserve RO'000**	**Investment revaluation reserve RO'000**	**Retained earnings RO'000**	**Total RO'000**	**Perpetual Tier 1 capital securities RO'000**	**Total equity RO'000**
Balances as at 1 January 2016		**154,473**	**40,018**	**18,488**	**40,214**	**62,025**	**327**	**45,484**	**361,029**	**115,500**	**476,529**
Profit for the year		-	-	-	-	-		47,622	47,622	-	47,622
Other comprehensive income for the year											
Net change in fair value of available-for-sale investments		-	-	-	-	-	5	-	5	-	5
Transfer to statement of comprehensive income on sale of available-for-sale investments		-	-	-	-	-	(466)	-	(466)	-	(466)
Impairment of available-for-sale investments		-	-	-	-	-	1,593	-	1,593	-	1,593
Total comprehensive income for the year		-	-	-	-	-	1,132	47,622	48,754	-	48,754
Transfer to legal reserve	20	-	-	-	4,762	-	-	(4,762)	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	-	19,525	-	(19,525)	-	-	-
Transfer to retained earnings		-	-	-	-	(50,000)		50,000	-	-	-
Increase in share capital	19	20,000	-	-	-	-	-	-	20,000	-	20,000
Increase in share premium	19	-	19,600	-	-	-	-	-	19,600	-	19,600
Increase in legal reserve		-	-	-	200	-	-	-	200	-	200
Additional Tier 1 coupon		-	-	-	-	-	-	(7,912)	(7,912)	-	(7,912)
Transactions with owners recorded directly in equity											
Dividend paid for 2015	38	-	-	-	-	-	-	(23,171)	(23,171)	-	(23,171)
Bonus shares issued for 2015	38	15,447	-	-	-		-	(15,447)	-	-	
Balances as at 31 December 2016		**189,920**	**59,618**	**18,488**	**45,176**	**31,550**	**1,459**	**72,289**	**418,500**	**115,500**	**534,000**

The attached notes 1 to 38 form part of these financial statements.

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

	Notes	*Attributable to equity holders of Bank*									
		Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balances as at 1 January 2015		134,324	40,018	18,488	35,537	41,250	(46)	55,747	325,318		325,318
Profit for the year		-	-	-	-	-	-	46,765	46,765	-	46,765
Other comprehensive income for the year											
Net change in fair value of available-for-sale investments		-	-	-	-	-	(2,238)	-	(2,238)	-	(2,238)
Transfer to statement of comprehensive income on sale of available-for-sale investments		-	-	-	-	-	(131)	-	(131)	-	(131)
Impairment of available-for-sale investments		-	-	-	-	-	2,742	-	2,742	-	2,742
Total comprehensive income for the year		-	-	-	-	-	373	46,765	47,138	-	47,138
Transfer to legal reserve	20	-	-	-	4,677	-	-	(4,677)	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	-	20,775	-	(20,775)	-	-	-
Proceeds from Perpetual Tier 1 capital securities		-	-	-	-	-	-	-	-	115,500	115,500
Perpetual Tier 1 issuance cost		-	-	-	-	-	-	(755)	(755)	-	(755)
Additional Tier 1 coupon		-	-	-	-	-	-	(3,956)	(3,956)	-	(3,956)
Transactions with owners recorded directly in equity											
Dividend paid for 2014	38	-	-	-	-	-	-	(6,716)	(6,716)	-	(6,716)
Bonus shares issued for 2014	38	20,149	-	-	-	-	-	(20,149)	-	-	-
Balances as at 31 December 2015		154,473	40,018	18,488	40,214	62,025	327	45,484	361,029	115,500	476,529

The attached notes 1 to 38 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	2016 RO'000	2015 RO'000
Operating activities		
Interest, financing income, commission and other receipts	**176,109**	145,569
Interest payments, return on Islamic banking deposits	**(48,037)**	(36,171)
Cash payments to suppliers and employees	**(64,813)**	(39,817)
	63,259	69,581
Decrease in operating assets		
Loans, advances and financing to customers	**(273,849)**	(483,384)
Loans, advances and financing to banks	**(211,520)**	(4,688)
Receipts from treasury bills and certificates of deposits (net)	**(39,528)**	(154)
	(524,897)	(488,226)
Increase in operating liabilities		
Deposits from customers	**292,818**	110,192
Due to banks	**42,456**	132,960
	335,274	243,152
Net cash from operating activities	**(126,364)**	(175,493)
Income tax paid	**(6,212)**	(5,392)
Net cash used in operating activities	**(132,576)**	(180,885)
Investing activities		
Investment income	**3,795**	2,856
Purchase of investments	**(7,191)**	(9,976)
Proceeds from sale of investments	**6,296**	1,629
Dividend received	**798**	718
Purchase of property and equipment	**(3,161)**	(2,586)
Proceeds from sale of property and equipment	**269**	176
Net cash from / (used in) investing activities	**806**	(7,183)
Financing activities		
Subordinated loan	**(50,000)**	-
Proceeds from issue of perpetual tier 1 capital securities	**-**	115,500
Proceeds from rights issue of share capital, net	**39,800**	-
Additional tier 1 coupon	**(7,912)**	(3,956)
Perpetual tier 1 capital securities issuance cost	**-**	(755)
Dividend paid	**(23,171)**	(6,716)
Net cash (used in) / from financing activities	**(41,283)**	104,073
Net change in cash and cash equivalents	**(173,053)**	(83,995)
Cash and cash equivalents at the beginning of the year	**518,553**	602,548
Cash and cash equivalents at the end of the year	**345,500**	518,553
Cash and balances with Central Bank of Oman (Note 5)	**265,889**	439,833
Capital deposit with Central Bank of Oman	**(500)**	(500)
Loans, advances and financing to banks due within 90 days	**52,164**	61,660
Treasury bills within 90 days	**28,865**	19,249
Due to banks within 90 days	**(918)**	(1,689)
Cash and cash equivalents for the purpose of the cash flow statement	**345,500**	518,553

The attached notes 1 to 38 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the “Bank”) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank’s Islamic Banking Window, Maisarah Islamic Banking services has an allocated capital of RO 55 million from the core paid up capital of the shareholders. The Bank has a primary listing on the Muscat Securities Market (“MSM”) and its principal place of business is the Head Office, Capital Business District (“CBD”), Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman.

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework (“IBRF”) issued by CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the “SSB”) and other applicable requirements of CBO. The IBWs financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial instruments at fair value through profit and loss and available-for-sale financial assets which are measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

2.3 Functional and presentation currency

Items included in the Bank’s financial statements are measured using Rial Omani which is the currency of the primary economic environment in which the Bank operates, rounded off to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

2 BASIS OF PREPARATION (*continued*)

2.5 (a) New and amended standards and interpretations to IFRS relevant to the Bank

For the year ended 31 December 2016, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2016.

Adoption of new and revised International Financial Reporting Standards ("IFRS")

The following new standards and amendments became effective as of 1 January 2016:

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

The adoption of those standards and interpretations has not resulted in any major changes to the Bank's accounting policies and has not affected the amounts reported for the current and prior periods.

2.5 (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank:

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

- IFRS 9, Financial Instruments - Hedge accounting: effective for annual periods commencing 1 January 2018;
- IFRS 15, Revenue from Contracts with Customers: effective for annual periods commencing 1 January 2018;
- IFRS 16, Leases: effective for annual periods commencing 1 January 2019;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 12 Income Taxes
- Amendments to IAS 7 Statement of Cash Flows

2 BASIS OF PREPARATION (*continued*)

2.5 (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank: (continued)

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The application of IFRS 9 may have significant impact on amounts reported in the financial statements and will result in more extensive disclosures in the financial statements. The Bank plans to adopt the new standard on the required effective date. However, the Bank is currently in the process of evaluating and implementing the required changes in its systems, policies and processes to comply with IFRS 9 and regulatory requirements, and hence it is not practical to disclose a reliable quantitative impact until the implementation programme is further advanced.

(a) Classification and measurement
The Bank does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and there will be no material change to the accounting for these assets Equity instruments currently classified as AFS for which a FVOCI election is available. Debt instruments currently classified as held-to-maturity and measured at amortised cost which appear to meet the conditions for classification at amortised cost under IFRS 9.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Bank expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Bank expects that these will continue to be measured at amortised cost under IFRS 9.

There will be no material impact on the Bank accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities.

(b) Impairment
The Bank completed initial impact assessment and overall, the Bank expect no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. While the Bank has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses and provisions would be more volatile.

2 BASIS OF PREPARATION (*continued*)

2.5 (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank: (continued)

IFRS 9 Financial Instruments (continued)

(c) Hedge accounting
The Bank believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9. The Bank will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, other than those held at cost, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

3.2 Financial assets and liabilities

3.2.1 Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

i) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

ii) The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

iii) The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

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

(b)Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.1 Classification (continued)

(b) Loans and receivables (continued)

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the statement of comprehensive income and is reported as ‘interest income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as ‘Impairment for credit losses’.

(c) Held to maturity

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as ‘interest income’. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as ‘impairment for investments’. Held to maturity investments are corporate bonds and treasury bills.

(d) Available-for-sale financial assets

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

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

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (other comprehensive income) for the change in fair value of investments available-for-sale. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss in other operating income. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss in impairment for investments and removed from the change in fair value of investments available-for-sale.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

(i) Fair value hedges

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.2 Derivative financial instruments and hedging activities

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

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

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

3.2.3 Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

3.2.4 Derecognition

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

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement; and either:
  - The Bank has transferred substantially all the risks and rewards of the asset; or
  - The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.4 Derecognition (continued)

(ii) Financial liabilities

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

3.2.5 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a Bank of similar transactions.

3.2.6 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.2.7 Fair value measurement

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 34.

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial assets and liabilities (continued)

3.2.7 Fair value measurement (continued)

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

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

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

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

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

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

3.2.8 Investment in equity and debt securities

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the reporting date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

3.2.9 Fair value measurement of derivatives

The fair value of forward contracts is estimated based on observable market inputs for such contracts as on the reporting date.

The fair value of interest rate swaps is arrived at by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Identification and measurement of impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention about the following loss events as well as considering the guidelines issued by the Central Bank of Oman:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Identification and measurement of impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income. Also refer to notes 3.2.1 (b) loans and receivables and 3.2.1 (c) held to maturity investments.

(b) Assets classified as available-for-sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses the criteria referred to at (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the profit or loss. Impairment losses on equity instruments recognised in the profit or loss are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(c) Renegotiated loans

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

3.4 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Bank, treasury bills and money market placements and deposits maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position. Treasury bills and certificates of deposit issued for a term longer than three months are classified as available-for-sale or held-to-maturity at the date of acquisition.

3.5 Due from banks

These are stated at cost, less any amounts written off and provisions for impairment. Due from banks include Nostro balances, placements and loans to banks.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	7 - 25
Furniture and fixtures	3 - 7
Motor vehicles	3 - 5
Computer equipment	4
Core banking system	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the statement of comprehensive income.

Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

3.7 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income.

3.8 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

3.9 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Bank's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the EIR.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Income tax

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

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

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3.11 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

3.12 Acceptances

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

3.13 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Trade and settlement date accounting

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. that date the Bank commits to purchase the assets. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.15 Leases

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

3.16 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank’s employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the statement of comprehensive income as incurred.

3.17 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to Banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.19 Dividend on ordinary shares

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

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

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

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

3.21.1 Interest income and expense

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

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as "interest income' for financial assets and "interest expense" for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Interest income, which is doubtful of recovery is included in loan impairment and excluded from income, until it is received in cash.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Revenue and expense recognition (continued)

3.21.2 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

3.21.3 Dividends

Dividend income is recognised in the statement of comprehensive income in 'Other income', when the Bank's right to receive income is established.

3.21.4 Provisions

A provision is recognised if, as a result of past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3.22 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. The Bank's main business segments are corporate and retail banking. Segmental information pertaining to Islamic Banking Window is also disclosed in note 37.

3.23 Earnings per share

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

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results. Specific fair value estimates are disclosed in note 34.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Bank's significant accounting estimates were on:

(a) Classification of investments

Management decides on acquisition of an investment whether it should be classified as fair value through profit or loss, available-for-sale or held-to-maturity investments.

Available-for-sale investments

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires management's judgement based on its intentions to hold such investments.

Held-to-maturity investments

Management follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgements. In making this judgement, the Management evaluates its intention and ability to hold such investments to maturity. If the Management fails to keep these investments to maturity other than for the specific circumstances-for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would, therefore, be measured at fair value.

(b) Fair value estimation

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

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

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(c) Impairment

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro-economic conditions.

Impairment on due from banks

The Bank reviews its portfolio of due from banks on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment. For individually impaired placements, the Bank considers the necessary impairment loss based on the expected cash flows and borrower's financial position. In addition, the Bank assesses the portfolio on a collective basis and estimates the collective impairment loss if any. The judgements and estimates used for impairment assessment depend on a number of parameters which include the borrower's financial condition, local and international economic conditions and economic outlook

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Bank to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of available-for-sale equity investment

Management determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, management evaluates among other factors, the normal volatility in equity price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Useful life of property and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

(e) Deferred tax asset

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

5 Cash and balances with Central Bank of Oman

	2016	2015
	RO'000	RO'000
Cash in hand	**29,919**	31,979
Balances with the Central Bank of Oman	**131,961**	237,684
Placements with Central Bank of Oman	**104,009**	170,170
	265,889	439,833

At 31 December 2015, cash and balances with Central Bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2015: RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

6 Recovery from a legal case (RO 26.1 million)

In relation to Oman International Bank "OIB" (currently HSBC Oman) case filed against the Bank, Ali Redha and his group companies, the Bank on 25 March 2013 received a cheque of RO 26.1 million from the Primary Court in Muscat. This amount was transferred in September 2011 from Bank Dhofar to the Primary Court under the above mentioned case proceedings. By receiving the amount of RO 26.1 million, the case has been closed in the Bank's favour in 2013.

