



Bank Sohar SAOG

BANK SOHAR SAOG

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2016

Registered office and principal place of business:

Bank Sohar Building
P.O.Box 44, Hai Al - Mina
PC 114, Muscat
Sultanate of Oman



STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

	Note	31 March 2016 RO'000	31 December 2015 RO'000
ASSETS			
Cash and balances with Central Bank	B1	92,782	122,340
Due from banks and other money market placements	B2	119,379	128,329
Loans, advances and financing (net)	B3	1,698,242	1,647,311
Investment securities	B4	261,605	277,318
Property, equipment and fixtures	B5	13,401	13,422
Investment properties	B6	2,900	2,900
Other assets	B7	20,481	16,005
		2,208,790	2,207,625
LIABILITIES			
Due to banks and other money market borrowings	B8	425,512	382,012
Customers' deposits	B9	1,424,311	1,464,479
Other liabilities	B10	33,016	31,523
Subordinated loans	B11	50,412	51,234
Compulsorily convertible bonds	B12	7,288	7,207
Certificates of deposits	B13	18,187	18,008
		1,958,726	1,954,463
SHAREHOLDERS' EQUITY			
Share capital	B14	158,558	144,144
Share premium	B14	16,702	16,702
Legal reserve	B15	16,994	16,994
General reserve	B16	988	988
Fair value reserve	B17	(7,263)	(7,208)
Subordinated loans reserve	B11	40,000	40,000
Retained earnings		24,085	41,542
		250,064	253,162
		2,208,790	2,207,625
Net assets per share (in baizas)	B18	157.71	175.63
CONTINGENT LIABILITIES	B19.a	401,350	377,072
COMMITMENTS	B19.b	287,199	306,453

The financial statements were approved and authorized for issue by the Board of Directors on 27th April, 2016 and signed on their behalf by:

Chairman

Board member

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 MARCH 2016**

	<i>Note</i>	3 Months ended 31 March 2016	3 Months ended 31 March 2015
Interest income	<i>C1</i>	20,347	17,564
Interest expense	<i>C2</i>	(8,295)	(6,184)
Net interest income		12,052	11,380
Net income from Islamic financing and investing activities	<i>C8</i>	699	450
Other operating income (excluding gains/losses from available for sale investment securities)	<i>C3</i>	4,207	4,132
OPERATING INCOME (excluding gains/losses from available for sale investment securities)		16,958	15,962
Gains/losses from available for sale investment securities		(2,409)	239
OPERATING INCOME		14,549	16,201
Staff costs		(5,053)	(4,818)
Other operating expenses	<i>C4</i>	(2,845)	(2,743)
Depreciation	<i>B5</i>	(452)	(417)
OPERATING EXPENSES		(8,350)	(7,978)
OPERATING PROFIT		6,199	8,223
Impairment on investment securities	<i>B4.c</i>	609	-
Impairment allowance on portfolio basis	<i>B3, C5</i>	(542)	(225)
Impairment allowance on specific basis	<i>B3</i>	(1,517)	(660)
NET PROFIT BEFORE TAX		4,749	7,338
Income tax expense	<i>C6</i>	(586)	(750)
NET PROFIT FOR THE PERIOD		4,163	6,588
Other comprehensive income			
Net movement in fair value of available for sale financial assets net of income tax (re-classifiable to profit or loss)		(55)	(99)
Other comprehensive income for the period net of income tax		(55)	(99)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		4,108	6,489
Basic earnings per share for the period – in baizas	<i>C7</i>	2.626	4.856
Basic earnings per share for the period (annualized) – in baizas	<i>C7</i>	10.531	19.692
Diluted earnings per share for the period – in baizas	<i>C7</i>	2.573	4.763
Diluted earnings per share for the period (annualized) – in baizas	<i>C7</i>	10.319	19.316
Net profit/(loss) for the period			
Conventional banking		4,029	6,413
Islamic banking		134	175
Total		4,163	6,588

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2016**

	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	General reserve RO'000	Fair value reserve RO'000	Subordinated loans reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 1 January 2015	114,400	-	13,815	988	(5,138)	24,167	43,844	192,076
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	-	-	6,588	6,588
Other comprehensive income								
Net change in fair value of available for sale investments – net of tax	-	-	-	-	(2)	-	-	(2)
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	(97)	-	-	(97)
Total comprehensive income for the period	-	-	-	-	(99)	-	6,588	6,489
Dividend paid for the year 2014	-	-	-	-	-	-	(4,576)	(4,576)
Issue of stock dividend for the year 2014	6,864	-	-	-	-	-	(6,864)	-
Balance as at 31 March 2015	121,264	-	13,815	988	(5,237)	24,167	38,992	193,989
Balance as at 1 April 2015	121,264	-	13,815	988	(5,237)	24,167	38,992	193,989
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	-	-	21,158	21,158
Other comprehensive income								
Impairment of available-for-sale investments- net of tax	-	-	-	-	2,975	-	-	2,975
Net change in fair value of available for sale investments – net of tax	-	-	-	-	(5,022)	-	-	(5,022)
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	76	-	-	76
Total comprehensive income for the period	-	-	-	-	(1,971)	-	21,158	19,187
Transfers	-	-	2,775	-	-	15,833	(18,608)	-
Issue of rights share	22,880	-	-	-	-	-	-	22,880
Share premium received	-	16,702	-	-	-	-	-	16,702
Rights issue expenses (net)	-	-	404	-	-	-	-	404
Balance as at 31 December 2015	144,144	16,702	16,994	988	(7,208)	40,000	41,542	253,162
Balance as at 1 January 2016	144,144	16,702	16,994	988	(7,208)	40,000	41,542	253,162
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	-	-	4,163	4,163
Other comprehensive income for the period								
Impairment of available-for-sale investments – net of tax	-	-	-	-	1,155	-	-	1,155
Net change in fair value of available for sale investments – net of tax	-	-	-	-	(1,223)	-	-	(1,223)
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	13	-	-	13
Total comprehensive income for the period	-	-	-	-	(55)	-	4,163	4,108
Issue of stock dividend for the year 2015	14,414	-	-	-	-	-	(14,414)	-
Dividend paid for the year 2015	-	-	-	-	-	-	(7,206)	(7,206)
Balance as at 31 March 2016	158,558	16,702	16,994	988	(7,263)	40,000	24,085	250,064