7. Loans, advances and financing to banks

	2016	2015
	RO'000	RO'000
Syndicated loans to other banks	**51,590**	80,841
Less: impairment allowance (collective)	**(409)**	(409)
Net syndicated loans to other banks	**51,181**	80,432
Placements with other banks	**271,355**	48,090
Current clearing accounts	**17,524**	9,514
	340,060	138,036

At 31 December 2016, placement with one local bank individually represented 20% or more of the Bank's placements (2015: Nil)

Movement of the impairment allowance as below:

	2016	2015
	RO'000	RO'000
Opening balance as on 1 January	**409**	439
Less: Reversal during the year	**-**	(30)
Closing balance as on 31 December	**409**	409

8 Loans, advances and financing to customers

	2016 RO'000	2015 RO'000
Overdrafts	**146,303**	149,261
Loans	**2,431,536**	2,299,290
Loans against trust receipts	**113,992**	111,700
Bills discounted	**20,817**	6,867
Advance against credit cards	**7,746**	7,684
Others	**75,522**	43,207
Islamic Banking Window financing	**311,558**	209,915
Gross loans, advances and financing	**3,107,474**	2,827,924
Less: Impairment allowance	**(118,882)**	(98,618)
Net loans, advances and financing	**2,988,592**	2,729,306

The movement in the impairment allowance is analysed below:

(a) Allowance for loan impairment

	2016	2015
1 January	**64,810**	56,887
Allowance during the year	**19,925**	14,335
Released to the statement of comprehensive income during the year	**(5,364)**	(5,522)
Written off during the year	**(129)**	(890)
31 December	**79,242**	64,810

(b) Reserved interest

	2016	2015
1 January	**33,808**	30,717
Reserved during the year	**7,004**	6,042
Released to the statement of comprehensive income during the year	**(824)**	(763)
Written off during the year	**(348)**	(2,188)
31 December	**39,640**	33,808
Total impairment allowance	**118,882**	98,618

As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

Proposals for waivers /write off are not formula driven and are decided on case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Bank aims to recover the maximum value through enforcement of collaterals/guarantees etc.

In 2016, the Bank has written off RO-Nil million (2015: RO 2.42 million) as technical write off.

8 Loans, advances and financing to customers *(continued)*

Interest is reserved by the Bank against loans and advances which are impaired.

Out of the total provisions of RO 118,882,000 (2015: RO 98,618,000) a collective provision was made on portfolio basis amounting to RO 41,700,000 (2015: RO 37,792,000). Collective provision includes RO 3,017,000 -- against financing of Islamic window (2015: RO 2,430,000)

At 31 December 2016, impaired loans and advances on which interest has been reserved amount to RO 83,643,870 (2015: RO 64,932,694) and loans and advances on which interest is not being accrued amount to RO 1,530,972 (2015: RO 973,000).

Loans advances and financing are summarised as follows:

	2016		2015	
	Loans, advances and financing to customers	**Loans, advances and financing to banks**	Loans, advances and financing to customers	Loans, advances and financing to banks
	RO'000	**RO'000**	RO'000	RO'000
Neither past due nor impaired	**2,974,950**	**340,469**	2,728,369	138,445
Past due but not impaired	**49,189**	**-**	34,624	-
Impaired	**83,335**	**-**	64,931	-
Gross loans and advances	**3,107,474**	**340,469**	2,827,924	138,445
Less: Impairment allowance	**(118,882)**	**(409)**	(98,618)	(409)
Total	**2,988,592**	**340,060**	2,729,306	138,036

Loans, advances and financing to customers neither past due nor impaired

The credit quality of the portfolio of loans, advances and financing that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

Loans, advances and financing to customers past due but not impaired

	2016	2015
	RO'000	RO'000
Past due up to 30 days	**30,164**	19,867
Past due 30 – 60 days	**10,574**	10,996
Past due 60 – 89 days	**8,451**	3,761
Total	**49,189**	34,624

8 Loans, advances and financing to customers *(continued)*

Impaired

	2016	2015
	RO'000	RO'000
Substandard	**6,823**	3,069
Doubtful	**9,511**	5,257
Loss	**67,001**	56,605
Total	**83,335**	64,931

Fair value of collaterals

Upon initial recognition of loans, advances and financing, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

Loans, advances and financing renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that are classified as standard amounted to RO 53,771,000 at 31 December 2016 (2015: RO 14,369,000).

9 Available-for-sale investments

a) Equity investments

	Cost	Fair value 2016	Fair value 2015
	RO'000	**RO'000**	RO'000
Quoted on the Muscat Securities Market			
Financial	**655**	**657**	725
Industrial	**4,631**	**5,191**	6,224
Services	**7,343**	**7,676**	7,247
Equity Funds – Quoted – Foreign			
Quoted debt/sukuk	**308**	**269**	-
Foreign fixed income & bonds	**3,619**	**3,542**	2,637
Local fixed income & bonds	**13**	**32**	48
Total quoted investments	**16,569**	**17,367**	16,881
Un-quoted equity			
Local securities	**3**	**3**	7
Unit funds	**1,842**	**2,305**	2,321
Total Un-Quoted Investments	**1,845**	**2,308**	2,328
Total available-for-sale investments	**18,414**	**19,675**	19,209

b) Quoted sukuk

	Cost	Fair value 2016	Fair value 2015
Local listed sukuk	**10,000**	**10,198**	10,198
Sovereign sukuk	**6,363**	**6,363**	6,395
	16,363	**16,561**	16,593
	34,777	**36,236**	35,802

At 31 December 2016, the market value of the Sukuk approximates to the carrying value.

10 Held-to-maturity investments

	2016 RO'000	2015 RO'000
Treasury bills	**28,865**	39,236
Government Development Bonds	**179,670**	120,155
	208,535	159,391
Local – listed sukuk	**10,000**	10,000
	218,535	169,391

Government Development Bonds represents Oman Government Bonds having face value of RO 176.56 million at average coupon of 4.09% maturing between 2017 and 2026

Treasury bills represents United States Treasury bills having face value of RO 28.875 million (USD75 million) maturity less than 91 days at average yield of 0.25%.

11 Intangible asset

	2016 RO'000	2015 RO'000
1 January	**1,986**	2,383
Impaired during the year	**(397)**	(397)
31 December	**1,589**	1,986

Intangible asset represents goodwill which resulted from the acquisition of branches of the Commercial Bank of Oman in the year 2001 and merger with Majan International Bank in the year 2003. Goodwill is tested for impairment each year. An assessment has been made to establish projected future cash flows associated with the cash generating unit (CGU) by using discount rate equivalent to cost of funds of the Bank. An impairment change of RO 397,000 (2015: 397,000) was recognised during the year.

12 Property and equipment

	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor Vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Total RO'000
Cost							
1 January 2016	140	1,573	12,659	1,356	20,232	480	36,440
Additions	-	-	1,025	113	1,976	47	3,161
Disposals	-	-	(525)	(145)	(196)	(172)	(1,038)
31 December 2016	**140**	**1,573**	**13,159**	**1,324**	**22,012**	**355**	**38,563**
Depreciation							
1 January 2016	-	1,114	9,857	1,169	15,505	-	27,645
Charge for the year	-	58	1,280	110	1,959	-	3,407
Disposals	-	-	(476)	(145)	(196)	-	(817)
31 December 2016	**-**	**1,172**	**10,661**	**1,134**	**17,268**	**-**	**30,235**
Carrying value							
31 December 2016	**140**	**401**	**2,498**	**190**	**4,744**	**355**	**8,328**
31 December 2015	**140**	**459**	**2,802**	**187**	**4,727**	**480**	**8,795**

12 Property and equipment (continued)

	Freehold Land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor Vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Total RO'000
Cost							
1 January 2015	140	1,573	13,138	1,341	18,901	357	35,450
Additions	-	-	761	187	1,473	165	2,586
Disposals	-	-	(1,240)	(172)	(142)	(42)	(1,596)
31 December 2015	**140**	**1,573**	**12,659**	**1,356**	**20,232**	**480**	**36,440**
Depreciation							
1 January 2015	-	1,056	9,729	1,171	13,811	-	25,767
Charge for the year	-	58	1,304	151	1,824	-	3,337
Disposals	-	-	(1,176)	(153)	(130)	-	(1,459)
31 December 2015	**-**	**1,114**	**9,857**	**1,169**	**15,505**	**-**	**27,645**
Carrying value							
31 December 2015	**140**	**459**	**2,802**	**187**	**4,727**	**480**	**8,795**
31 December 2014	140	517	3,409	170	5,090	357	9,683

13 Other assets

	2016 RO'000	2015 RO'000
Acceptances	**76,377**	59,713
Interest receivable	**9,093**	5,842
Prepaid expenses	**1,815**	1,584
Positive fair value of derivatives (note 33)	**616**	-
Deferred tax assets (note 27)	**62**	62
Other receivables	**4,851**	2,711
	92,814	69,912

14 Due to banks

	2016 RO'000	2015 RO'000
Syndicated Inter bank borrowings	**245,630**	96,250
Inter bank borrowings	**104,001**	210,925
Payable on demand	**918**	1,689
	350,549	308,864

In 2016 the bank raised USD 388 million term loan at LIBOR linked rates for term varying from one to three years (in 2015: USD 250 million term loan at LIBOR linked rate for three years term)

In 2015 the bank raised 3 years USD 250 million term loan at LIBOR linked rates (in 2014 the bank raised 2 years USD 100 million term loan at LIBOR linked rates)

At 31 December 2016, Inter bank borrowings includes Islamic Window's inter bank borrowings with other banks of RO 79,340,000 (2015: RO 52,325,000)

At 31 December 2016, inter bank borrowings with one bank individually represented 20% or more of the Inter bank's borrowings (2015: Nil). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

15 Deposits from customers

	2016 RO'000	2015 RO'000
Current accounts	**625,947**	715,302
Savings accounts	**431,312**	435,759
Time deposits	**1,487,674**	1,227,648
Margin accounts	**54,582**	21,504
Islamic Banking Window deposits	**285,674**	192,158
	2,885,189	2,592,371

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,148,429,000 as at 31 December 2016 (2015: RO 1,097,497,000).

At 31 December 2016, deposits from customers include Islamic Window's current deposits, saving deposits and time deposits of RO 285,674,000 (2015: RO 192,158,000).

16 Other liabilities

	2016 RO'000	2015 RO'000
Acceptances	**76,377**	59,713
Interest payable	**12,274**	3,661
Creditors and accruals	**30,581**	39,951
Income tax provision	**7,820**	6,688
Negative fair value of derivatives (note 33)	**-**	130
Employee terminal benefits	**1,378**	1,279
	128,430	111,422

Employee terminal benefits

The Bank's net liability and the movement in the employee terminal benefits during the year are as follows:

	2016 RO'000	2015 RO'000
1 January	**1,279**	1,053
Expense recognised in the statement of comprehensive income	**303**	241
Paid to employees	**(204)**	(15)
	1,378	1,279

17 Subordinated loans

	2016 RO'000	2015 RO'000
Subordinated loan - US Dollar	**28,875**	28,875
Subordinated loan - RO	**25,000**	75,000
	53,875	103,875

During the month of December 2016, the bank has repaid the unsecured subordinated loan amounting to RO 50 million upon maturity.

In September 2014, the Bank availed USD 75 million (RO 28.875 million) unsecured subordinated loan for a tenor of 66 months. This facility carries a fixed rate of interest payable half yearly, with principal being repaid on maturity.

In December 2012, the Bank availed RO 25 million unsecured subordinated loan from the major shareholders for a tenor of 5 years and one month. This facility carries a fixed rate of interest payable half yearly with principle being repaid on maturity.

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18 (a) Share capital

The authorised share capital consists of RO 2,200,000,000 ordinary shares of RO 0.100 each (2015: 2,200,000,000 ordinary shares of RO 0.100 each).

At 31 December 2016, the issued and paid up share capital comprise 1,899,201,401 ordinary shares of RO 0.100 each (2015: 1,544,728,546 ordinary shares of RO 0.100 each).

Shareholders

The following shareholders of the Bank own 10% or more of the Bank's share capital:

	2016 No. of shares	**%**	2015 No. of shares	%
Dhofar International Development and Investment Company SAOG	**531,776,387**	**28.0%**	432,523,991	28.0%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	**399,532,141**	**21.0%**	321,901,224	20.8%
Civil Service Employees' Pension Fund	**197,232,693**	**10.4%**	157,714,879	10.2%
Total	**1,128,541,221**	**59.4%**	912,140,094	59.0%
Others	**770,660,180**	**40.6%**	632,588,452	41.0%
	1,899,201,401	**100%**	1,544,728,546	100%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 55,000,000 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 31 December 2016.

On 21 February 2016 Maisarah's paid-up capital was increased from RO 40 million to RO 55 Million from the Banks core capital.

Bank Dhofar SAOG, as part of strengthening its capital base and to fund planned growth in the coming years, in the extraordinary general meeting (EGM) held on 24 December 2014 has resolved to:

1. Raise its Capital by issuing Tier 1 (including Additional Tier 1) type Capital Instruments in 2015 up to OMR 115.50 million (USD 300 million), subject to Central Bank of Oman and other Regulatory Approvals;
2. Increase Bank's regulatory capital by issue of convertible bonds to raise up to OMR 100 Million (USD 259.75 Million) with a coupon to be determined at the time of issue based on market conditions, subject to regulatory approvals
3. Issue senior non-capital debt instruments up to USD 500 million in the next four years, subject to necessary Central Bank of Oman and Regulatory Approvals;

On 27 May 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000 (Please refer Note 18 b). The other capital fund raising program have not yet been finalised.

The shareholders of the Bank in the annual general meeting held during March 2016 approved the issuance of 10% bonus shares comprising 154,472,855 shares of par value RO 0.100 each (2015: 201,486,332 shares of par value RO 0.100 each) and 15% (2015 – 5%) as cash dividend of the paid share capital of the Bank amounting to RO 23,171,000 for the year ended 31 December 2015. (2015 – RO 6,716,000 for the year ended 31 December 2014).

18 (b) Perpetual Tier 1 Capital Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000.

The Tier 1 Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

The Bank at its sole discretion may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 Securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its ordinary shares or any of its Other Common Equity Tier 1 Instruments or securities, ranking junior to or pari passu with the Tier 1 Securities unless and until it has paid one interest payment in full on the Tier 1 Securities. The Tier 1 Securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders of the Securities in certain circumstances.

19 Share premium

In 2016, the Bank issued 200,000,000 shares by way of rights issue at a premium of RO. 0.098 resulting in an increase in share premium by RO 19,600,000.

In the year 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in an increase in share premium by RO 53,076,392.

On 19 March 2013, the Shareholders of the Bank in the annual general meeting approved the issuance of 15% bonus shares amounting to RO 13,311,409 (133,114,993 shares of par value RO 0.100 each) from the share premium account.

20 Reserves

(a) Legal reserve	**2016** **RO'000**	2015 RO'000
1 January	**40,214**	35,537
Appropriation for the year	**4,762**	4,677
Increase in legal reserve	**200**	-
31 December	**45,176**	40,214

In the year 2016 the Bank has received RO 400 thousand towards share issue expenses and the Bank has incurred RO 200 thousand for the same. Accordingly, excess of receipts over expenses amounting to RO 200 thousand towards share issue expenses was transferred to legal reserve.

In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

20 Reserves *(continued)*

b) Subordinated loans reserves

	2016 RO'000	2015 RO'000
1 January	**62,025**	41,250
Appropriation for the year:		
Subordinated loan reserve	**19,525**	20,775
Transfer to retained earnings	**(50,000)**	-
31 December	**31,550**	62,025

Consistent with the Bank for International Settlement ("BIS") Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan. The amount of the reserve will be transferred to retained earnings through the statement of changes in equity upon settlement of the subordinated loan.

c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	2016 RO'000	2015 RO'000
1 January	**327**	(46)
Increase / (Decrease) in fair value	**5**	(2,238)
Net transfer to statement of comprehensive income on sale of available-for-sale investments	**(466)**	(131)
Impairment of available-for-sale investment	**1,593**	2,742
31 December	**1,459**	327

d) Special reserve

During 2013, the Bank recognised in its statement of comprehensive income, recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share premium account for issuance of bonus shares, and which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen capital. Prior approval of CBO is required for any distribution from this 'special reserve account'.

21 Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

22 Net assets per share

Net assets per share are calculated by dividing net assets attributable to equity holders of the Bank at the year-end by the number of shares outstanding at 31 December as follows:

	2016	2015
Net assets (RO)	**418,500,000**	361,029,000
Number of shares outstanding at 31 December (Nos.)	**1,899,201,401**	1,544,728,546
Net assets per share (RO)	**0.220**	0.234

23 Net interest income

	2016 **RO'000**	2015 RO'000
Loans and advances to customers	**137,138**	115,913
Debt investments	**76**	337
Money market placements	**4,312**	1,908
Others	**10**	15
Total interest income	**141,536**	118,173
Deposits from customers	**(45,405)**	(32,680)
Money market deposits	**(5,345)**	(1,015)
Total interest expense	**(50,750)**	(33,695)
Net interest income	**90,786**	84,478

Interest income from debt investments represents interest income from held-to-maturity investments.

Included in interest expenses from customers is interest on subordinated loan against related parties of RO 5,309,000 (2015: RO 5,422,000).

24 Other income

	2016 RO'000	2015 RO'000
Foreign exchange	**5,585**	1,903
Investment income (see below)	**6,475**	4,396
Miscellaneous income	**2,922**	3,430
	14,982	9,729

Investment income

	2016 RO'000	2015 RO'000
Dividend income- available-for-sale investments	**798**	718
Gain on disposal of available-for-sale investments	**668**	180
Income on Sukuk	**1,083**	600
Interest income on Government Development Bonds/Other bonds	**3,926**	2,898
	6,475	4,396

25 Staff and administrative costs

(a) Staff costs

	2016 RO'000	2015 RO'000
Salaries and allowances	**30,108**	27,382
Other personnel costs	**5,988**	4,906
Scheme costs	**727**	670
Non-Omani employees terminal benefit	**303**	242
	37,126	33,200

(b) Administrative costs

	2016 RO'000	2015 RO'000
Occupancy costs	**3,814**	3,632
Operating and administration cost	**10,901**	9,676
Impairment of goodwill	**397**	397
Others	**1,122**	957
	16,234	14,662
	53,360	47,862

At 31 December 2016, the Bank had 1,478 employees (2015: 1,371 employees).

26 Impairment of financial assets

	2016 RO'000	2015 RO'000
Provision for loan impairment (note 7 and 8)	**19,925**	14,305
Loans written-off	**1**	1
	19,926	14,306
Recoveries from provision for loan impairment (note 8)	**(5,364)**	(5,522)
Net impairment charge for financial assets	**14,562**	8,784

27 Income tax

	2016 RO'000	2015 RO'000
(a) Income tax expense:		
Current tax		
Current year	**7,525**	6,271
Prior years	**(718)**	-
	6,807	6,271
Deferred tax		
Current year	**-**	(130)
Prior years	**-**	(405)
	-	(535)
Tax expense for the year	**6,807**	5,736

(b) Reconciliation:

The Bank is liable to income tax for the year 2016 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	2016 RO'000	2015 RO'000
	54,429	52,501
Tax liability at the rates mentioned above	**6,528**	6,297
Tax exempt revenue	**(133)**	(107)
Interest on Additional Tier 1 securities	**-**	(475)
Non-deductible expenses	**260**	151
Deferred tax – prior years	**(718)**	(130)
Deferred tax not recognised during the current year	**870**	-
Tax expense for the year	**6,807**	5,736

27 Income tax *(continued)*

(c) Temporary differences which give rise to deferred tax liability are as follows:

Particulars	2015 RO '000	Recognised in income	2016 RO '000
Property, plant and equipment	(223)	-	(223)
Intangible asset	(238)	-	(238)
Provisions (others)	523	-	523
Provision – loan loss	-	-	-
Net deferred tax assets/(liability)	62	-	62

(d) **Status of previous year returns:**

The tax returns of the Bank for the years 2014 to 2015 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

Management are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2016.

28 Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the year attributable to ordinary shareholders as follows:

	2016	2015
Profit for the year (RO)	**47,622,000**	46,765,000
Less : Additional Tier 1 Coupon	**(7,912,000)**	(3,956,000)
Less : Perpetual Tier 1 issuance cost	**-**	(755,000)
Profit for the period attributable to equity holders of the bank after coupon and issuance cost on Tier 1 capital securities	**39,710,000**	42,054,000
Weighted average number of shares outstanding during the year	**1,760,937,231**	1,727,603,898
Earnings per share basic and diluted (RO)	**0.023**	0.024

Earnings per share (basic and diluted) have been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding, to include 10% bonus shares and bonus element in respect of right shares issued during the year. 154,472,855 shares represents the 10% bonus shares issued during the year.

29 Related parties transactions

In the ordinary course of business, the Bank conducts certain transactions with its Directors, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2016 RO'000	2015 RO'000
Loans and advances		
Directors and shareholders holding 10% or more interest in the Bank	**52,880**	34,559
Other related parties	**11,667**	11,943
	64,547	46,502
Subordinated loans		
Directors and shareholders holding 10% or more interest in the Bank	**21,663**	48,663
Other related parties	**17,775**	40,775
	39,438	89,438
Deposits and other accounts		
Directors and shareholders holding 10% or more interest in the Bank	**264,633**	257,649
Other related parties	**139,414**	82,517
	404,047	340,166
Contingent liabilities and commitments		
Directors and shareholders holding 10% or more interest in the Bank	**793**	142
Other related parties	**2,210**	1,618
	3,003	1,760
Remuneration paid to Directors		
Chairman		
– remuneration proposed	**16**	16
– sitting fees paid	**10**	10
Other Directors		
– remuneration proposed	**107**	103
– sitting fees paid	**67**	71
	200	200
Other transactions		
Rental payment to related parties	**471**	468
Other transactions	**84**	79
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	**43**	32
Key management compensation		
– salaries and other benefits	**1,371**	1,235

30 Fiduciary assets

At 31 December 2016 and 2015, there were no funds under management with the Bank.

31 Single borrower and senior members

	2016 RO'000	2015 RO'000
(a) Single borrower		
Total direct exposure	**164,661**	124,960
Number of members	**2**	2
(b) Senior members		
Total exposure:		
Direct	**69,126**	50,310
Indirect	**3,003**	1,760
	72,129	52,070
Number of Members	**29**	27

32 Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit, guarantees and other commitments provided by the Bank to the customers are as follows:

	2016 RO'000	2015 RO'000
Letters of credit	**125,671**	133,358
Guarantees and performance bonds	**920,277**	710,960
	1,045,948	844,318

At 31 December 2016, letters of credit, guarantees and other commitments amounting to RO 262,163,000 (2015: RO 110,893,000) are counter guaranteed by other banks.

At 31 December 2016, the unutilised limits towards the loans, advances and financing to customers amounts to RO 832,992 thousand (2015: 881,398 thousand).

(b) Capital and investment commitments

	2016 RO'000	2015 RO'000
Contractual commitments for property and equipment	**867**	933

33 Derivative financial instruments

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

At 31 December 2016		**Fair value increase / decrease**	
	Contract / notional amount RO'000	**Assets RO'000**	**Liabilities RO'000**
Derivatives:			
Currency forward - purchase contracts	**493,998**	**175**	**-**
Currency forward - sales contracts	**490,450**	**-**	**791**
Forward rate agreements	**9,625**	**-**	**2**
Interest rate swaps	**15,400**	**167**	**154**
Currency options – bought	**4,474**	**215**	**-**
Currency options – sold	**4,474**	**-**	**215**

At 31 December 2015		Fair value increase / decrease	
	Contract / notional amount RO'000	Assets RO'000	Liabilities RO'000
Foreign exchange derivatives			
Currency forward - purchase contracts	316,370	165	-
Currency forward - sales contracts	314,799	-	295

The following table indicates the year in which the cash flows associated with derivatives that are expected to impact statement of comprehensive income.

	Assets		**Liabilities**	
	2016 RO'000	2015 RO'000	**2016 RO'000**	2015 RO'000
Expected cash flow less than 6 months	**-**	-	**616**	130

34 Fair value information

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

Estimation of fair values

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

Loans and advances

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

Investments

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

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

Current account balances due to and due from banks

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

Bank and customer deposits

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

Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

34 Fair value information *(continued)*

Fair value versus carrying amounts

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2016	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Cost RO'000**	**Total RO'000**
Available-for-sale investments					
Equity instruments	**17,367**	**-**	**2,308**	**-**	**19,675**
Sukuk	**6,363**	**10,198**	**-**	**-**	**16,561**
At 31 December 2015					
Available-for-sale investments					
Equity instruments	16,882	-	2,327	-	19,209
Sukuk	6,395	10,198	-	-	16,593

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index process and expected price volatilities and correlations.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Transfer between level 1 and level 2
There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy of available-for-sale investments during the year.

35 Financial risk management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The risk management division of the Bank is an independent and dedicated unit reporting directly to the Risk Management Committee (“RMC”) of the Board. The division’s primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank’s committees are among the factors which reflect the independence of the Risk Management Divisions working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors (“the Board”) for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. The Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval all risk policies and procedures. RMC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meetings.

Credit risk

The most important risk to which the Bank is exposed, is credit risk. To manage the level of credit risk, the Bank deals with counter-parties of good credit.

Board Credit Committee is the final credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving credit policies. This committee is also the final authority for approving investments beyond the authority of the management. The Management Credit Committee (“MCC”) is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the RMD through a system of independent risk assessment in credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. The Bank has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio, and monitors credit concentration limits. Maximum counterparty/group exposures are limited to 15% of the Bank’s capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using external leading rating agencies have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines. The analysis of credit is given below:

35 Financial risk management (continued)

Credit risk (continued)

Geographical concentrations

	Assets			Liabilities		
	Gross loans advances and financing to banks RO'000	***Gross Loans Advances and financing to customers RO'000***	***Investment securities RO'000***	***Deposits from customers RO'000***	**Due to banks RO'000**	**Contingent liabilities RO'000**
31 December 2016						
Sultanate of Oman	***142,890***	***3,101,807***	***222,095***	***2,882,711***	**249,026**	**932,027**
Other GCC countries	***92,600***	***5,667***	***-***	***2,252***	***89,973***	**32,128**
Europe and North America	**60,011**	**-**	**32,676**	**5**	**-**	**45,695**
Africa and Asia	**44,968**	**-**	**-**	**221**	**11,550**	**36,098**
	340,469	**3,107,474**	**254,771**	**2,885,189**	**350,549**	**1,045,948**
31 December 2015						
Sultanate of Oman	43,270	2,819,983	185,944	2,589,322	63,017	708,184
Other GCC countries	26,577	7,941		2,276	197,722	39,897
Europe and North America	27,718	-	19,249	5	21,175	47,280
Sultanate of Oman	40,880	-	-	768	26,950	48,957
	138,445	2,827,924	205,193	2,592,371	308,864	844,318

(a) Customer concentrations

	Assets			Liabilities		
	Gross loans, Advances and financing to banks RO'000	**Gross Loans, Advances and financing to customers RO'000**	**Investment Securities RO'000**	**Deposits from customers RO'000**	**Due to banks RO'000**	**Contingent liabilities RO'000**
31 December 2016						
Personal	**-**	**1,393,700**	**-**	**601,045**	**-**	**195**
Corporate	**340,469**	**1,593,796**	**58,738**	**1,135,715**	**350,549**	**1,039,701**
Government	**-**	**119,978**	**196,033**	**1,148,429**	**-**	**6,052**
	340,469	**3,107,474**	**254,771**	**2,885,189**	**350,549**	**1,045,948**
31 December 2015						
Personal	-	1,362,625		604,342		445
Corporate	138,445	1,383,776	48,656	890,532	308,864	823,906
Government	-	81,523	156,537	1,097,497	-	19,967
	138,445	2,827,924	205,193	2,592,371	308,864	844,318

35 Financial risk management *(continued)*

Credit risk *(continued)*

(b) Economic sector concentrations

	Assets	Liabilities	
	Gross loans, advances and financing to customers RO'000	**Deposits from customers RO'000**	**Contingent Liabilities RO'000**
31 December 2016			
Personal	**1,393,700**	**601,045**	**195**
International trade	**128,205**	**43,645**	**38,312**
Construction	**564,320**	**140,291**	**487,567**
Manufacturing	**233,535**	**38,603**	**64,075**
Wholesale and retail trade	**38,513**	**8,841**	**28,607**
Communication and utilities	**45,487**	**2,025**	**87,453**
Financial services	**180,735**	**82,480**	**234,532**
Government	**119,978**	**1,148,429**	**6,052**
Other services	**169,095**	**153,137**	**73,795**
Others	**233,906**	**666,693**	**25,360**
	3,107,474	**2,885,189**	**1,045,948**
31 December 2015			
Personal	1,362,625	604,342	445
International trade	111,978	55,307	51,392
Construction	453,547	160,658	506,845
Manufacturing	221,150	43,450	46,780
Wholesale and retail trade	30,861	8,791	33,622
Communication and utilities	77,710	44,536	5,099
Financial services	137,453	77,022	70,294
Government	81,523	1,097,497	19,967
Other services	149,593	123,336	80,751
Others	201,484	377,432	29,123
	2,827,924	2,592,371	844,318

(c) Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2016 RO'000	2015 RO'000	**2016 RO'000**	2015 RO'000
Overdrafts	**146,303**	149,261	**154,004**	138,275
Loans	**2,431,536**	2,299,290	**2,360,079**	2,170,684
Loans against trust receipts	**113,992**	111,700	**115,204**	94,955
Bills discounted	**20,817**	6,867	**10,312**	3,671
Advance against credit cards	**7,746**	7,684	**7,724**	7,623
Advance against receivable	**75,522**	43,207	**61,563**	35,434
Islamic Banking Window financing	**311,558**	209,915	**264,214**	171,713
Total	**3,107,474**	2,827,924	**2,973,100**	2,622,355