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 MARCH 2016**

	31 March 2016 RO'000	31 March 2015 RO'000
OPERATING ACTIVITIES		
Net profit for the period before tax	4,749	7,338
Adjustments for:		
Depreciation	452	417
Impairment for credit losses	2,059	885
(Profit)/Loss on sale of investment securities	2,409	(203)
Impairment loss on investments	(609)	-
Interest on investment	(1,130)	(578)
Interest accrued on CCBs and Subordinated debt	890	880
	<u>8,820</u>	<u>8,739</u>
Operating profit before changes in operating assets and liabilities	8,820	8,739
Due from banks and money market placements	11,390	-
Loans, advances and financing	(52,950)	(28,291)
Other assets	(4,554)	(7,240)
Due to banks and other money market borrowings	35,109	(65,472)
Customers' deposits	(40,168)	(67,838)
Certificate of deposits	179	-
Other liabilities	5,052	5,803
	<u>(37,122)</u>	<u>(154,299)</u>
Cash (used in)/from operating activities	(37,122)	(154,299)
Income tax paid	(3,975)	(3,451)
	<u>(41,097)</u>	<u>(157,750)</u>
Net cash (used in)/from operating activities	(41,097)	(157,750)
INVESTING ACTIVITIES		
Purchase of investments (net)	(1,782)	(22,680)
Proceeds from sale/redemption of investments	2,251	8,483
Purchase of property, equipment and fixtures	(431)	(470)
Interest received on investments	1,015	478
	<u>1,053</u>	<u>(14,189)</u>
Net cash used in investing activities	1,053	(14,189)
FINANCING ACTIVITIES		
Dividends paid	(7,206)	(4,576)
Interest paid on CCBs and Subordinated debt	(1,631)	(1,629)
	<u>(8,837)</u>	<u>(6,205)</u>
Net cash (used in)/from financing activities	(8,837)	(6,205)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(48,881)	(178,144)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	266,690	444,275
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	217,809	266,131
REPRESENTING:		
Cash and balances with Central Banks	92,782	94,098
Due from banks and other money market lending	85,567	139,169
Investments securities	107,862	160,476
Due to banks and other money market borrowings	(68,402)	(127,612)
	<u>217,809</u>	<u>266,131</u>

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016

A1 Legal status and principal activities

Bank Sohar SAOG (“the Bank”) was established in the Sultanate of Oman on 4 March 2007 as a public joint stock company and is primarily engaged in commercial, investment and Islamic banking through a network of twenty six commercial banking branches and 4 Islamic banking branches within the Sultanate of Oman. The Bank operates under commercial, investment and an Islamic banking licence issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman. The Bank has its primary listing on the Muscat Securities Market.

With effect from 30 April 2013, the Bank obtained a license to operate an Islamic Banking Window (“Sohar Islamic”). Sohar Islamic offers a full range of Islamic banking services and products. The principal activities of the window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Istisna'a, Salam and providing commercial banking services, investment and other activities permitted under Islamic Banking Regulatory Framework (IBRF).

The Bank employed 715 employees as of 31 March 2016 (31 December 2015: 724).

A2 Basis of preparation

Since these are interim condensed financial statements, they do not contain all information and disclosures for the full financial statements prepared in accordance with IFRS and should be read in conjunction with the Bank's annual financial statements as at 31 December 2015.

A2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), requirements of the Oman Commercial Companies Law of 1974, as amended, and the disclosure requirements of the Capital Market Authority and the applicable regulations of the CBO.

In accordance with the Royal Decree 69/2012 regarding the amendment in the Banking Law 2000, CBO has issued circular no. IB - 1 under which a complete Islamic Banking Regulatory Framework (IBRF) has been promulgated. The framework identifies the permissible form of trade-related modes of financing including purchase of goods by banks from their customers and immediate resale to them at appropriate profit in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilized and the appropriate portion of profit thereon.

The financial results of the Islamic Banking Window have been reflected in these financial statements for reporting purposes after eliminating inter branch transactions / balances. A complete set of standalone financial statements of Sohar Islamic, prepared under AAOIFI, is included in the Bank's annual report.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, held for trading and available for sale financial assets which have been measured at fair value.

A2.3 Functional and presentation currency

These financial statements are presented in Rial Omani, which is the Bank's functional currency and also in US Dollars, for the convenience of readers. The US Dollar amounts, which are presented in these financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385 (RO 1 = 1000 baizas). All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands.

A2.4 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 reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on industry data and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on a regular 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. Estimates considered by the Bank to have a significant risk of material adjustment in subsequent periods are discussed in note A4.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A2 Basis of preparation (continued)

A2.5 Standards, amendments and interpretations effective in 2016 and relevant for the Bank's operations

For the period ended 31 March 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.

The following standards, amendments and interpretations became effective from 1 January 2016:

- Amendments to IAS 27, 'Separate financial statements' on the equity method.
- Amendments to IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- Amendments to IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.

The adoption of new and revised 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.

A2.6 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning after 1 January 2016 or later periods, but the Bank has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 31 March 2016:

- IFRS 15 'Revenue from contracts with customers' (Annual periods beginning on or after 1 January 2018) : 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.
- IFRS 9 'Financial instruments' (Annual periods beginning on or after 1 January 2018) In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory.
- IFRS 16 'Leases' (Annual periods beginning on or after 1 January 2019) In January 2016, IASB issued IFRS 16 Leases, which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be applicable for annual periods beginning on or after 1 January 2019. Early adoption 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.



NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A3 Significant accounting policies

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements, unless otherwise stated.

A3.1 Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognized in the statement of comprehensive income, except for non-monetary financial assets, such as equities classified as available-for-sale, which are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

A3.2 Revenue and expense recognition

A3.2.a Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- Interest on available for sale investment debt securities on an effective interest rate basis; and
- Fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

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

A3.2.b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes and available for sale financial assets are presented in other comprehensive income.

Net income from financial assets at fair value through profit or loss, including all realised and unrealised fair value changes, interest, dividend and foreign exchange differences are presented in the income statement.

A3.2.c Dividend income

Dividend income is recognized when the right to receive dividend is established.

A3.2.d Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income – including account or loan servicing fees, advisory fee, investment management fees and sales commission– are recognised as the related services are performed. Loan syndication fees and placement fees are recognised when the loan has been arranged. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A3.2.e Provisions

A provision is recognised if, as a result of a 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 obligation. Provisions are equivalent to the amortised value of the future liabilities which is 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.

A3.2.f Offsetting of income and expense

Income and expenses are presented on a net basis only when permitted by the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A3 Significant accounting policies (continued)

A3.2 Revenue and expense recognition (continued)

A3.2.g Temporary significant influence

The Bank is exempt from applying the equity method when significant influence over an associate is intended to be temporary. The temporary significant influence infers that there is an evidence that an associate is acquired with the intention to reduce its stake that it no more has a significant influence on the investee company by soliciting investors to inject fresh capital to the investee company. The investment is classified as available for sale in the financial statements.