35 Financial risk management *(continued)*

Credit risk *(continued)*

(d) Geographical distribution of exposures:

	Sultanate of Oman RO'000	**Other countries RO'000**	**Total RO'000**
31 December 2016			
Overdrafts	**146,303**	**-**	**146,303**
Loans	**2,426,306**	**5,230**	**2,431,536**
Loans against trust receipts	**113,992**	**-**	**113,992**
Bills discounted	**20,380**	**437**	**20,817**
Advance against credit cards	**7,746**	**-**	**7,746**
Others	**75,522**	**-**	**75,522**
Islamic Banking Window financing	**311,558**	**-**	**311,558**
	3,101,807	**5,667**	**3,107,474**
31 December 2015			
Overdrafts	149,261	-	149,261
Loans	2,294,169	5,121	2,299,290
Loans against trust receipts	111,670	30	111,700
Bills discounted	4,077	2,790	6,867
Advance against credit cards	7,684	-	7,684
Others	43,207	-	43,207
Islamic Banking Window financing	209,915	-	209,915
	2,819,983	7,941	2,827,924

35 Financial risk management *(continued)*

Credit risk *(continued)*

(e) Industry type distribution of exposures by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
31 December 2016						
Import trade	**12,214**	**92,741**	**-**	**15,258**	**120,213**	**29,792**
Export trade	**749**	**6,962**	**-**	**281**	**7,992**	**8,520**
Wholesale/retail trade	**10,243**	**25,179**		**3,091**	**38,513**	**28,607**
Mining and quarrying	**4,721**	**14,430**	**838**	**617**	**20,606**	**816**
Construction	**63,473**	**374,044**	**3,459**	**123,344**	**564,320**	**487,567**
Manufacturing	**13,358**	**171,658**	**7,356**	**41,163**	**233,535**	**64,075**
Electricity, gas and water	**207**	**29,955**	**-**	**5**	**30,167**	**80,532**
Transport and Communication	**831**	**14,489**	**-**	**-**	**15,320**	**6,921**
Financial institutions	**1,021**	**171,024**	**8,690**	**-**	**180,735**	**234,532**
Services	**20,854**	**147,119**	**-**	**1,122**	**169,095**	**73,795**
Personal loans	**3,223**	**1,382,937**	**-**	**7,540**	**1,393,700**	**195**
Agriculture and allied Activities	**3,927**	**8,496**	**37**	**1,735**	**14,195**	**2,052**
Government	**-**	**119,977**	**-**	**1**	**119,978**	**6,052**
Non-resident lending	**-**	**5,230**	**437**	**-**	**5,667**	**-**
Others	**11,482**	**178,853**	**-**	**3,103**	**193,438**	**22,492**
	146,303	**2,743,094**	**20,817**	**197,260**	**3,107,474**	**1,045,948**
31 December 2015						
Import trade	11,107	84,823	599	15,212	111,741	48,667
Export trade	185	37	-	15	237	2,725
Wholesale/retail trade	8,514	19,628	-	2,719	30,861	33,622
Mining and quarrying	4,166	22,501	388	18	27,073	1,291
Construction	72,622	303,019	318	77,588	453,547	506,845
Manufacturing	11,580	153,141	2,164	54,265	221,150	46,780
Electricity, gas and water	7	33,130	-	-	33,137	305
Transport and Communication	113	44,460	-	-	44,573	4,794
Financial institutions	6,286	130,559	608	-	137,453	70,294
Services	20,505	127,705	-	1,383	149,593	80,751
Personal loans	3,929	1,351,212	-	7,484	1,362,625	445
Agriculture and allied Activities	3,490	9,695	-	93	13,278	1,695
Government	-	81,523	-	-	81,523	22,927
Non-resident lending	-	5,151	2,790	-	7,941	22,811
Others	6,757	142,621	-	3,814	153,192	366
	149,261	2,509,205	6,867	162,591	2,827,924	844,318

35 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Residual contractual maturities of the portfolio by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
31 December 2016						
Upto 1 month	**7,315**	**36,450**	**20,817**	**1,378**	**65,960**	**405,945**
1 - 3 months	**7,315**	**193,788**	**-**	**7,722**	**208,825**	**43,447**
3 - 6 months	**7,315**	**36,916**	**-**	**5,607**	**49,838**	**35,652**
6 - 9 months	**7,315**	**5,575**	**-**	**11,978**	**24,868**	**19,917**
9 - 12 months	**7,315**	**308**	**-**	**16,152**	**23,775**	**23,515**
1 - 3 years	**36,576**	**147,750**	**-**	**84,913**	**269,239**	**202,547**
3 – 5 years	**36,576**	**138,529**	**-**	**9,942**	**185,047**	**249,092**
Over 5 years	**36,576**	**2,183,778**	**-**	**59,568**	**2,279,922**	**65,833**
	146,303	**2,743,094**	**20,817**	**197,260**	**3,107,474**	**1,045,948**
31 December 2015						
Upto 1 month	7,463	49,766	6,867	4,276	68,372	382,814
1 - 3 months	7,463	86,512	-	3,489	97,464	49,263
3 - 6 months	7,463	30,638	-	4,605	42,706	43,513
6 - 9 months	7,463	3,914	-	6,740	18,117	28,831
9 - 12 months	7,463	11,750	-	10,316	29,529	17,297
1 - 3 years	37,315	143,185	-	71,395	251,895	176,540
3 – 5 years	37,315	149,363	-	18,199	204,877	112,296
Over 5 years	37,316	2,034,077		43,571	2,114,964	33,764
	149,261	2,509,205	6,867	162,591	2,827,924	844,318

35 Financial risk management *(continued)*

Credit risk *(continued)*

(g) Distribution of impaired loans, past due and not past due loans by type of industry:

	Performing loans RO'000	Non-performing loans RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision during the year RO'000	Advances written off during the year RO'000
31 December 2016							
Import trade	**110,756**	**9,457**	**1,150**	**1,262**	**7,808**	**7**	**-**
Export trade	**7,987**	**5**	**71**	**4**	**2**	**-**	**-**
Wholesale/retail trade	**14,897**	**23,616**	**182**	**4,937**	**18,829**	**3**	**-**
Mining and quarrying	**20,599**	**7**	**207**	**878**	**3**	**299**	**-**
Construction	**561,106**	**3,214**	**5,688**	**4,128**	**2,442**	**3,846**	**-**
Manufacturing	**233,306**	**229**	**2,444**	**75**	**154**	**-**	**42**
Electricity, gas and water	**30,159**	**8**	**316**	**-**	**7**	**-**	**-**
Transport and communication	**15,320**	**-**	**160**	**-**	**-**	**-**	**-**
Financial institutions	**180,734**	**1**	**1,897**	**-**	**-**	**-**	**-**
Services	**168,611**	**484**	**1,693**	**140**	**159**	**61**	**-**
Personal loans	**1,353,687**	**40,013**	**24,485**	**21,143**	**9,210**	**11,379**	**87**
Agriculture and allied activities	**14,184**	**11**	**148**	**7**	**3**	**-**	**-**
Government	**119,978**	**-**	**1,259**	**-**	**-**	**-**	**-**
Non-resident lending	**437**	**5,230**	**6**	**4,429**	**910**	**-**	**-**
Others	**192,378**	**1,060**	**1,994**	**539**	**113**	**410**	**-**
	3,024,139	**83,335**	**41,700**	**37,542**	**39,640**	**16,005**	**129**
31 December 2015							
Import trade	103,406	8,335	1,241	1,260	6,674	8	32
Export trade	232	5	2	3	1	-	-
Wholesale/retail trade	9,804	21,057	98	4,934	16,254	2	27
Mining and quarrying	27,069	4	271	580	2	578	2
Construction	450,805	2,742	4,508	528	2,180	18	21
Manufacturing	220,734	416	2,208	182	235	1	7
Electricity, gas and water	33,130	7	331	-	5	-	1
Transport and communication	44,573	-	446	-	-	-	1
Financial institutions	137,453	-	1,367	-	-	-	-
Services	149,362	231	1,494	86	131	2	63
Personal loans	1,335,946	26,679	23,215	14,848	7,478	8,073	730
Agriculture and allied activities	13,268	10	133	7	3	-	-
Government	81,523	-	815	-	-	-	-
Non-resident lending	2,820	5,121	28	4,429	696	-	-
Others	152,868	324	1,635	161	149	40	6
	2,762,993	64,931	37,792	27,018	33,808	8,722	890

35 Financial risk management *(continued)*

Credit risk *(continued)*

(h) Distribution of impaired loans and gross loans by geographical distribution:

	Gross loans and financing to customers RO'000	Non-performing loans and financing RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision made during the year RO'000	Advances written off during the year RO'000
31 December 2016							
Sultanate of Oman	**3,101,807**	**78,105**	**41,694**	**33,113**	**38,730**	**16,005**	**129**
Other countries	**5,667**	**5,230**	**6**	**4,429**	**910**	**-**	**-**
	3,107,474	**83,335**	**41,700**	**37,542**	**39,640**	**16,005**	**129**
31 December 2015							
Sultanate of Oman	2,819,983	59,810	37,764	22,589	33,112	8,722	890
Other countries	7,941	5,121	28	4,429	696	-	-
	2,827,924	64,931	37,792	27,018	33,808	8,722	890

(i) Maximum exposure to credit risk without consideration of collateral held:

	2016 RO' 000	2015 RO' 000
Treasury bills	**28,875**	39,236
Loans, advances and financing to banks	**340,060**	138,036
Loan, advances and financing to customers	**2,988,592**	2,729,306
Government development bonds	**179,670**	120,155
	3,537,197	3,026,733
Off-balance sheet items		
Financial guarantees	**890,145**	679,548
	4,427,342	3,706,281

At 31 December 2016, impairment losses would have increased by RO 1,553,000 (2015: 1, 080,000) had collateral not been obtained by the Bank for the impaired loans and advances.

35. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities that are settled by delivering cash or another financial asset as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed off in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date.

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provide the liquidity gap to Treasury Department to meet liquidity gaps.

35 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2016						
Cash and balances with Central Bank of Oman	265,389	-	-	-	500	265,889
Loans and advances to banks	93,107	178,227	58,971	9,755	-	340,060
Loans and advances to customers	302,854	335,752	170,409	742,836	1,436,741	2,988,592
Available-for-sale investments	-	-	19,675	16,561	-	36,236
Held-to-maturity investments	9,615	19,250	12,251	89,523	87,896	218,535
Intangible asset	-	-	-	-	1,589	1,589
Property and equipment	-	-	-	-	8,328	8,328
Other assets	17,540	67,387	480	60	7,347	92,814
Total assets	688,505	600,616	261,786	858,735	1,542,401	3,952,043
Due to banks	68,708	81,641	200,200	-	-	350,549
Deposits from customers	361,007	457,994	434,291	1,027,239	604,658	2,885,189
Other liabilities	38,239	79,003	1,298	6,707	3,183	128,430
Subordinated loans	-	-	-	53,875	-	53,875
Total equity	-	47,622	-	115,500	370,878	534,000
Total liabilities and shareholders' equity	467,954	666,260	635,789	1,203,321	978,719	3,952,043

35 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

	Due on demand and up to 30 days RO’000	More than 1 month to 6 months RO’000	More than 6 months to 12 months RO’000	More than 1 year to 5 years RO’000	Over 5 years RO’000	Total RO’000
31 December 2015						
Cash and balances with Central Bank of Oman	439,333	-	-	-	500	439,833
Loans and advances to banks	59,874	29,323	28,729	20,110	-	138,036
Loans and advances to customers	201,330	316,280	127,884	699,309	1,384,503	2,729,306
Available-for-sale Investments	-	-	19,209	16,593	-	35,802
Held-to-maturity Investments	39,235	-	7,239	113,655	9,262	169,391
Intangible asset	-	-	-	-	1,986	1,986
Property and equipment	-	-	-	-	8,795	8,795
Other assets	5,796	45,535	14,238	4	4,339	69,912
Total assets	745,568	391,138	197,299	849,671	1,409,385	3,593,061
Due to banks	174,114	-	38,500	96,250	-	308,864
Deposits from customers	230,813	422,420	379,881	721,279	837,978	2,592,371
Other liabilities	32,664	51,910	15,187	10,638	1,023	111,422
Subordinated loans	-	-	50,000	25,000	28,875	103,875
Total equity	-	46,765	-	-	429,764	476,529
Total liabilities and shareholders’ equity	437,591	521,095	483,568	853,167	1,297,640	3,593,061

35 Financial risk management *(continued)*

Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

(a) Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Rial Omani. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The foreign currency exposures are given below:

Foreign currency exposures

	2016	2015
	RO'000	RO'000
Net assets denominated in US Dollars	**22,165**	131,257
Net assets denominated in other foreign currencies	**4,845**	10,843
	27,010	142,100

(b) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Management Committee of the Board. Impact on earnings due to interest rate risk in the banking book is as follows:

Impact on earnings due to interest rate risk in the banking book

	+ or – 1%		**+ or – 2%**	
	2016	2015	**2016**	2015
	RO'000	RO'000	**RO'000**	RO'000
Omani Rials	**7,829**	7,327	**15,658**	14,654
US Dollars	**4,971**	2,599	**9,942**	5,199
Others currencies	**149**	144	**298**	288
Others currencies	**12,949**	10,070	**25,898**	20,141

35 Financial risk management *(continued)*

Market risk *(continued)*

(b) Interest rate risk *(continued)*

Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2016								
Cash and balances with Central Bank of Oman	0.05%	104,009	-	-	-	500	161,380	265,889
Loans, advances and financing to banks	1.0%	95,582	243,103	-	-	-	1,375	340,060
Loans, advances and financing to customers	5.2%	557,530	1,067,794	104,217	684,477	574,574	-	2,988,592
Available-for-sale Investments	4.84%	-	-	-	16,561	-	19,675	36,236
Held-to-maturity investments	2.5%	9,615	19,250	12,251	89,523	87,896	-	218,535
Intangible asset		-	-	-	-	-	1,589	1,589
Property and equipment		-	-	-	-	-	8,328	8,328
Other assets		-	-	-	-	-	92,814	92,814
Total assets		766,736	1,330,147	116,468	790,561	662,970	285,161	3,952,043
Due to banks	1.7%	314,338	36,211	-	-	-	-	350,549
Deposits from customers	1.8%	208,345	337,152	428,310	853,439	30,110	1,027,833	2,885,189
Other liabilities		-	-	-	-	-	128,430	128,430
Subordinated loan	5.3%	-	-	-	53,875	-	-	53,875
Shareholders' equity		-	47,622	-	115,500	-	370,878	534,000
Total liabilities and equity		522,683	420,985	428,310	1,022,814	30,110	1,527,141	3,952,043
On-balance sheet gap		244,053	909,162	(311,842)	(232,253)	632,860	(1,241,980)	
Cumulative interest sensitivity gap		244,053	1,153,215	841,373	609,120	1,241,980		

35 Financial risk management *(continued)*

(b) Interest rate risk *(continued)*

Interest rate sensitivity gap *(continued)*

31 December 2015	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	0.1%	170,170	-	-	-	500	269,163	439,833
Loans and advances to banks	1.0%	65,561	72,475	-	-	-	-	138,036
Loans and advances to customers	5.1%	201,330	316,280	127,884	699,309	1,384,503	-	2,729,306
Available-for-sale Investments	5.0%	-	-	-	16,593	-	19,209	35,802
Held-to-maturity investments	1.9%	39,235	-	7,239	113,655	9,262	-	169,391
Intangible asset		-	-	-	-	-	1,986	1,986
Property and equipment		-	-	-	-	-	8,795	8,795
Other assets		-	-	-	-	-	69,912	69,912
Total assets		476,296	388,755	135,123	829,557	1,394,265	369,065	3,593,061
Due to banks	0.7%	172,425	38,500	-	96,250	-	1,689	308,864
Deposits from customers	1.3%	116,475	313,621	369,546	650,723	45,164	1,096,842	2,592,371
Other liabilities		-	-	-	-	-	111,422	111,422
Subordinated loan	5.3%	-	-	50,000	25,000	28,875	-	103,875
Shareholders' equity		-	46,765	-	-	115,500	314,264	476,529
Total liabilities and equity		288,900	398,886	419,546	771,973	189,539	1,524,217	3,593,061
On-balance sheet gap		187,396	(10,131)	(284,423)	57,584	1,204,726	(1,155,152)	
Cumulative interest sensitivity gap		187,396	177,265	(107,158)	(49,574)	1,155,152		

35. Financial risk management *(continued)*

Market risk *(continued)*

(c) Investment Price risk

Bank is exposed to the volatility in the prices of the securities held under equity and debt portfolio. Equity and debt investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity and debt investments. However, Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments to statement of comprehensive income.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity and debt risk exposure.

If price for listed equity and debt instruments had been 5% lower:

If there is adverse impact of 5% on equity portfolio, the value of the portfolio may decrease by RO 960,680. (2015: decrease by RO 712,000).

If price for unlisted equity and debt instruments had been 5% lower:

The financial statements include holdings in unlisted shares and bonds which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the unlisted shares and bonds would decrease / increase by RO 23,065 (2015: decrease / increase by RO 248,000).

Operational risk

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events leading to financial/ non-financial losses for the Bank. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Risk Management Committee (RMC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The RMC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2016, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

Taking the New Capital Accord Implementation as an opportunity, the Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. The Bank has also set up Operational Risk Management Software to aid assessment of operational risk as well as collection and analysis of operational losses and key risk indicators.

35. Financial risk management *(continued)*

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the extant controls were reviewed. With the completion of the RCSA exercise, risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments in conventional banking have been identified and are being monitored on monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on regular basis and is presented to the Management and Board level committees. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on “Potential Losses” has also been introduced. Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has a potential of adversely impacting Bank’s bottom-line.

Operational Risk Unit (ORU) in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division (RMD) conducts regular training programs for staff at various levels to inculcate ‘risk awareness’ and to spread the general ‘risk management culture’ in the Bank. Professional training in diversified forms is also imparted to improve the employees’ risk management skills.

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.
- Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.
- Bank wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment’s, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

35 Financial risk management *(continued)*

- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.

- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has put in place Internal Capital Adequacy Assessment Process (ICAAP) with an objective to explain the Risk policies adopted, Risk policy principles, Target risk structure and Capital planning, the process of assessing the capital adequacy for all the three risks viz., Credit Risk, Market Risk and Operational Risk, Specific assessment procedures for all material risks like interest rate risk in banking book, reputational risk, credit concentration risk etc, the process of Internal Control Mechanism and the stress testing methodologies adopted by the Bank.

As a part of capital planning process, ICAAP provides a detailed assessment of its current capital adequacy, and also project future capital requirement to meet the regulatory capital adequacy ratios in line with approved business plans. The process covers a forward looking plan for the next 3 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. ICAAP is approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The capital planning is reviewed on half yearly basis and the entire ICAAP document is updated at least annually for a forward-looking planning period of 3 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, scenario and sensitivity analysis is also carried out. The scenario analysis entails boom in the economy & rise in oil prices, Decline in GDP due to economic downturn or due to decline in oil prices and capital adequacy sensitivity due to increase & decrease in growth of loans and advances. Besides this, Bank also conducts stress testing to assess the potential impact of the stress situations on the Bank's earnings & capital position and enable the Bank to understand its risk profile & adjusting it in accordance with the risk appetite.

36 Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year.

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 17, and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings and Perpetual Tier I Capital securities, as disclosed in notes 18 to 21.

36 Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2016 is 14.41% (2015: 14.70%).

Capital structure	**2016 RO'000**	2015 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**189,920**	154,473
Legal reserve	**45,176**	40,214
Share premium	**59,618**	40,018
Special reserve	**18,488**	18,488
Subordinated loan reserve	**31,550**	62,025
Retained earnings	**32,406**	6,866
Proposed bonus shares	**14,244**	15,447
CET I/Tier I Capital	**391,402**	337,531
Additional Tier I regulatory adjustments:		
Deferred tax Assets	**(62)**	(62)
Goodwill	**(1,589)**	(1,986)
Negative investment revaluation reserve	**(196)**	(804)
Total CET 1 capital	**389,555**	334,679
Additional Tier I capital (AT1)	**115,500**	115,500
Total Tier 1 Capital (T1=CET1+AT1)	**505,055**	450,179
TIER II CAPITAL		
Investment revaluation reserve	**682**	444
General provision	**42,109**	38,201
Subordinated loan	**22,325**	33,100
Total Tier II capital	**65,116**	71,745
Total eligible capital	**570,171**	521,924
Risk weighted assets		
Banking book	**3,674,545**	3,239,902
Trading book	**56,817**	111,079
Operational risk	**224,316**	198,703
Total	**3,955,678**	3,549,684
Total Tier 1 Capital (T1=CET1+AT1)	**505,055**	450,179
Tier II capital	**65,116**	71,745
Tier III capital	**-**	-
Total regulatory capital	**570,171**	521,924
Common Equity Tier 1 ratio	**9.85%**	9.43%
Tier I capital ratio	**12.77%**	12.68%
Total capital ratio	**14.41%**	14.70%

37 Segmental information

The Bank is organised into three main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and
3) Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and borrowings.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

At 31 December 2016	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**79,782**	**70,000**	**4,528**	**154,310**
Other revenues	**6,074**	**11,557**	**12,060**	**29,691**
Segment operating revenues	**85,856**	**81,557**	**16,588**	**184,001**
Interest, Islamic Window Deposit expenses	**(21,088)**	**(28,355)**	**(7,207)**	**(56,650)**
Net operating income	**64,768**	**53,202**	**9,381**	**127,351**
Segment cost				
Operating expenses including depreciation	**(27,872)**	**(25,272)**	**(3,623)**	**(56,767)**
Impairment for loans and investment net recoveries from allowance for loans impairment	**(7,696)**	**(6,866)**	**(1,593)**	**(16,155)**
Profit from operations after provision	**29,200**	**21,064**	**4,165**	**54,429**
Tax expenses	**(3,653)**	**(2,635)**	**(519)**	**(6,807)**
Net profit for the year	**25,547**	**18,429**	**3,646**	**47,622**
Segment assets	**1,463,020**	**1,851,082**	**757,232**	**4,071,334**
Less: Impairment allowance	**(54,838)**	**(64,044)**	**(409)**	**(119,291)**
Total segment assets	**1,408,182**	**1,787,038**	**756,823**	**3,952,043**
Segment liabilities	**1,050,501**	**1,962,844**	**404,698**	**3,418,043**

37 Segmental information *(continued)*

Included in the above segment information the results of Islamic Banking Window as below:

At 31 December 2016	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**5,100**	**7,661**	**13**	**12,774**
Other revenues	**105**	**673**	**1,201**	**1,979**
Segment operating revenues	**5,205**	**8,334**	**1,214**	**14,753**
Profit expenses share of profit	**(307)**	**(4,940)**	**(653)**	**(5,900)**
Net operating income				
Segment cost	**4,898**	**3,394**	**561**	**8,853**
Operating expenses including depreciation	**(1,723)**	**(2,445)**	**(917)**	**(5,085)**
Impairment allowance	**(234)**	**(353)**	**-**	**(587)**
Net profit for the year	**2,941**	**596**	**(356)**	**3,181**
Segment assets	**127,480**	**191,598**	**134,645**	**453,723**
Less: Impairment allowance	**(1,399)**	**(1,618)**	**-**	**(3,017)**
Total segment assets	**126,081**	**189,980**	**134,645**	**450,706**
Segment liabilities	**9,136**	**270,321**	**97,034**	**376,491**

At 31 December 2015	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	69,854	53,602	2,400	125,856
Other revenues	7,262	10,268	7,489	25,019
Segment operating revenues	77,116	63,870	9,889	150,875
Interest, Islamic Window Deposit expenses	(12,768)	(15,895)	(6,986)	(35,649)
Net operating income	64,348	47,975	2,903	115,226
Segment cost				
Operating expenses including depreciation	(25,382)	(22,469)	(3,348)	(51,199)
Impairment for loans and investment net recoveries from allowance for loans impairment	(7,906)	(908)	(2,712)	(11,526)
Profit from operations after provision	31,060	24,598	(3,157)	52,501
Tax expenses	(3,394)	(2,687)	345	(5,736)
Net profit for the year	27,666	21,911	(2,812)	46,765
Segment assets	1,484,651	1,659,290	548,147	3,692,088
Less: Impairment allowance	(45,542)	(53,076)	(409)	(99,027)
Total segment assets	1,439,109	1,606,214	547,738	3,593,061
Segment liabilities	987,119	1,707,445	421,968	3,116,532

37 Segmental information *(continued)*

Included in the above segment information the results of Islamic Banking Window as below:

At 31 December 2015	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	3,348	4,330	5	7,683
Other revenues	169	343	659	1,171
Segment operating revenues	3,517	4,673	664	8,854
Profit expenses	(134)	(1,659)	(161)	(1,954)
	3,383	3,014	503	6,900
Net operating income				
Segment cost				
Operating expenses including depreciation	(1,479)	(1,914)	(2)	(3,395)
Impairment allowance	(553)	(383)	-	(936)
Net profit for the year	1,351	717	501	2,569
Segment assets	94,576	117,277	89,981	301,834
Less: Impairment allowance	(1,165)	(1,265)	-	(2,430)
	93,411	116,012	89,981	299,404
Total segment assets	17,591	169,514	63,446	250,551

38 Proposed dividend

The Board of Directors in their meeting held on 25 January 2017 proposed a cash dividend of – 13.5% (2015: 15%) for the year ended 31 December 2016 amounting to RO 25.64 million (2015: RO 23.17 million) and a bonus share issue of 7.5% (2015: 10%) amounting to 142,440,105 shares (2015: 154,472,855 shares) of RO 0.100 each.

During the year, unclaimed dividend amounting to RO 11,446 (2015: RO 4,647) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

FINANCIAL STATEMENTS

31 DECEMBER 2016

Registered office and principal place of business:

Head office, Ground Floor, Al Sahwa Tower – 1
P.O. Box 1792
PC 130
Azaiba, Muscat
Sultanate of Oman

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Statement of Financial Position
At 31 December 2016

2016 **USD 000**	2015 *USD 000*		*Note*	**2016** ***RO 000***	2015 *RO 000*
		Assets			
101,166	79,122	Cash and balances with Central Bank of Oman	5	**38,949**	30,462
177,545	84,278	Due from banks and financial institutions	6	**68,355**	32,447
25,223	33,387	Murabaha and other receivables	7	**9,711**	12,854
63,917	30,239	Mudaraba financing	8	**24,608**	11,642
616,868	391,039	Diminishing Musharaka financing	9	**237,494**	150,550
43,016	43,099	Investments at fair value through equity	10	**16,561**	16,593
25,974	25,974	Investment at amortised cost	11	**10,000**	10,000
95,397	84,257	Ijarah Muntahia Bittamleek	12	**36,728**	32,439
3,829	3,138	Property and equipment	13	**1,474**	1,208
17,730	3,140	Other assets	14	**6,826**	1,209
1,170,665	777,673	**Total assets**		**450,706**	299,404
		Liabilities, equity of investment accountholders and owners' equity			
		Liabilities			
103,600	127,338	Current accounts		**39,886**	49,025
206,078	135,909	Due to Head office and other banks	15	**79,340**	52,325
45,247	26,564	Qard Hasan from Head office	16	**17,420**	10,227
598,842	350,930	Customer Wakala deposits		**230,554**	135,108
24,132	10,042	Other liabilities	17	**9,291**	3,866
977,899	650,783	**Total liabilities**		**376,491**	250,551
39,582	20,849	**Equity of investment accountholders**	18	**15,239**	8,027
		Owners' equity			
142,857	103,896	Capital	19	**55,000**	40,000
514	595	Reserves		**198**	229
9,813	1,550	Retained Earnings		**3,778**	597
153,184	106,041	**Total owners' equity**		**58,976**	40,826
1,170,665	777,673	**Total liabilities, equity of investment accountholders and owners' equity**		**450,706**	299,404
26,413	38,509	**Contingent liabilities and commitments**	26	**10,169**	14,826

The Financial statements were approved by the Board of Directors on 25 January 2017 and signed on their behalf by

Chairman

Chief Islamic Banking Officer

The attached notes 1 to 31 form part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Statement of income
For the year ended 31 December 2016

2016	2015		Note	2016	2015
USD 000	*USD 000*	**Income**		***RO 000***	*RO 000*
35,958	21,501	Income from Islamic finances and investments	21	**13,844**	8,278
34	13	Income on Wakala placements		**13**	5
35,992	21,514			**13,857**	8,283
		Less:			
(309)	(216)	Return on equity of investment accountholders		**(119)**	(83)
(13,319)	(4,441)	Return on customer Wakala deposits		**(5,128)**	(1,710)
(1,696)	(418)	Return on interbank Wakala deposit		**(653)**	(161)
(15,324)	(5,075)			**(5,900)**	(1,954)
20,668	16,439	**Maisarah's share in income from investment as a Mudarib and Rabul Maal**		**7,957**	6,329
2,127	1,332	Revenue from banking services		**819**	513
200	151	Foreign exchange gain – net		**77**	58
22,995	17,922	**Total revenue**		**8,853**	6,900
(8,779)	(5,849)	Staff costs	22	**(3,380)**	(2,252)
(3,449)	(2,309)	General and administrative expenses	23	**(1,328)**	(889)
(1,525)	(2,431)	Provision for financing impairment	24	**(587)**	(936)
(979)	(660)	Depreciation	13	**(377)**	(254)
(14,732)	(11,249)	**Total expenses**		**(5,672)**	(4,331)
8,263	6,673	**Profit for the year before taxation**		**3,181**	2,569

The attached notes 1 to 31 form part of these financial statements.