A3.3 Financial assets and liabilities

A3.3.a 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as 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 EIR, while dividend income is recorded in other operating income when the right to the payment has been established.

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.

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’.

Held to maturity financial assets

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank 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’.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.a Classification (continued)

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) in 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.

A3.3.b 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.

A3.3.c 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.

(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.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.d *Offsetting of financial assets and financial liabilities*

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 group of similar transactions

A3.3.e *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 effective interest rate of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

A3.3.f *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.

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

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

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

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

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

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.g Impairment of financial assets

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 of the Bank 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.

(i) Assets carried at amortised cost

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

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.

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 2.5 (c) associates, 3.3.1. (b) loans and receivables and 3.3.1. (c) held to maturity investments.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.g Identification and measurement of impairment of financial assets (continued)

(ii) 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 (i) 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 statement of profit or loss.

A3.3.h Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of upto three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

A3.3.i Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counterparty liability for amounts received under these agreements is included in 'due to banks and other money market borrowings'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in 'due from banks and other money market lendings'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

A3.3.j 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.

A3.3.k Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or trading liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in hedging reserve. The amount recognised in other comprehensive income is reclassified to comprehensive income as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same



**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.k Derivatives held for risk management purposes (continued)

Cash flow hedge (continued)

line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in statement of comprehensive income.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognized in other comprehensive income from the period when the hedge was effective is reclassified from the equity to statement of comprehensive income as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to statement of comprehensive income as a reclassification adjustment.

Other non-trading derivative

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in statement of comprehensive income.

A3.4 Property, equipment and fixtures

Items of property, equipment and fixtures are measured at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset and preparing the asset for its intended use. Depreciation is provided on a straight-line basis over the estimated useful lives of property, equipment and fixtures, except freehold land. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	5
Furniture and fixtures	6-7
Office equipment	6-7
Production software	10

Land is not depreciated. The assets' residual values, useful lives and depreciation methods 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.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

A3.5 Investment properties

Investment properties comprise plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. These are currently held for an undetermined business use and not occupied by the Bank. These are carried at the average valuation of the two professional valuers carried out during 2008. Subsequent to initial measurement these properties are carried at cost less accumulated impairments, if any.

A3.6 Deposits, debt securities issued and subordinated liabilities

All money market and customer deposits are initially measured at fair value plus transaction cost and subsequently carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortized cost using the effective interest method. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A3 Significant accounting policies (continued)

A3.7 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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 adjustment to tax payable in respect of previous years.

Deferred tax assets/liabilities are calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

A3.8 Fiduciary assets

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

A3.9 Trade and settlement date accounting

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. 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.

A3.10 Leases

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

A3.11 Financial guarantees

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.

A3.12 Employee benefits

A3.12.a Terminal 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 2003, as amended.

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



NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A3 Significant accounting policies (continued)

A3.12 Employee benefits (continued)

A3.12.b Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A3.13 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 of the Bank by the weighted average number of ordinary shares outstanding during the period. Annualised EPS is calculated by annualizing the basic EPS for the whole year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes or similar instruments.

A3.14 Corresponding figures

The corresponding figures included for comparative purposes have been reclassified to conform to the presentation in the current period.

A3.15 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's CEO (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

A3.16 Directors' remuneration and sitting fees

The Directors' remuneration is governed as set out in the Commercial Companies Law, regulations issued by the Capital Market Authority and the Articles of Association of the Company.

The Annual General Meeting determines and approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided such fees, in accordance with Article 106 of the Commercial Companies Law of 1974 as amended, shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees does not exceed RO 200,000. The sitting fee for each Director does not exceed RO 10,000 in one year.

A4 Critical accounting estimates and judgements

The preparation of financial statements requires 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.

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 are on:

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)****A4 Critical accounting estimates and judgements (continued)****A4.1 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.

A4.2 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.

A4.3 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Bank uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

A4.4 Impairment of available-for-sale equity investments

The Bank 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 or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Bank evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

A4.5 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

A4 Critical accounting estimates and judgements (continued)

A4.6 Fair value estimation of unquoted securities

In cases where the underlying assets are fair valued such as private equity funds, management uses net assets value. Management believe that net assets values of these investments are representative of their fair values as the majority of the underlying assets are fair valued and the reported net assets of those entities takes into account the updated fair values changes.

B1 Cash and balances with central bank

	31 March 2016 RO'000	31 December 2015 RO'000
Cash	13,020	13,070
Capital deposit with CBO	501	505
Balance with CBO	79,261	108,765
	<u>92,782</u>	<u>122,340</u>

The capital deposit with the CBO cannot be withdrawn without the approval of CBO.

B2 Due from banks and other money market placements

	31 March 2016 RO'000	31 December 2015 RO'000
<i>Foreign currency:</i>		
Money market placements	79,010	79,141
Lending to banks	30,027	22,101
Demand balances	10,492	27,197
	<u>119,529</u>	<u>128,439</u>
Impairment allowance on portfolio basis on lending to banks	(150)	(110)
	<u>119,379</u>	<u>128,329</u>

The movement in the impairment allowance is as analysed below:

	31 March 2016 RO'000	31 December 2015 RO'000
Impairment allowance on portfolio basis on lending to banks:		
Balance at beginning of the period	110	224
Provided/(Released) during the period (net)	40	(114)
	<u>150</u>	<u>110</u>



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

B3 Loans, advances and financing - net

	31 March 2016 RO'000	31 December 2015 RO'000
Corporate loans	1,154,377	1,131,769
Retail loans	581,865	551,368
	<hr/>	<hr/>
Gross loans, advances and financing	1,736,242	1,683,137
Impairment allowance on portfolio basis	(21,090)	(20,588)
Impairment allowance on specific basis (including contractual interest not recognised)	(16,910)	(15,238)
	<hr/>	<hr/>
Net loans and advances	1,698,242	1,647,311
	<hr/> <hr/>	<hr/> <hr/>

Gross loans and advances include RO 78,715,507 (2015: RO 67,692,029) through Sohar Islamic financing activities, under Islamic mode of financing.