Statement of changes in owners' equity
For the year ended 31 December 2016

	31 December 2016			
	Capital	**Investment revaluation Reserve**	**Retained earnings**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Balance at 1 January 2016	**40,000**	**229**	**597**	**40,826**
Profit for the year	**-**	**-**	**3,181**	**3,181**
Cumulative changes in fair value	**-**	**(31)**	**-**	**(31)**
	40,000	**198**	**3,778**	**43,976**
Addition of capital during the year	**15,000**	**-**	**-**	**15,000**
Balance as at 31 December 2016	**55,000**	**198**	**3,778**	**58,976**

	31 December 2016			
	Capital	**Investment revaluation Reserve**	**Retained earnings**	**Total**
	USD 000	***USD 000***	***USD 000***	***USD 000***
Balance at 1 January 2016	**103,986**	**595**	**1,550**	**106,041**
Profit for the year	**-**	**-**	**8,263**	**8,263**
Cumulative changes in fair value	**-**	**(81)**	**-**	**(81)**
	103,986	**514**	**9,813**	**114,223**
Addition of capital during the year	**38,961**	**-**	**-**	**38,961**
Balance as at 31 December 2016	**142,857**	**514**	**9,813**	**153,184**

The attached notes 1 to 31 form part of these financial statements.

Statement of changes in owners' equity
For the year ended 31 December 2016

	31 December 2015			
	Capital *RO 000*	Investment revaluation Reserve *RO 000*	Retained earnings / (accumulated losses) *RO 000*	Total *RO 000*
Balance at 1 January 2015	25,000	198	(1,972)	23,226
Profit for the year	-	-	2,569	2,569
Cumulative changes in fair value	-	31	-	31
	25,000	229	597	25,826
Addition of capital during the year	15,000	-	-	15,000
Balance as at 31 December 2015	40,000	229	597	40,826

	31 December 2015			
	Capital *USD 000*	Investment revaluation Reserve *USD 000*	Retained earnings / (accumulated losses) *USD 000*	Total *USD 000*
Balance at 1 January 2015	64,935	513	(5,123)	60,325
Profit for the year	-	-	6,673	6,673
Cumulative changes in fair value	-	82	-	82
	64,935	595	1,550	67,080
Addition of capital during the year	38,961	-	-	38,961
Balance as at 31 December 2015	103,986	595	1,550	106,041

The attached notes 1 to 31 form part of these financial statements.

Statement of sources and uses of charity fund
For the year ended 31 December 2016

2016	2015		**2016**	2015
USD 000	*USD 000*		***RO 000***	*RO 000*
		Sources of charity funds		
18	**-**	Undistributed charity funds at beginning of the year	**7**	-
397	**18**	Shari'a non-compliant income	**153**	7
-	**-**	Donations	**-**	-
415	**18**	Total sources of funds during the year	**160**	7
		Uses of charity funds		
-	**-**	University and school students	**-**	-
(18)	**-**	Health related organizations	**(7)**	-
-	**-**	Aid to needy families	**-**	-
(18)	**-**	Total uses of funds during the year	**(7)**	-
397	**18**	Undistributed charity funds at end of the year	**153**	7

The attached notes 1 to 31 form part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Statement of cash flows
For the year ended 31 December 2016

2016	2015		**2016**	2015
USD 000	*USD 000*		***RO 000***	*RO 000*
		Cash flows from operating activities		
8,263	6,673	Profit for the year	**3,181**	2,569
		Adjustments for:		
979	660	Depreciation	**377**	254
3,704	3,192	Depreciation on Ijarah assets	**1,426**	1,229
1,525	2,431	Provision for financing impairment	**587**	936
2	-	Investment risk reserve	**1**	-
5	5	Profit equalization reserve	**2**	2
14,478	12,961	**Operating profit before changes in operating assets and liabilities**	**5,574**	4,990
		Operating assets and liabilities:		
8,226	19,506	Murabaha and other receivables	**3,167**	7,510
(18,062)	(16,262)	Ijarah Muntahia Bittamleek assets	**(6,954)**	(6,261)
3,223	4,275	Proceeds from sale of Ijarah Muntahia Bittamleek assets	**1,241**	1,646
(227,112)	(185,771)	Diminishing Musharaka financing	**(87,438)**	(71,522)
(33,987)	(24,631)	Mudaraba financing	**(13,085)**	(9,483)
(1,758)	(1,273)	Other asset	**(677)**	(490)
1,336	3,213	Other liabilities	**515**	1,237
16,938	(19,343)	Qard Hasan from Head Office	**6,521**	(7,447)
(236,718)	(207,325)	**Net cash used in operating activities**	**(91,136)**	(79,820)
		Cash flows from investing activities		
-	(16,530)	Purchase of investments at fair value through equity	**-**	(6,364)
-	(25,974)	Purchase of investment at amortised cost	**-**	(10,000)
-	(42,504)	**Net cash used in investing activities**	**-**	(16,364)
		Cash flows from financing activities		
(23,738)	88,239	Current account	**(9,139)**	33,972
10,000	-	Due to banks and financial institutions	**3,850**	-
247,912	162,034	Customer Wakala deposit	**95,446**	62,383
18,725	(3,130)	Unrestricted investment accountholders	**7,209**	(1,205)
38,961	38,961	Capital	**15,000**	15,000
291,860	286,104	**Net cash from financing activities**	**112,366**	110,150
55,142	36,275	**Cash and cash equivalents during the year**	**21,230**	13,966
27,491	(8,784)	**Cash and cash equivalents at the beginning of the year**	**10,584**	(3,382)
82,633	27,491	**Cash and cash equivalents at the end of the year**	**31,814**	10,584
		Cash and cash equivalents at the end of the year comprise:		
101,166	79,122	Cash and balances with CBO	**38,949**	30,462
177,545	84,278	Due from banks and financial institutions	**68,355**	32,447
(196,078)	(135,909)	Due to Head office and other banks	**(75,490)**	(52,325)
82,633	27,491		**31,814**	10,584

The attached notes 1 to 31 form part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2016

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services (“Maisarah”) was established in Sultanate of Oman as window of Bank Dhofar SAOG. Maisarah’s operations commenced on 3 March 2013 and it currently operates through 10 branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principle activities of Maisarah is taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing and other Shari’a compliant forms of financing as well as managing investor’s money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah’s activities are regulated by the Central Bank of Oman (“CBO”) and supervised by Shari’a Supervisory Board (“SSB”) comprising of five members.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the SSB of Maisarah and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards (“IFRS”) or International Accounting Standards (“IAS”) as issued by International Accounting Standards Board (“IASB”).

Statement of changes in restricted investment amount, statement of sources of funds in zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah’s operations.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value through equity.

2.3 Functional and presentation currency

Items included in Maisarah’s financial statements are measured using Rials Omani (“RO”) which is the currency of the primary economic environment in which Maisarah operates. All financial information presented in Rial Omani has been rounded to the nearest thousands, unless mentioned otherwise.

Notes to the financial statements
For the year ended 31 December 2016

2 BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with AAOIFI and IFRS requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 4.

2.5 New standards, interpretations and amendments

For the year ended 31 December 2016, the Islamic window has adopted all of the amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2016.

The adoption of these standards has not resulted in changes to the Islamic Window accounting policy and has not affected the amounts reported for the current and prior periods.

Standards issued but not yet effective

There are no new standards issued by AAOIFI during the period which may impact the financial statements of the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of income.

Notes to the financial statements
For the year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Investments

Equity and debt type instruments at fair value through equity

This includes all equity and debt type instruments that are not fair valued through statement of income. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of unrestricted investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in statement of income.

3.3 De-recognition of financial assets and liabilities

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

(i) the right to receive cash flows from the asset has expired;
(ii) Maisarah has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
(iii) A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

3.4 Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Maisarah establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

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

3.5 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash in hand, balances with central bank (excluding mandatory reserves) and due from/ to banks and financial institutions with an original maturity of ninety days or less.

3.6 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari’a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

Notes to the financial statements
For the year ended 31 December 2016

3.7 Murabaha and other receivables

Murabaha receivables are stated net of deferred profits, any amounts written off and provision for doubtful debts, if any.

In Murabaha transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis.

Murabaha receivables are sales on deferred payment terms. The Bank arranges a Murabaha transaction by buying goods (which represents the object of the Murabaha) and then sells these goods to Customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in instalments by the Customer over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

Other receivables include credit card receivable which is based on the Islamic financial principle of profit-free Qard Hasan.

3.8 Mudaraba

Mudaraba is stated at the fair value of consideration given less any impairment.

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-maal) and the other party provides labour (Mudarib).

In case mudaraba capital is lost or damaged without misconduct or negligence on the part of mudarib, then such losses are deducted from mudaraba capital and are treated as loss to the Bank. In case of termination or liquidation, unpaid portion by mudarib is recognised as receivable due from mudarib.

3.9 Diminishing Musharaka

Diminishing Musharaka is a contract, based on *Shirkat-ul-Mulk,* between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value). The use of Bank's share to the customer is based on an Ijarah agreement. Diminishing Musharaka is stated at the fair value of the consideration given, less any impairment.

3.10 Ijarah Muntahia Bittamleek assets

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation will be calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

Notes to the financial statements
For the year ended 31 December 2016

3.11 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work-in-progress, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

	Years
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 5
Computer equipment	4
Core banking system	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.
Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to statement of income when the expense is incurred. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in statement of income as an expense when incurred.

3.12 Equity of investment accountholders

Equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the equity of investment accountholders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from equity of investment accountholders is deducted as Mudarib' s share after deducting profit equalisation reserve and the remaining amount is distributed to the equity of investment accountholders after deducting investment risk reserve.

3.13 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to equity of investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for equity of investment accountholders.

3.14 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib' s share, to cater against future losses for equity of investment accountholders.

Notes to the financial statements
For the year ended 31 December 2016

3.15 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

3.16 Earnings prohibited by Shari'a

All the funds mobilized and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Shari'a compliant sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari'a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.17 Zakah

The responsibility of payment of zakah is on individual shareholders and investment accountholders.

3.18 Joint and self-financed

Investments, financing and receivables that are jointly owned by Maisarah and the equity of investment accounts holders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by Maisarah are classified under "self-financed".

3.19 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

3.20 Revenue recognition

3.20.1 Murabaha receivables

Profit from Murabaha receivables is recognised on time apportioned basis from the date of Murabaha contract. Income related to non-performing accounts is excluded from statement of income.

3.20.2 Diminishing Musharaka (DM) Financing

'Income from Diminishing Musharaka is recognised when Bank's right to receive payment is established. The right to receive payment is established when a customer enters into an Ijarah agreement for acquiring Bank's ownership in the fixed asset. Income related to non-performing accounts is excluded from statement of income.

3.20.3 Mudaraba financing

Income on Murdaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to statement of income on declaration by the Mudarib. Income related to non-performing accounts is excluded from statement of income.

Notes to the financial statements
For the year ended 31 December 2016

3.20 Revenue recognition *(continued)*

3.20.4 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from statement of income.

3.20.5 Dividends

Dividends are recognised when the right to receive payment is established.

3.20.6 Fee and Commission income

Fee and commission income is recognised when earned.

3.20.7 Maisarah's share as a Mudarib

Maisarah's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

3.20.8 Income allocation

Income from jointly financed activities is allocated proportionately between equity of investment accountholders in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

3.21 Taxation

Maisarah is Islamic Banking Window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accounted for as per IFRS.

3.22 Employees' end of service benefits

End of service benefits are accrued in accordance with the terms of employment of Maisarah's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognized when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognized as an expense in statement of income as incurred.

Notes to the financial statements
For the year ended 31 December 2016

3.23 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

Sr. No.	Name	Title
1	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman
2	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member
3	Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member
4	Sheikh Dr. Abdullah bin Mubarak Al Abri	Member
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member

3.24 Trade date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. that date Maisarah commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

3.25 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. Maisarah's main business segments are retail banking, corporate banking, treasury and investments.

3.26 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of Maisarah in the statement of financial position.

Notes to the financial statements
For the year ended 31 December 2016

4 Critical Accounting Judgment And Key Sources Of Estimation Uncertainty

(a) Going concern

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

(b) Impairment provisions against financing contracts with customers

Management reviews its financing portfolio to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of income, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of finances before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(c) Impairment of investments at fair value through equity

The Islamic Window treats investments carried at fair value through equity as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Islamic Window evaluates factors, such as the historical share price volatility for comparable quoted equities and future cash flows and the discount factors for comparable unquoted equities.

(d) Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management’s assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

Notes to the financial statements
For the year ended 31 December 2016

5 Cash and balances with Central Bank of Oman

	2016	2015
	RO 000	*RO 000*
Cash in hand	**1,812**	607
Balances with Central Bank of Oman	**37,137**	29,855
	38,949	30,462

6 Due from banks and financial institutions

	2016	2015
	RO 000	*RO 000*
Wakala placement – jointly financed	**25,015**	2,695
Qard Hasan placement – self financed	**41,965**	29,260
Current clearing account – self financed	**1,375**	492
	68,355	32,447

7 Murabaha and other receivables

	2016	2015
	RO 000	*RO 000*
Gross Murabaha receivables – jointly financed	**11,106**	13,806
Less: Unearned income – jointly financed	**(1,292)**	(754)
	9,814	13,052
Credit card receivables – self financed	**71**	-
Less: Impairment on portfolio basis (note 24)	**(174)**	(198)
	9,711	12,854

Murabaha and other receivables past due but not impaired amounts to RO 447 thousand (2015: RO 139 thousand).

8 Mudaraba financing

	2016	2015
	RO 000	*RO 000*
Mudaraba financing – jointly financed	**24,852**	11,767
Less: Impairment on portfolio basis (note 24)	**(244)**	(125)
	24,608	11,642

Mudaraba financing past due but not impaired amounts to RO Nil (2015: Nil).

Notes to the financial statements
For the year ended 31 December 2016

9 Diminishing Musharaka financing

	2016	2015
	RO 000	*RO 000*
Diminishing Musharaka – jointly financed	**239,693**	152,255
Less: Impairment on portfolio basis (note 24)	**(2,199)**	(1,705)
	237,494	150,550

Diminishing Musharaka past due but not impaired amounts to RO 14,672 thousand (2015: RO 6,108 thousand).

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

10 Investment at fair value through equity

	2016	2015
	RO 000	*RO 000*
Local listed Sukuk – jointly financed	**10,198**	10,198
Sovereign Sukuk – jointly financed	**6,363**	6,395
	16,561	16,593

At 31 December 2016, the market value of the Sovereign Sukuk was RO 1.000 per unit (2015: RO 1.005 per unit), whereas, the market value of the Modern Sukuk was RO 101.975 per unit (2015: RO 101.975 per unit).

11 Investment at amortised cost

	2016	2015
	RO 000	*RO 000*
Sovereign Sukuk – jointly financed	**10,000**	10,000

Notes to the financial statements
For the year ended 31 December 2016

12 Ijarah Muntahia Bittamleek

	2016	2015
	RO 000	*RO 000*
Cost – jointly financed		
At 1 January	**35,220**	30,701
Additions	**6,954**	6,261
Disposals	**(1,336)**	(1,742)
At 31 December	**40,838**	35,220
Accumulated depreciation – jointly financed		
At 1 January	**2,379**	1,246
Charge for the period	**1,426**	1,229
Disposals	**(95)**	(96)
At 31 December	**3,710**	2,379
Net book value at 31 December	**37,128**	32,841
Less: Impairment on portfolio basis (note 24)	**(400)**	(402)
Net Ijarah Muntahia Bittamleek	**36,728**	32,439

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,642 thousand (2015: RO 1,066 thousand).

13 Property and equipment

	2016				
	Furniture, fixtures & equipment	**Motor vehicles**	**Computer equipment**	**Capital work in progress**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Cost					
At 1 January	**573**	**42**	**1,116**	**45**	**1,776**
Additions	**302**	**12**	**371**	**129**	**814**
Disposals / Transfers	**-**	**-**	**-**	**(171)**	**(171)**
At 31 December	**875**	**54**	**1,487**	**3**	**2,419**
Accumulated depreciation					
At 1 January	**(188)**	**(24)**	**(356)**	**-**	**(568)**
Provided during the year	**(163)**	**(12)**	**(202)**	**-**	**(377)**
Reversal of depreciation	**-**	**-**	**-**	**-**	**-**
At 31 December	**(351)**	**(36)**	**(558)**	**-**	**(945)**
Net book value at 31 December	**524**	**18**	**929**	**3**	**1,474**

Notes to the financial statements
For the year ended 31 December 2016

13 Property and equipment *(continued)*

	2015				
	Furniture , fixtures & equipment	Motor vehicles	Computer equipment	Capital work in progress	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Cost					
At 1 January	283	28	1,037	25	1,373
Additions	293	14	79	62	448
Disposals / Transfers	(3)	-	-	(42)	(45)
At 31 December	573	42	1,116	45	1,776
Accumulated depreciation					
At 1 January	(86)	(12)	(218)	-	(316)
Provided during the year	(104)	(12)	(138)	-	(254)
Reversal of depreciation	2	-	-	-	2
At 31 December	(188)	(24)	(356)	-	(568)
Net book value at 31 December	385	18	760	45	1,208

14 Other assets

	2016	2015
	RO 000	*RO 000*
Ijarah rental receivables	**37**	23
Other profit receivables	**975**	522
Prepayments	**146**	110
Others	**412**	219
Acceptances	**5,256**	335
Total	**6,826**	1,209

15 Due to Head office and other banks

	2016	2015
	RO 000	*RO 000*
Due to other banks	**79,340**	52,325
Total	**79,340**	52,325

Due to Head office and other banks comprises of Wakala deposits. Wakala borrowing from Head office amounts to RO Nil (2015: RO Nil).

16 Qard Hasan from Head Office

	2016	2015
	RO 000	*RO 000*
Qard e Hasan from Head Office (16.1)	**15,000**	9,360
Current clearing account (16.2)	**2,420**	867
Total	**17,420**	10,227

16.1 This amount represents profit-free Qard Hasan facility obtained on real need basis from Head Office for a specific period as part of its liquidity management.

16.2 This amount represents the vostro account of Head Office opened with Maisarah.

Notes to the financial statements
For the year ended 31 December 2016

17 Other Liabilities

	2016	2015
	RO 000	*RO 000*
Payables	**313**	2,197
Accrued expenses	**702**	451
Profit payables	**2,802**	870
Others	**65**	6
Charity Payable	**153**	7
Acceptances contra	**5,256**	335
Total	**9,291**	3,866

18 Equity of investment accountholders

	2016	2015
	RO 000	*RO 000*
Saving account	**15,229**	7,985
Term deposit	**5**	40
Profit equalisation reserve	**4**	2
Investment risk reserve	**1**	-
Total	**15,239**	8,027

There is no restricted investment at reporting date.

Basis of distribution of the profit between owners' equity and equity of investment accountholders

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2016 and 2015 as follows:

	Percentage
Equity of investment accountholders share	60%
Mudarib' s share	40%

The investment risk reserve is deducted from investment accountholders share after allocating the Mudarib' s share of profit as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. Equity of investment accountholders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Maisarah expenses.

19 Capital

During 2016, Head office has increased the assigned capital to RO 55 million (2015: RO 40 million) to Maisarah from the core paid up capital of the shareholders.

Notes to the financial statements
For the year ended 31 December 2016

20 Fiduciary assets

There were no funds under management with Maisarah (2015: RO Nil).

21 Income from Islamic finances and investments

	2016	2015
	RO 000	*RO 000*
Murabaha receivables	**451**	453
Mudaraba	**737**	249
Ijarah muntahia bittamleek - net*	**1,590**	1,411
Diminishing Musharaka	**9,983**	5,565
Profit on investments at fair value through equity	**732**	543
Profit on investment at amortised cost	**351**	57
Total	**13,844**	8,278

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 1,426 thousand (2015: RO 1,210 thousand).

22 Staff costs

	2016	2015
	RO 000	*RO 000*
Salaries and allowances	**2,835**	1,843
Other personnel cost	**501**	386
Non-Omani employee terminal benefit	**44**	23
Total	**3,380**	2,252

23 General and administrative expenses

	2016	2015
	RO 000	*RO 000*
Occupancy cost	**454**	335
Operating and administration cost	**874**	554
Total	**1,328**	889

24 Provision for financing impairment

In accordance with the directives of CBO, the movement in the financing impairment provision is analysed as below:

	2016	2015
	RO 000	*RO 000*
A- Impairment provision on portfolio basis		
Balance at the beginning of the year	**2,430**	1,494
Provided during the year	**587**	936
Balance at the end of the year	**3,017**	2,430
B- Impairment provision on specific basis		
Balance at the beginning of the year	**-**	-
Provided during the year	**-**	-
Balance at the end of the year	**-**	-

Notes to the financial statements
For the year ended 31 December 2016

25 Related parties transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its Directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2016	2015
	RO 000	*RO 000*
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**597**	505
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**2,577**	17,133
Remuneration paid to Directors & Shari'a Supervisor		
Chairman		
– remuneration proposed	**8**	6
– sitting fees paid	**3**	3
Other Members		
– remuneration proposed	**24**	16
– sitting fees paid	**8**	7
Other transactions		
Rental payment to a related party	**231**	231
Key management compensation		
Salaries and other benefits	**132**	112
End of service benefits	**6**	4

26 Contingent liabilities and commitments
.
(a) Credit related contingent items

Letters of credit and other commitments for which there are corresponding customer liabilities:

	2016	2015
	RO 000	*RO 000*
Letters of credit	**3,413**	4,512
Guarantees	**6,756**	10,314
Total	**10,169**	14,826

(b) Capital and investment commitments

	2016	2015
	RO 000	*RO 000*
Contractual commitments for property and equipment	**41**	109

(c) The unutilised limits of Maisarah's financing for the year ended 31 December 2016 amounts to RO 95,463 thousand (2015: 71,426 thousand).

Notes to the financial statements
For the year ended 31 December 2016

27 Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

	2016	2015
	RO 000	*RO 000*
	Contract / Notional Amount	
Forward exchange contracts		
Currency forward - purchase contracts	**17,325**	30,032
Currency forward - sale contracts	**17,335**	30,040

As at 31 December 2016, fair value of the exchange contracts remains equivalent to its notional amount.

28 Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2016			
Fair value information	**Level 1**	**Level 2**	**Level 3**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Investments at fair value through equity	**6,363**	**10,198**	**-**	**16,561**
Total	**6,363**	**10,198**	**-**	**16,561**

	2015			
Fair value information	Level 1	Level 2	Level 3	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*
Investment at fair value through equity	6,395	10,198	-	16,593
Total	6,395	10,198	-	16,593

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management

The important types of financial risks to which Maisarah is exposed are credit risk, liquidity risk and market risk. The risk management division of Maisarah is an independent and dedicated unit reporting directly to the Risk Management Committee (“RMC”) of the Board. The division’s primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all Maisarah’s committees are among the factors which reflect the independence of the Risk Management Division’s working and the key role it plays within Maisarah.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors (“the Board”) for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. RMC of the Board is responsible for reviewing and recommending to the full Board, approval risk policies and procedures. RMC also reviews the risk profile of Maisarah as presented to it by the Risk Management Division and appraises the full Board in its periodic meetings.

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Credit Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. RMC is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the Risk Management Division (“RMD”) through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank’s capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody’s, S&P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines. The analysis of credit portfolio is provided below. It is pertinent to mention that the credit portfolio consists of all standard accounts and there is no impairment in the portfolio.

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Credit risk *(continued)*

(a) Geographical concentrations

	2016	
	Due from banks and financial institutions	**Due to Banks and financial Institutions**
	RO 000	***RO 000***
Sultanate of Oman	**59,280**	**47,000**
Other GCC Countries	**7,967**	**20,790**
Europe and North America	**1,108**	**-**
Africa and Asia	**-**	**11,550**
	68,355	**79,340**

	2015	
	Due from banks and financial institutions	Due to Banks and financial Institutions
	RO 000	*RO 000*
Sultanate of Oman	31,955	35,000
Other GCC Countries	238	-
Europe and North America	254	-
Africa and Asia	-	17,325
	32,447	52,325

(b) Customer concentrations

Customer concentrations on asset (Gross)

	2016				
	Due from banks and financial institutions	**Murabaha and other receivables**	**Mudaraba Financing**	**Diminishing Musharaka financing**	**Ijarah Muntahia Bittamleek**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Retail	**-**	**5,422**	**-**	**84,374**	**37,128**
Corporate	**68,355**	**4,463**	**24,852**	**155,319**	**-**
	68,355	**9,885**	**24,852**	**239,693**	**37,128**

	2015				
	Due from banks and financial institutions	Murabaha and other receivables	Mudaraba Financing	Diminishing Musharaka financing	Ijarah Muntahia Bittamleek
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Retail	-	3,162	-	57,905	32,841
Corporate	32,447	9,890	11,767	94,350	-
	32,447	13,052	11,767	152,255	32,841

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations (Gross)

	2016			
	Murabaha and other receivables	**Mudaraba Financing**	**Diminishing Musharaka Financing**	**Ijarah Muntahia Bittamleek**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Personal	**5,422**	**-**	**84,374**	**37,128**
Construction	**226**	**10,607**	**104,868**	**-**
Manufacturing	**-**	**-**	**2,863**	**-**
Other services	**45**	**2,514**	**41,899**	**-**
Others	**4,192**	**11,731**	**5,689**	**-**
	9,885	**24,852**	**239,693**	**37,128**

	2015			
	Murabaha and other receivables	Mudaraba Financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek
	RO 000	*RO 000*	*RO 000*	*RO 000*
Personal	3,162	-	57,905	32,841
Construction	236	4,270	58,602	-
Manufacturing	-	-	1,582	-
Other services	9	2,457	29,869	-
Others	9,645	5,040	4,297	-
	13,052	11,767	152,255	32,841

(d) Gross credit exposure

	2016	
	Total gross exposure	**Monthly average gross exposure**
	RO 000	***RO 000***
Murabaha and other receivables	**9,885**	**8,777**
Mudaraba financing	**24,852**	**15,651**
Diminishing Musharaka Financing	**239,693**	**205,806**
Ijarah Muntahia Bittamleek	**37,128**	**33,980**

	2015	
	Total gross exposure	Monthly average gross exposure
	RO 000	*RO 000*
Murabaha and other receivables	13,052	16,341
Mudaraba financing	11,767	5,281
Diminishing Musharaka Financing	152,255	119,611
Ijarah Muntahia Bittamleek	32,841	30,480

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Credit risk *(continued)*

(e) Industry type distribution of exposures by major types of credit exposures:

	2016				
	Murabaha and other receivables *RO 000*	**Mudaraba financing** *RO 000*	**Diminishing Musharaka Financing** *RO 000*	**Ijarah Muntahia Bittamleek** *RO 000*	**Off balance sheet exposures** *RO 000*
Import trade	**4,074**	**3,148**	**38**	**-**	**3,421**
Export trade	**-**	**6,848**	**-**	**-**	**-**
Wholesale & retail trade	**18**	**893**	**739**	**-**	**1**
Mining & quarrying	**-**	**842**	**4,601**	**-**	**-**
Construction	**226**	**10,607**	**104,868**	**-**	**5,352**
Manufacturing	**-**	**-**	**2,863**	**-**	**1,298**
Transport & communication	**51**	**-**	**143**	**-**	**-**
Services	**45**	**2,514**	**41,899**	**-**	**97**
Retail	**5,422**	**-**	**84,374**	**37,128**	**-**
Others	**49**	**-**	**168**	**-**	**-**
	9,885	**24,852**	**239,693**	**37,128**	**10,169**

	2015				
	Murabaha and other receivables *RO 000*	Mudaraba financing *RO 000*	Diminishing Musharaka Financing *RO 000*	Ijarah Muntahia Bittamleek *RO 000*	Off balance sheet exposures *RO 000*
Import trade	9,448	4,035	51	-	7,092
Export trade	-	-	-	-	121
Wholesale & retail trade	-	350	550	-	-
Mining & quarrying	38	655	3,479	-	-
Construction	236	4,270	58,602	-	7,004
Manufacturing	-	-	1,582	-	182
Transport & communication	99	-	184	-	-
Services	9	2,457	29,869	-	427
Retail	3,162	-	57,905	32,841	-
Others	60	-	33	-	-
	13,052	11,767	152,255	32,841	14,826