Loans, advances and financing comprise:

	31 March 2016 RO'000	31 December 2015 RO'000
Loans	1,551,160	1,509,644
Overdrafts	81,269	71,385
Loan against trust receipts	75,328	74,645
Bills discounted	28,478	27,425
Advances against financing	7	38
	<hr/>	<hr/>
Gross loans and advances	1,736,242	1,683,137
Impairment allowance on portfolio basis	(21,090)	(20,588)
Impairment allowance on specific basis (including contractual interest not recognised)	(16,910)	(15,238)
	<hr/>	<hr/>
Net loans and advances	1,698,242	1,647,311
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**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**
B3 Loans, advances and financing - net (continued)

As per the CBO requirements, the movement in the impairment allowance is as analysed below:

Loan loss provision	31 March 2016 RO'000	31 December 2015 RO'000
Impairment allowance on portfolio basis		
Balance at beginning of period	20,588	18,319
Provided during the period	502	2,269
Balance at the end of the period	21,090	20,588
Impairment allowance on specific basis		
1) Loan loss provision		
Balance at beginning of period	10,639	9,436
Provided during the period	2,992	6,706
Written back due to recovery	(1,475)	(5,681)
Written off during the period	(1)	(283)
Transfer from/(to) other assets	(40)	234
Transfer from memoranda accounts	21	228
Balance at the end of the period (a)	12,136	10,640
2) Contractual interest not recognised		
Balance at beginning of period	4,598	3,730
Not recognised during the period	437	1,784
Written off during the period	-	-
Written back due to recovery	(261)	(916)
Balance at end of the period (b)	4,774	4,598
Total impairment (a) + (b)	16,910	15,238

Impairment allowance on portfolio basis is established to meet the credit risks inherent within the loans, advances and financing on a portfolio basis.

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained by the Bank to comply with rules, regulations and guidelines issued by CBO against loans and advances which are impaired. As of 31 March 2016, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 24,280,710 (2015 - RO 20,724,989).

B4 Investment Securities

	31 March 2016 RO'000	31 December 2015 RO'000
Held for trading investments	44,595	44,260
Available for sale investments	165,111	180,817
Held to maturity investments	51,899	52,241
	261,605	277,318

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**
B4 Investment Securities (continued)
B4.a Held-for-trading investments comprise:

	31 March 2016 RO'000	31 December 2015 RO'000
Government development bonds – Oman	39,186	38,914
Sukuk trust certificates – secured	5,409	5,346
	<u>44,595</u>	<u>44,260</u>

B4.b Available for sale investments comprise:

	Carrying/ fair value 31 March 2016 RO'000	Cost 31 March 2016 RO'000	Carrying/ fair value 31 December 2015 RO'000	Cost 31 December 2015 RO'000
Unquoted securities	1,390	1,390	1,390	1,390
Quoted securities	59,099	66,658	61,190	68,417
Treasury bills	107,021	106,998	121,245	121,242
	<u>167,510</u>	<u>175,046</u>	<u>183,825</u>	<u>191,049</u>
Provision for Impairment	(2,399)	-	(3,008)	-
	<u>165,111</u>	<u>175,046</u>	<u>180,817</u>	<u>191,049</u>

B4.c Movement in impairment of investments:

	31 March 2016 RO'000	31 December 2015 RO'000
Balance at the beginning of the period	3,008	33
Impaired during the period	1,582	2,975
Reclassified to profit or loss on sale	(2,191)	-
	<u>2,399</u>	<u>3,008</u>

B4.d Held-to-maturity investments comprise:

	31 March 2016 RO'000	31 December 2015 RO'000
Quoted	46,253	45,043
Unquoted	5,646	7,198
	<u>51,899</u>	<u>52,241</u>

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

B5 Property, Equipment and Fixtures

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
1 January 2016	4,100	9,483	4,659	5,354	766	1,921	26,283
Additions	-	295	9	87	31	9	431
Transfers/disposals	-	-	-	-	-	-	-
As at 31 March 2016	4,100	9,778	4,668	5,441	797	1,930	26,714
Accumulated depreciation:							
1 January 2016	-	(5,310)	(3,000)	(3,984)	(567)	-	(12,861)
Depreciation and amortisation	-	(202)	(120)	(106)	(24)	-	(452)
Disposals	-	-	-	-	-	-	-
As at 31 March 2016	-	(5,512)	(3,120)	(4,090)	(591)	-	(13,313)
Net book value at 31 March 2016(OMR)	<u>4,100</u>	<u>4,266</u>	<u>1,548</u>	<u>1,351</u>	<u>206</u>	<u>1,930</u>	<u>13,401</u>

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
At 1 January 2015	4,100	8,678	3,889	4,948	726	1,694	24,035
Additions	-	805	822	406	79	227	2,339
Transfers/disposals	-	-	(52)	-	(39)	-	(91)
At 31 December 2015	<u>4,100</u>	<u>9,483</u>	<u>4,659</u>	<u>5,354</u>	<u>766</u>	<u>1,921</u>	<u>26,283</u>
Accumulated depreciation:							
At 1 January 2015	-	(4,551)	(2,614)	(3,561)	(505)	-	(11,231)
Depreciation and amortisation	-	(759)	(427)	(423)	(101)	-	(1,710)
Disposals	-	-	41	-	39	-	80
As at 31 December 2015	-	<u>(5,310)</u>	<u>(3,000)</u>	<u>(3,984)</u>	<u>(567)</u>	-	<u>(12,861)</u>
Net book value at 31 December 2015(OMR)	<u>4,100</u>	<u>4,173</u>	<u>1,659</u>	<u>1,370</u>	<u>199</u>	<u>1,921</u>	<u>13,422</u>

B6 Investment properties

Investment properties represent two plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. The Bank has recorded the land based on the average valuation carried out during 2008 by two professional valuers. The plots of land are currently held vacant. The fair value of these properties as at 31 December 2015 is RO 3.053 million.

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**
B7 Other assets

	31 March 2016 RO'000	31 December 2015 RO'000
Acceptances	9,806	6,045
Prepayments	2,917	3,974
Receivables	2,973	4,041
Deferred tax asset (note C6)	311	206
Positive fair value of derivatives	1,954	600
Other	2,520	1,139
	20,481	16,005

B8 Due to banks and other money market borrowings

	31 March 2016 RO'000	31 December 2015 RO'000
<i>Local currency:</i>		
Money market borrowings	15,001	31,604
Demand balances	1,268	6,142
	16,269	37,746
<i>Foreign currency:</i>		
Money market borrowings	312,680	247,190
Demand balances	1	561
Syndicated borrowings	96,562	96,515
	409,243	344,266
	425,512	382,012

B9 Customers' deposits

	31 March 2016 RO'000	31 December 2015 RO'000
Term deposits	657,509	659,880
Demand deposits	451,599	498,744
Saving deposits	296,312	286,577
Margin deposits	18,891	19,278
	1,424,311	1,464,479



NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

B9 Customers' deposits (continued)

	31 March 2016			31 December 2015		
	Conventional banking RO'000	Islamic Banking RO'000	Total RO'000	Conventional banking RO'000	Islamic banking RO'000	Total RO'000
<i>Retail customers:</i>						
Term deposits	25,794	2,784	28,578	18,600	1,431	20,031
Demand deposits	14,231	1,876	16,107	13,681	1,630	15,311
Saving deposits	264,395	31,917	296,312	260,236	26,341	286,577
<i>Corporate customers:</i>						
Term deposits	612,721	16,210	628,931	631,791	8,058	639,849
Demand deposits	429,273	6,219	435,492	477,303	6,130	483,433
Margin deposits	8,707	10,184	18,891	7,113	12,165	19,278
	<u>1,355,121</u>	<u>69,190</u>	<u>1,424,311</u>	<u>1,408,724</u>	<u>55,755</u>	<u>1,464,479</u>

B10 Other liabilities

	31 March 2016 RO'000	31 December 2015 RO'000
Interest payable	80	-
Acceptances	9,806	6,045
Staff entitlements	1,876	3,541
Income tax payable	612	3,988
Negative fair value of derivatives	1,921	479
Other accruals and provisions	18,721	17,470
	<u>33,016</u>	<u>31,523</u>

B11 Subordinated Loans

The Bank raised an unsecured subordinated loan of RO 50 million in 2010 with a maturity period of 7 years. The instrument is unlisted, non-transferable, and non-negotiable and non-convertible with no early call option. The instrument carries a fixed rate of interest of 6.5%. Principal amount of the subordinated loan is repayable on maturity while interest is payable semi-annually. The Bank is required to create a subordinated loan reserve equal to 20% of the issue value annually from August 2012 up till the maturity of the subordinated loans. This reserve is created at the end of each financial year from retained earnings. Accordingly, during 2015 an amount of RO 15.833 million (2014: RO 10 million) has been transferred to this reserve from retained earnings. According to the Regulations of CBO, the subordinated loan as reduced by subordinated loan reserve is considered as Tier II capital for capital adequacy purposes.

B12 Compulsorily convertible bonds

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

B13 Certificate of Deposits

During 2016, the Bank has not issued any certificate of deposits (2015: RO 18,000,000). The certificates of deposits issued by the Bank in 2015 are unsecured, denominated in Rial Omani and with a maturity of 3 years at a fixed interest rate.



**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**

B14 Share capital

The authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2014: 2,000,000,000 of RO 0.100 each). The issued and paid up share capital of the Bank is 1,585,584,000 shares of RO 0.100 each (2015: 1,441,440,000 shares of RO 0.100 each).

In the Annual general meeting held on 29th March 2016 the shareholders approved the board's recommendation to distribute 10% stock dividend resulting in issuance of 144,144,000 new shares.

As of 31 March 2016, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members:

	<i>Number of shares</i>	<i>% Holding</i>
Oman Investment & Finance Co. SAOG	242,765,133	15.31%
The Royal Court of Affairs	231,004,269	14.57%

B15 Legal reserve

In accordance with the Commercial Companies Law of Oman of 1974, an annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that the accumulated reserve is equal to at least one third of the Bank's issued share capital.

B16 General reserve

General reserve of RO 988,000 was created to cover the losses incurred by Sohar Islamic window for the year 2013 & 2014. From 2015 the Bank has not created any additional reserve, since there was profit recorded by Sohar Islamic window.

B17 Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of the available-for-sale investments net of applicable income tax until the investment is derecognised, sold or impaired.

B18 Net assets per share

The calculation of net assets per share is based on net assets of RO 250,064,000 as at 31 March 2016 (2015 - RO 253,162,000) attributable to ordinary shareholders on 1,585,584,000 ordinary shares, being the number of shares outstanding as at 31 March 2016 (2015: 1,441,440,000 ordinary shares).

B19 Contingent liabilities and commitments

B19.a Contingent liabilities

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

	31 March 2016 RO'000	31 December 2015 RO'000
Guarantees	357,389	340,892
Documentary letters of credit	43,961	36,180
	401,350	377,072

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



NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

B19 Contingent liabilities and commitments (continued)

B19.b Commitments

	31 March 2016 RO'000	31 December 2015 RO'000
Capital commitments	1,459	929
Credit related commitments	285,740	305,524
	<u>287,199</u>	<u>306,453</u>

Litigation is a common occurrence in the Banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

B20 Related party transactions

In the ordinary course of business the Bank conducts transactions with certain of its directors, shareholders, senior management, Shari'a supervisory board, Shari'a reviewer and companies in which they have a significant interest. These transactions are conducted on an arm's length basis and are approved by the Bank's management and Board of Directors.

The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

	31 March 2016 RO'000	31 December 2015 RO'000
Loans and advances (balance at end of period)	25,736	31,010
Loans disbursed during the period	35,331	164,255
Loans repaid during the period	(36,486)	(158,394)
Deposits (balance at end of period)	8,901	11,686
Deposits received during the period	4,900	7,793
Deposits paid during the period	(3,648)	(10,728)
Interest income (during the period)	167	875
Interest expense (during the period)	27	39
Senior management compensation		
Salaries and other short term benefits	1,143	4,279
Directors' sitting fees and remuneration	152	215
Shari'a Supervisory Board members	13	49

As at 31 March 2016, no loan given to any related party is impaired.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

B22 Derivatives

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses are included in the statement of comprehensive income. The derivative financial instruments used by the Bank are described below:

B22.1 Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

B22.2 Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall statement of financial position exposures.

The Bank uses forward foreign exchange contracts, to hedge against specifically identified currency risks. The Bank uses forward foreign exchange contracts to hedge against exposures in various currencies to meet the net open position limit as specified by CBO.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

The table below shows the notional amounts of derivative financial instruments as on the reporting date, which are the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

As at 31 March 2016	Notional amount	Notional amounts by term to maturity		
		Within 3 months	3 - 12 months	1 - 5 years
	RO'000	RO'000	RO'000	RO'000
Forward foreign exchange purchase contracts	443,787	172,467	200,095	71,225
Forward foreign exchange sales contracts	446,781	172,580	201,758	72,444

As at 31 December 2015	Notional amount	Notional amounts by term to maturity		
		Within 3 months	3 - 12 months	1 - 5 years
	RO'000	RO'000	RO'000	RO'000
Forward Foreign exchange purchase contracts	136,617	120,853	15,764	-
Forward foreign exchange sales contracts	136,617	120,853	15,764	-

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**
C1 Interest income

3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Loans and advances to customers	16,835
Due from banks and other money market placements	251
Investment securities	478
20,347	17,564

C2 Interest expense

3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Customers' deposits	4,726
Subordinated debt	801
Due to banks and other money market borrowings	578
Compulsorily convertible bonds	79
8,295	6,184

C3 Other operating income

3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Fees and commission	2,555
Net gains from foreign exchange dealings	586
Dividend income	876
Bad debt recovery written off earlier	151
Net gains/(losses) from held for trading investment securities	(36)
4,207	4,132

C4 Other operating expenses

3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Operating and administration costs	2,016
Establishment cost	557
Directors sitting fees *	163
Shari'a supervisory board remuneration and sitting fees	7
2,845	2,743

* include remuneration of OMR 131,600 (2015: OMR 144,800) for the previous year paid during the current period.