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Residual contractual maturities of the portfolio by major types of credit exposures:

	2016				
	Murabaha and other receivables *RO 000*	**Mudaraba financing** *RO 000*	**Diminishing Musharaka Financing** *RO 000*	**Ijarah Muntahia Bittamleek** *RO 000*	**Off Balance sheet exposures** *RO 000*
Upto 1 month	**510**	**24,852**	**-**	**-**	**1,060**
1 - 3 months	**1,388**	**-**	**530**	**-**	**2,125**
3 - 6 months	**2,029**	**-**	**-**	**-**	**3,227**
6 - 9 months	**145**	**-**	**70**	**-**	**1,363**
9 - 12 months	**18**	**-**	**52**	**-**	**1,131**
1 - 3 years	**587**	**-**	**7,287**	**161**	**1,263**
3 – 5 years	**949**	**-**	**17,411**	**450**	**-**
Over 5 years	**4,259**	**-**	**214,343**	**36,517**	**-**
	9,885	**24,852**	**239,693**	**37,128**	**10,169**

	2015				
	Murabaha and other receivables *RO 000*	Mudaraba financing *RO 000*	Diminishing Musharaka Financing *RO 000*	Ijarah Muntahia Bittamleek *RO 000*	Off Balance sheet exposures *RO 000*
Upto 1 month	7,908	11,767	-	-	8,833
1 - 3 months	891	-	-	-	2,464
3 - 6 months	660	-	489	-	178
6 - 9 months	31	-	835	-	1,119
9 - 12 months	53	-	53	-	664
1 - 3 years	440	-	4,599	117	1,488
3 – 5 years	754	-	9,569	449	-
Over 5 years	2,315	-	136,710	32,275	80
	13,052	11,767	152,255	32,841	14,826

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Credit risk *(continued)*

(g) Distribution of past due and not past due financing by type of industry:

	2016				
	Performing Murabaha and other receivables	**Performing Mudaraba Financing**	**Performing Diminishing Musharaka Financing**	**Performing Ijarah Muntahia Bittamleek**	**General provisions made during the year**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Import trade	**4,074**	**3,148**	**38**	**-**	**(64)**
Export trade	**-**	**6,848**	**-**	**-**	**(60)**
Wholesale & retail trade	**18**	**893**	**739**	**-**	**(14)**
Mining & quarrying	**-**	**842**	**4,601**	**-**	**(48)**
Construction	**226**	**10,607**	**104,868**	**-**	**(1,013)**
Manufacturing	**-**	**-**	**2,863**	**-**	**(25)**
Transport & communication	**51**	**-**	**143**	**-**	**(2)**
Services	**45**	**2,514**	**41,899**	**-**	**(390)**
Retail	**5,422**	**-**	**84,374**	**37,128**	**(1,399)**
Others	**49**	**-**	**168**	**-**	**(2)**
	9,885	**24,852**	**239,693**	**37,128**	**(3,017)**

	2015				
	Performing Murabaha and other receivables	Performing Mudaraba Financing	Performing Diminishing Musharaka Financing	Performing Ijarah Muntahia Bittamleek	General provisions made during the year
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Import trade	9,448	4,035	51	-	(147)
Wholesale & retail trade	-	350	550	-	(10)
Mining & quarrying	38	655	3,479	-	(46)
Construction	236	4,270	58,602	-	(688)
Manufacturing	-	-	1,582	-	(17)
Transport & communication	99	-	184	-	(3)
Services	9	2,457	29,869	-	(353)
Retail	3,162	-	57,905	32,841	(1,165)
Others	60	-	33	-	(1)
	13,052	11,767	152,255	32,841	(2,430)

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Credit risk *(continued)*

(h) Maximum exposure to credit risk without consideration of collateral held:

	2016	2015
	RO 000	*RO 000*
Due from banks and financial institutions	**68,355**	32,447

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the treasury risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	2016					
	Due on demand and up to 30 days *RO 000*	More than 1 month to 6 months *RO 000*	More than 6 months to 12 months *RO 000*	More than 1 year to 5 years *RO 000*	Over 5 years *RO 000*	Total *RO 000*
Cash and balances with Central Bank of Oman	38,949	-	-	-	-	38,949
Due from banks and financial institutions	68,355	-	-	-	-	68,355
Murabaha and other receivables	4,170	531	584	3,537	889	9,711
Mudaraba financing	1,243	2,485	2,424	12,426	6,030	24,608
Diminishing Musharaka financing	4,507	23,039	25,247	114,695	70,006	237,494
Investments at fair value through equity	-	-	-	16,561	-	16,561
Investment at amortised cost	-	-	-	10,000	-	10,000
Ijarah Muntahia Bittamleek	279	1,393	1,572	12,921	20,563	36,728
Property and equipment	-	-	-	-	1,474	1,474
Other asset	2,277	3,991	-	-	558	6,826
Total assets	119,780	31,439	29,827	170,140	99,520	450,706
Current accounts	9,616	13,243	7,568	-	9,459	39,886
Due to Head office and other banks	67,790	11,550	-	-	-	79,340
Qard Hasan from Head Office	2,420	-	-	15,000	-	17,420
Customer Wakala Deposit	20,768	82,380	31,446	59,784	36,176	230,554
Other liabilities	5,300	3,991	-	-	-	9,291
Equity of unrestricted investment accountholders	766	1,523	1,523	7,615	3,812	15,239
Owner's equity	-	-	-	-	58,976	58,976
Total liabilities and accountholders & owners' equity	106,660	112,687	40,537	82,399	108,423	450,706

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

	2015					
	Due on demand and up to 30 days *RO 000*	More than 1month to 6 months *RO 000*	More than 6 months to 12 months *RO 000*	More than 1 year to 5 years *RO 000*	Over 5 years *RO 000*	Total *RO 000*
Cash and balances with Central Bank of Oman	30,462	-	-	-	-	30,462
Due from banks and financial institutions	32,447	-	-	-	-	32,447
Murabaha and other receivables	9,543	355	412	2,193	351	12,854
Mudaraba financing	588	1,177	1,177	5,884	2,816	11,642
Diminishing Musharaka financing	3,786	13,905	15,621	66,170	51,068	150,550
Investments at fair value through equity	-	-	-	16,593	-	16,593
Investment at amortised cost	-	-	-	10,000	-	10,000
Ijarah Muntahia Bittamleek	240	1,199	1,439	11,222	18,339	32,439
Property and equipment	-	-	-	-	1,208	1,208
Other asset	729	151	-	-	329	1,209
Total assets	77,795	16,787	18,649	112,062	74,111	299,404
Current accounts	11,050	16,614	9,494	-	11,867	49,025
Due to Head office and other banks	52,325	-	-	-	-	52,325
Qard Hasan from Head Office	867	-	-	9,360	-	10,227
Customer Wakala Deposit	25,552	75,371	15	34,170	-	135,108
Other liabilities	2,470	696	311	-	389	3,866
Equity of unrestricted investment accountholders	399	798	808	4,022	2,000	8,027
Owner’s equity	-	-	-	-	40,826	40,826
Total liabilities and account holders & owners’ equity	92,663	93,479	10,628	47,552	55,082	299,404

Market risk
Market risk includes currency risk, profit rate risk and equity price risk.

(a) Currency risk
Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani.

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Market risk *(continued)*

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. Maisarah manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	2016							
	Effective average profit rates %	**Due on demand and within 30 days** *RO 000*	**Due within 1 to 6 months** *RO 000*	**Due within 7 to 12 months** *RO 000*	**Due within 1 to 5 years** *RO 000*	**Due after 5 years** *RO 000*	**Non-profit bearing** *RO 000*	**Total** *RO 000*
Cash and balances with Central Bank of Oman	**-**	**-**	**-**	**-**	**-**	**-**	**38,949**	**38,949**
Due from banks and financial institutions	**0.49%**	**25,015**	**-**	**-**	**-**	**-**	**43,340**	**68,355**
Murabaha and other receivables	**4.97%**	**4,099**	**531**	**584**	**3,537**	**889**	**71**	**9,711**
Mudaraba financing	**4.98%**	**24,608**	**-**	**-**	**-**	**-**	**-**	**24,608**
Diminishing Musharaka Financing	**4.96%**	**4,507**	**23,039**	**25,247**	**114,695**	**70,006**	**-**	**237,494**
Investments at fair value through equity	**4.84%**	**-**	**-**	**-**	**16,561**	**-**	**-**	**16,561**
Investment at amortised cost	**3.50%**	**-**	**-**	**-**	**10,000**	**-**	**-**	**10,000**
Ijara Muntahia Bittamleek	**4.70%**	**279**	**1,393**	**1,572**	**12,921**	**20,563**	**-**	**36,728**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**1,474**	**1,474**
Other asset	**-**	**-**	**-**	**-**	**-**	**-**	**6,826**	**6,826**
Total assets		**58,508**	**24,963**	**27,403**	**157,714**	**91,458**	**90,660**	**450,706**
Current accounts	**1.97%**	**5,639**	**9,869**	**5,639**	**-**	**7,049**	**11,690**	**39,886**
Due to Head office and other banks	**1.08%**	**67,790**	**11,550**	**-**	**-**	**-**	**-**	**79,340**
Qard Hasan from Head office	**-**	**-**	**-**	**-**	**-**	**-**	**17,420**	**17,420**
Customer Wakala deposit	**2.97%**	**20,768**	**82,380**	**31,446**	**59,784**	**36,176**	**-**	**230,554**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**9,291**	**9,291**
Equity of unrestricted investment accountholders	**1.09%**	**15,234**	**-**	**-**	**-**	**-**	**5**	**15,239**
Owner's equity	**-**	**-**	**-**	**-**	**-**	**-**	**58,976**	**58,976**
Equity of accountholders & Total liabilities and shareholders' equity		**109,431**	**103,799**	**37,085**	**59,784**	**43,225**	**97,382**	**450,706**
On-balance sheet gap		**(50,923)**	**(78,836)**	**(9,682)**	**97,930**	**48,233**	**(6,722)**	**-**
Cumulative profit sensitivity gap		**(50,923)**	**(129,759)**	**(139,441)**	**(41,511)**	**6,722**	**-**	**-**

Notes to the financial statements
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29 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	2015							
	Effective average profit rates %	Due on demand and within 30 days *RO 000*	Due within 1 to 6 months *RO 000*	Due within 7 to 12 months *RO 000*	Due within 1 to 5 years *RO 000*	Due after 5 years *RO 000*	Non-profit bearing *RO 000*	Total *RO 000*
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	30,462	30,462
Due from banks and financial institutions	0.11%	2,695	-	-	-	-	29,752	32,447
Murabaha and other receivables	2.79%	9,543	355	412	2,193	351	-	12,854
Mudaraba financing	5.41%	11,642	-	-	-	-	-	11,642
Diminishing Musharaka Financing	4.80%	3,786	13,905	15,621	66,170	51,068	-	150,550
Investments at fair value through equity	4.84%	-	-	-	16,593	-	-	16,593
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Ijara Muntahia Bittamleek	4.65%	240	1,199	1,439	11,222	18,339	-	32,439
Property and equipment	-	-	-	-	-	-	1,208	1,208
Other asset	-	-	-	-	-	-	1,209	1,209
Total assets		27,906	15,459	17,472	106,178	69,758	62,631	299,404
Current accounts	1.11%	8,753	12,279	7,017	-	8,774	12,382	49,025
Due to Head office and other banks	0.62%	52,325	-	-	-	-	-	52,325
Qard Hasan from Head office	-	-	-	-	-	-	10,227	10,227
Customer Wakala deposit	1.57%	25,552	75,371	15	34,170	-	-	135,108
Other liabilities		2,286	545	311	-	724	-	3,866
Equity of unrestricted investment accountholders	1.02%	-	-	10	30	-	7,987	8,027
Owner’s equity	-	-	-	-	-	-	40,826	40,826
Equity of accountholders & Total liabilities and shareholders’ equity		88,736	88,195	7,353	34,200	50,324	30,596	299,404
On-balance sheet gap		(60,380)	(72,736)	10,119	71,978	60,260	(8,791)	-
Cumulative profit sensitivity gap		(60,380)	(133,566)	(123,447)	(51,469)	8,791	-	-

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Notes to the financial statements
For the year ended 31 December 2016

29 Financial risk management *(continued)*

(c) Equity risk

Presently Maisarah is not exposed to any equity price risk.

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

30 Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, Murabaha, diminishing musharaka financing and ijarah muntahia bittamleek;

(2) Corporate banking – incorporating current accounts, savings account, term deposits, Murabaha, Mudaraba and diminishing musharaka financing; and

(3) Treasury & investments

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position.

	2016			
	Retail banking *RO 000*	**Corporate banking** *RO 000*	**Treasury and investments** *RO 000*	**Total** *RO 000*
Segment operating revenues	5,102	7,661	13	12,776
Other revenues	103	673	1,201	1,977
Total segment operating revenues	5,205	8,334	1,214	14,753
Profit expenses	(307)	(4,940)	(653)	(5,900)
Net operating income	4,898	3,394	561	8,853
Segment cost				
Operating expenses including depreciation	(1,723)	(2,445)	(917)	(5,085)
Provision for impairment	(234)	(353)	-	(587)
Net profit for the year before tax	2,941	596	(356)	3,181
Segment assets	127,480	191,598	134,645	453,723
Less: Provision for impairment	(1,399)	(1,618)	-	(3,017)
Total segment assets	126,081	189,980	134,645	450,706
Segment liabilities	9,136	270,321	97,034	376,491

Notes to the financial statements
For the year ended 31 December 2016

30 Segmental information *(continued)*

	2015			
	Retail banking *RO 000*	Corporate banking *RO 000*	Treasury and investments *RO 000*	Total *RO 000*
Segment operating revenues	3,348	4,330	5	7,683
Other revenues	169	343	659	1,171
Total segment operating revenues	3,517	4,673	664	8,854
Profit expenses	(134)	(1,659)	(161)	(1,954)
Net operating income	3,383	3,014	503	6,900
Segment cost				
Operating expenses including depreciation	(1,479)	(1,914)	(2)	(3,395)
Provision for impairment	(553)	(383)	-	(936)
Net profit / (loss) for the year before tax	1,351	717	501	2,569
Segment assets	94,576	117,277	89,981	301,834
Less: Provision for impairment	(1,165)	(1,265)	-	(2,430)
Total segment assets	93,411	116,012	89,981	299,404
Segment liabilities	17,591	169,514	63,446	250,551

31 Comparative amounts

Certain of the corresponding figures of previous year have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit or owner’s equity.