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

C5 Impairment allowance on portfolio basis

	3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Provided/(released) during the period (net):		
- on Loans and advances	502	244
- on Lending to Banks	40	(19)
	542	225

C6 Income tax

a) Recognized in the statement of comprehensive income

	3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Tax expenses		
- Current tax	600	757
- Deferred tax expense	(14)	(7)
Total tax expenses	586	750

The Bank is liable to income tax for the year 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.

b) Reconciliation

	3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Net profit before tax for the period	4,749	7,338
Income tax as per rates mentioned above	570	881
Tax impact of:		
- non-deductible expenses/losses	387	4
- tax exempt income	(371)	(135)
Income tax expense	586	750

c) Deferred tax (liability)/ asset

	31 March 2016 RO'000	31 December 2015 RO'000
On comprehensive income items	(213)	(227)
On other comprehensive income items	524	433
	311	206

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

C6 Income tax (continued)

d) Tax assessment

The assessments of the Bank for the years 2007 to 2013 are completed and for the year 2014 and 2015 has not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance. The Bank is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the financial position of the Bank as at 31 March 2016.

C7 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period.

	3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Net profit for the period	4,163	6,588
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	1,585,584	1,356,784
Basic earnings per share for the period (in baizas)	2.626	4.856
Basic earnings per share for the period annualized (in baizas)	10.531	19.692

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders (after adjusting for interest on the convertible bonds, net of tax) for the period by the weighted average number of ordinary shares including dilutive potential ordinary shares issued on the conversion of convertible bonds.

	3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Net profit for the period	4,163	6,588
Interest on convertible bonds, net of taxation	71	70
	4,234	6,658
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	1,645,668	1,397,876
Diluted earnings per share for the period (in baizas)	2.573	4.763
Diluted earnings per share for the period annualized (in baizas)	10.319	19.316



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

C8 Net income from Islamic financing and investing activities

C8.a Income earned from Islamic financing and investing activities

	3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Financing to customers	827	17
Due from banks and financial institutions	1	408
Investment securities	115	100
	943	525

C8.b Amount paid to depositors/money market borrowings

	3 Months ended 31 March 2016 RO'000	3 Months ended 31 March 2015 RO'000
Profit paid to depositors	182	14
Profit paid to banks and other money market borrowings	62	61
	244	75
Net income from Islamic financing and investing activities	699	450

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

D Financial risk management

The primary objective of the risk management system is to safeguard the Bank's capital and its financial resources from various risks. The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Such responsibility is discharged by the Board through a Risk Management Committee, constituted by the Board which is responsible for developing and monitoring the Bank's risk management policies in their specified areas. Risk Management Committee submits periodic reports to the Board, appraising on various aspects of risk and movement of risk profile of the Bank.

The Bank's risk management policies will focus on identification, measurement, monitoring and mitigation of risk, irrespective of its manner of manifestation. In this process, the Bank recognizes that dynamics of markets may necessitate decisions that may deviate on few occasions from the principles of CRM and to cater to such requirements, minimal and requisite level of flexibilities need to be built into the Bank's Risk Management policies, along with suitable and adequate safeguards/controls.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit department. Internal Audit department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

There are sub-committees at the management level for managing risks in businesses. Asset Liability Committee (ALCO) is for managing the risks in the balance sheet arising out of liquidity management, interest rates management as well as tenor of exposures taken by the Bank. Guidance is provided to the management by ALCO on managing these risks and risk appetite is articulated through various limits, ratios and caps. Operational Risk is managed under the guidance of Operational Risk Committee (ORCO) at the management level. Risk & Control Committee comprising of heads of Risk, Compliance and Audit is constituted to examine various critical events of risks that have surfaced and deliberate on weaknesses and suggest improvements in control, if required.

A separate ALCO has also been established to monitor the performance of the assets of Islamic banking services.

D1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, in simpler terms; it represents the probability of default by any counterparty in repayment of principal obligations and / or servicing interest obligations in accordance with the set redemption schedule or terms of contract.

D1.1 Management of credit risk

The Board of Directors has delegated responsibility for the monitoring of credit risk to its Risk Management Committee of the Board and is responsible for handling all facets of risk for both Islamic and conventional banking division. The Bank has a Chief Risk Officer who heads the management of Risk reporting to the Risk Management Committee. Credit risk is managed by the following:

- setting up risk limits and boundaries, within the regulatory guidelines, for risk origination to be within the approved risk appetite of the Bank;
- credit risk at the origination is managed and controlled through a time tested credit appraisal process which includes independent credit risk review of individual corporate credit proposals and through a Board approved retail products policy and template lending. Exceptions are reviewed by Credit Risk function.
- continuous monitoring of these stand-alone credit risks in the 'corporate' and 'emerging corporate' portfolio as well as in the retail credit portfolio through an independent loan review group (LRG), reporting to Risk Management committee of the Board, for risk grading of the portfolios and tracking the movement of the grades;
- portfolio credit risk measurement through tracking on the set portfolio risk parameters such as concentration risk;

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)****D Financial risk management (continued)****D1 Credit risk (continued)****D1.1 Management of credit risk (continued)**

- the Bank will not entertain credit proposals from entities/individuals, whose name appears in the CBO classified list under Bank Credit and Statistical Bureau (BCSB). However, in exceptional cases in the retail business unit, loans are approved, with strong justifications and risk mitigations for considering any such proposals, and then these have to be referred to delegated authorities, as per the retail loan policy;
- limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities);
- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary driver for the advances extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the client account with the Bank. To cover unforeseen risk, which dries up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans and advances are:

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

All loans and advances of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss – as stipulated by CBO regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**
D Financial risk management (continued)
D2 Liquidity risk
D2.1 Exposure to liquidity risk

The table below summarises the maturity profile of the Bank's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

	Carrying amount RO'000	Gross Nominal Outflow RO'000	Within 3 months RO'000	3 - 12 months RO'000	Over 1 year RO'000
31 March 2016					
Non- derivative liabilities					
Due to banks and other money market borrowings	425,512	431,978	168,855	86,872	176,251
Customers' deposits	1,424,311	1,503,193	917,561	378,106	207,526
Other liabilities	33,016	33,016	33,016	-	-
Subordinated loans	50,412	54,920	-	3,257	51,663
Compulsorily convertible bonds	7,288	7,634	2,545	108	4,981
Certificate of deposits	<u>18,187</u>	<u>20,166</u>	<u>361</u>	<u>361</u>	<u>19,444</u>
Total	<u>1,958,726</u>	<u>2,050,907</u>	<u>1,122,338</u>	<u>468,704</u>	<u>459,865</u>

	Carrying amount RO'000	Gross Nominal Outflow RO'000	Within 3 months RO'000	3 - 12 months RO'000	Over 1 year RO'000
31 December 2015					
Non - derivative liabilities					
Due to banks and other money market borrowings	382,012	387,668	118,435	131,785	137,448
Customers' deposits	1,464,479	1,541,106	909,094	447,071	184,941
Other liabilities	31,523	31,523	31,523	-	-
Subordinated loans	51,234	56,553	1,634	1,625	53,294
Compulsorily convertible bonds	7,207	7,633	-	2,652	4,981
Certificate of deposits	<u>18,008</u>	<u>20,166</u>	<u>-</u>	<u>722</u>	<u>19,444</u>
Total	<u>1,954,463</u>	<u>2,044,649</u>	<u>1,060,686</u>	<u>583,855</u>	<u>400,108</u>

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**
D Financial risk management (continued)
D3 Market risk
D3.1 Exposure to interest rate risk – non trading portfolios

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 March 2016 was as follows:

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non- sensitive to interest rate RO'000	Total RO'000
31 March 2016						
Assets						
Cash and balances with Central Banks	0.01	8,085	-	-	84,697	92,782
Due from banks and other money market lendings	1.26	101,066	7,690	-	10,623	119,379
Loans, advances and financing (net)	4.59	576,070	390,113	729,427	2,632	1,698,242
Investment securities	1.76	132,910	30,930	59,632	38,133	261,605
Property, equipment and fixtures	-	-	-	-	13,401	13,401
Investment properties	-	-	-	-	20,481	20,481
Other assets	-	-	-	-	2,900	2,900
Total assets		<u>818,131</u>	<u>428,733</u>	<u>789,059</u>	<u>172,867</u>	<u>2,208,790</u>
Liabilities and equity						
Due to banks and other money market borrowings	2.39	339,082	83,930	-	2,500	425,512
Customers' deposits	1.40	180,908	326,765	164,677	751,961	1,424,311
Other liabilities	-	-	-	-	33,016	33,016
Subordinated loans	6.50	-	-	50,000	412	50,412
Convertible bonds	4.50	2,383	-	4,767	138	7,288
Certificate of Deposits	4.00	-	-	18,000	187	18,187
Shareholders' funds	-	-	-	-	250,064	250,064
Total liabilities and equity		<u>522,373</u>	<u>410,695</u>	<u>237,444</u>	<u>1,038,278</u>	<u>2,208,790</u>
Total interest rate sensitivity gap		<u>295,758</u>	<u>18,038</u>	<u>551,615</u>	<u>(865,411)</u>	<u>-</u>
Cumulative interest rate sensitivity gap		<u>295,758</u>	<u>313,796</u>	<u>865,411</u>	<u>-</u>	<u>-</u>

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**
D Financial risk management (continued)
D3 Market risk (continued)
D3.1 Exposure to interest rate risk – non trading portfolios (continued)

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non- sensitive to interest rate RO'000	Total RO'000
31 December 2015						
Assets						
Cash and balances with Central Banks	-	-	-	500	121,840	122,340
Due from banks and other money market lendings	0.99	89,605	25,093	20	13,611	128,329
Loans, advances and financing (net)	4.60	555,777	367,729	723,805	-	1,647,311
Investment securities	1.45	159,154	19,611	60,160	38,393	277,318
Property, equipment and fixtures	-	-	-	-	13,422	13,422
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	-	-	-	16,005	16,005
Total assets		<u>804,536</u>	<u>412,433</u>	<u>784,485</u>	<u>206,171</u>	<u>2,207,625</u>
Liabilities and equity						
Due to banks and other money market borrowings						
	1.41	269,202	106,103	-	6,707	382,012
Customers' deposits	1.21	167,849	359,182	152,653	784,795	1,464,479
Other liabilities	-	-	-	-	31,523	31,523
Subordinated loans	6.50	-	-	51,234	-	51,234
Compulsorily convertible bonds	4.50	-	2,383	4,767	57	7,207
Certificate of Deposits	4.00	-	-	18,008	-	18,008
Shareholders' funds	-	-	-	-	253,162	253,162
Total liabilities and equity		<u>437,051</u>	<u>467,668</u>	<u>226,662</u>	<u>1,076,244</u>	<u>2,207,625</u>
Total interest rate sensitivity gap		<u>367,485</u>	<u>(55,235)</u>	<u>557,823</u>	<u>(870,073)</u>	<u>-</u>
Cumulative interest rate sensitivity gap		<u>367,485</u>	<u>312,250</u>	<u>870,073</u>	<u>-</u>	<u>-</u>

D4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank had the following net exposures denominated in foreign currencies:

	31 March 2016			31 December 2015		
	Assets FCY' 000	Liabilities FCY' 000	Net (liabilities)/assets FCY' 000	Assets FCY' 000	Liabilities FCY' 000	Net (liabilities)/assets FCY' 000
US Dollar	1,673,792	1,909,879	(236,087)	1,476,423	1,686,079	(209,656)
Euro	49,369	49,368	1	39,484	39,516	(32)
UAE Dirhams	8,461	46,718	(38,257)	21,386	86,042	(64,656)
Japanese Yen	12,006,235	12,002,276	3,959	13,715,031	13,711,316	3,715
Pound Sterling	4,338	4,196	142	4,056	3,979	77
Indian Rupee	11,042	84	10,958	7,375	84	7,291
Other currencies (in RO'000)			1,111			679

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2016 (continued)

D5 Capital management

D5.1 Regulatory capital

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

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

	31 March 2016 RO'000	31 December 2015 RO'000
Tier I capital		
Ordinary share capital	158,558	144,144
Share premium	16,702	16,702
Legal reserve	16,994	16,994
General reserve	988	988
Subordinated loan reserve	40,000	40,000
Retained earnings	24,083	34,334
Fair value losses	(7,350)	(7,314)
Deferred tax asset	(311)	(206)
	<hr/>	<hr/>
Total	249,664	245,642
	<hr/>	<hr/>
Tier 2 capital		
Impairment allowance on portfolio basis	21,240	20,698
Fair value gains	39	48
Subordinated loan	10,000	10,000
Compulsorily convertible bonds	7,150	7,150
	<hr/>	<hr/>
Total	38,429	37,896
	<hr/>	<hr/>
Total regulatory capital	288,093	283,538
	<hr/>	<hr/>
Risk-weighted assets		
Credit and market risks	2,037,661	2,002,111
Operational risk	115,943	115,943
	<hr/>	<hr/>
Total risk-weighted assets	2,153,604	2,118,054
	<hr/>	<hr/>
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	13.38%	13.39%
Total tier I capital expressed as a percentage of total risk-weighted assets	11.59%	11.60%

The capital adequacy ratio is calculated in accordance with the Basel II & Basel III norms as adopted by CBO. Disclosures required under Basel III and circular BM-1114 dated 17 November 2013 issued by Central Bank of Oman are available at investor relations section of the Bank's website.



**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**

E Segmental information

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into six operating segments based on products and services as follows:

- Wholesale banking includes loans and deposits including current accounts, term deposit etc. for corporate and Trade finance customers, international companies, institutional and government relationships.
- Retail banking includes deposits from retail customers, consumer loans, overdrafts, credit card and fund transfer facilities.
- Investments & FIG include proprietary investments, correspondent banking and credit exposure to international banks.
- Treasury includes the treasury function of the bank.
- Head office includes the pool of resources considered for transfer pricing and absorbs the cost of impairment loss on portfolio basis and income tax expense.
- Islamic banking includes Islamic financing activities, current accounts, unrestricted investment accounts and other products and services to corporate and individual customers under Sharia principles.

The CEO monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a Bank basis and are not allocated to operating segments.

Interest income is reported net as the CEO primarily relies on net interest income as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2016 or 2015.

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**
E1 Segmental information (continued)
31 March 2016

	<i>Retail banking RO'000</i>	<i>Wholesale banking RO'000</i>	<i>Investments / FIG* RO'000</i>	<i>Treasury RO'000</i>	<i>Head Office RO'000</i>	<i>Islamic banking RO'000</i>	<i>Total RO'000</i>
Income Statement							
Net interest income	5,503	6,081	253	235	(20)	-	12,052
Other operating income	710	2,027	(1,331)	837	(605)	160	1,798
Net income from Islamic financing	-	-	-	-	-	699	699
Operating Income	6,213	8,108	(1,078)	1,072	(625)	859	14,549
Operating expenses	(4,775)	(2,134)	(401)	(428)	-	(612)	(8,350)
Operating profit/(loss)	1,438	5,974	(1,479)	644	(625)	247	6,199
Impairment on investments	-	-	609	-	-	-	609
Impairment allowance on portfolio basis	-	-	-	-	(429)	(113)	(542)
Specific Provisions	(970)	(547)	-	-	-	-	(1,517)
Segment profit/(loss) for the period	468	5,427	(870)	644	(1,054)	134	4,749
Income tax expense	-	-	-	-	(586)	-	(586)
Net profit for the period	468	5,427	(870)	644	(1,640)	134	4,163

31 March 2016
Balance Sheet
Assets

Cash and balances with Central Bank	-	-	-	-	71,593	21,189	92,782
Due from Banks and other money market placements	-	-	29,877	89,275	-	227	119,379
Loans and advances (net)	521,139	1,099,191	-	-	-	77,912	1,698,242
Available-for-sale investments	-	-	22,640	228,822	-	10,143	261,605
Property, equipment and fixture	-	-	-	-	12,074	1,327	13,401
Other assets	-	-	-	-	19,699	782	20,481
Investment properties	-	-	-	-	2,900	-	2,900
	521,139	1,099,191	52,517	318,097	106,266	111,580	2,208,790

Liabilities

Due to Banks and other money market deposits	-	-	-	397,796	-	27,716	425,512
Customers' deposits	304,419	1,024,687	26,015	-	-	69,190	1,424,311
Other liabilities	-	-	-	-	30,720	2,296	33,016
Compulsorily convertible bonds	-	-	-	-	7,288	-	7,288
Subordinated loans	-	-	-	-	50,412	-	50,412
Certificate of Deposits	-	18,187	-	-	-	-	18,187
Shareholder's Equity	-	-	-	-	237,426	12,638	250,064
	304,419	1,042,874	26,015	397,796	325,846	111,840	2,208,790

* FIG stands for Financial Institution Group

**NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2016 (continued)**
E1 Segmental information (continued)

31 March 2015	<i>Retail banking RO'000</i>	<i>Wholesale banking RO'000</i>	<i>Investments / FIG* RO'000</i>	<i>Treasury RO'000</i>	<i>Head Office RO'000</i>	<i>Islamic banking RO'000</i>	<i>Total RO'000</i>
<i>Income Statement</i>							
Net interest income	5,729	6,386	(110)	382	(1,007)	-	11,380
Other operating income	1,046	1,689	1,271	583	(456)	238	4,371
Net income from Islamic financing	-	-	-	-	-	450	450
Operating Income	6,775	8,075	1,161	965	(1,463)	688	16,201
Operating expenses	(4,603)	(2,045)	(417)	(413)	-	(500)	(7,978)
Operating profit/(loss)	2,172	6,030	744	552	(1,463)	188	8,223
Impairment on investments	-	-	-	-	-	-	-
Impairment allowance on portfolio basis	-	-	-	-	(212)	(13)	(225)
Specific Provisions	(510)	(150)	-	-	-	-	(660)
Segment profit/(loss) for the period	1,662	5,880	744	552	(1,675)	175	7,338
Income tax expense	-	-	-	-	(750)	-	(750)
Net profit for the period	1,662	5,880	744	552	(2,425)	175	6,588
 31 December 2015							
<i>Balance Sheet</i>							
<i>Assets</i>							
Cash and balances with Central Bank	-	-	-	-	97,312	25,028	122,340
Due from Banks and other money market placements	-	-	21,991	106,212	-	126	128,329
Loans and advances (net)	503,508	1,076,803	-	-	-	67,000	1,647,311
Available-for-sale investments	-	-	21,641	245,650	-	10,027	277,318
Property, equipment and fixture	-	-	-	-	12,030	1,392	13,422
Other assets	-	-	-	-	15,272	733	16,005
Investment properties	-	-	-	-	2,900	-	2,900
	503,508	1,076,803	43,632	351,862	127,514	104,306	2,207,625
<i>Liabilities</i>							
Due to Banks and other money market deposits	-	-	-	347,457	-	34,555	382,012
Customers' deposits	292,518	1,095,024	21,182	-	-	55,755	1,464,479
Other liabilities	-	-	-	-	29,694	1,829	31,523
Compulsorily convertible bonds	-	-	-	-	7,207	-	7,207
Subordinated loans	-	-	-	-	51,234	-	51,234
Certificate of Deposits	-	18,008	-	-	-	-	18,008
Shareholder's Equity	-	-	-	-	240,658	12,504	253,162
	292,518	1,113,032	21,182	347,457	328,793	104,643	2,207,625

* FIG stands for Financial Institution Group