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bank muscat SAOG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

2015 US\$ 000's	2016 US\$ 000's	Notes	2016 RO 000's	2015 RO 000's
ASSETS				
6,265,070	2,705,382	5	1,041,572	2,412,052
2,575,300	1,367,831	6	526,615	991,491
1,155,774	1,026,824	9	395,327	444,973
2,655,023	1,463,898	9	563,601	1,022,184
133,057	132,457	9	50,996	51,227
17,390,872	18,447,593	7	7,102,323	6,695,486
1,648,648	2,220,797	7	855,007	634,729
436,416	421,618	8	162,323	168,020
124,016	124,868	11	48,074	47,746
199,016	192,810	12	74,232	76,621
32,583,192	28,104,078		10,820,070	12,544,529
LIABILITIES AND EQUITY				
LIABILITIES				
7,427,436	2,160,499	14	831,792	2,859,563
17,502,118	17,389,112	15	6,694,808	6,738,315
1,623,722	1,981,608	16	762,919	625,133
496,584	996,351	17	383,595	191,185
245,857	167,221	18	64,380	94,655
960,257	876,248	19	337,356	369,699
74,208	85,792	20	33,030	28,570
624,545	429,740	21	165,450	240,450
28,954,727	24,086,571		9,273,330	11,147,570
EQUITY				
Equity attributable to equity holders of parent				
595,281	648,377	22	249,625	229,183
1,207,665	1,262,966	23	486,242	464,951
441,060	635,865	24	244,808	169,808
198,426	216,125	24	83,208	76,394
13,779	13,779	12	5,305	5,305
360,000	251,143	25	96,690	138,600
(1,865)	(782)	38	(301)	(718)
50,036	49,958		19,234	19,264
(4,727)	(5,106)		(1,966)	(1,820)
768,810	945,182		363,895	295,992
3,628,465	4,017,507		1,546,740	1,396,959
32,583,192	28,104,078		10,820,070	12,544,529
US\$ 1.58	US\$ 1.61	27	RO 0.620	RO 0.610
Contingent liabilities and commitments				
8,276,395	7,762,310	28	2,988,489	3,186,412

These consolidated financial statements along with notes and other explanatory information on pages 13 to 100 were authorised for issue on _____ in accordance with the resolution of the Board of Directors.

Chairman

Director

Chief Executive

The notes and other explanatory information on pages 13 to 100 form an integral part of these consolidated financial statements

Independent auditor's report - pages 1 - 6.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

2015 US\$ 000's	2016 US\$ 000's	Notes	2016 RO 000's	2015 RO 000's
513,034	530,839		204,373	197,518
(6,652)	(4,486)	11	(1,727)	(2,561)
29,052	33,042	12	12,721	11,185
13,034	12,475	9	4,803	5,018
186,971	182,566	7	70,288	71,984
1,558	1,558	6	600	600
(93,191)	(94,129)	7	(36,240)	(35,879)
(13)	(8)		(3)	(5)
(8,317)	(9,366)	32	(3,606)	(3,202)
(7,777)	(12,244)	32	(4,714)	(2,994)
627,699	640,247		246,495	241,664
97,301	862,678		332,131	37,461
(889,834)	(1,135,826)		(437,293)	(342,586)
(617,712)	(581,481)		(223,870)	(237,819)
100,649	13,923		5,360	38,750
103,460	15,774		6,073	39,832
1,140,169	(113,005)		(43,507)	438,965
889,283	357,886		137,786	342,374
(119,481)	-		-	(46,000)
-	500,000		192,500	-
(21,562)	(82,720)		(31,847)	(8,301)
1,309,972	477,476		183,828	504,340
(57,875)	(60,335)		(23,229)	(22,282)
1,252,097	417,141		160,599	482,058
4,187	4,182	11	1,610	1,612
7,777	12,244	32	4,714	2,994
(741,629)	(308,210)		(118,661)	(285,527)
211,847	237,535		91,451	81,561
(41,465)	(27,158)	12	(10,456)	(15,964)
62	319		123	24
(559,221)	(81,088)		(31,219)	(215,300)
(141,732)	(148,818)	26	(57,295)	(54,567)
-	(194,805)	21	(75,000)	-
(141,732)	(343,623)		(132,295)	(54,567)
551,144	(7,570)		(2,915)	212,191
3,012,291	3,563,435		1,371,923	1,159,732
3,563,435	3,555,865	34	1,369,008	1,371,923

The notes and other explanatory information on pages 13 to 100 form an integral part of these consolidated financial statements.

Independent auditor's report - pages 1 - 6.

Chairman's Report 2016

Dear Shareholders,

I am glad to share with you the results achieved by the bank during 2016. The key business lines of the bank maintained performance momentum during the year.

Oman's Economy

In light of the impact of low oil prices and the resultant macroeconomic conditions, Oman witnessed a GDP growth of 2.5 per cent in 2016 on the back of fiscal adjustment and structural reforms, according to the World Bank. The banking and financial sector maintained healthy credit growth of over 10 per cent while Muscat Securities Market (MSM) ended the year on a positive note with its index scaling 6.96 per cent compared to the previous year. Oman's inflation level averaged 1.58 per cent in 2016.

Financial Overview

The Bank posted net profit of RO 176.56 million for the period compared to RO 175.45 million reported during the same period in 2015, an increase of 0.6 per cent. Net Interest Income from Conventional Banking and Income from Islamic Financing stood at RO 274.15 million for the year 2016 compared to RO 260.51 million for the same period in 2015, an increase of 5.2 per cent.

Non-interest income at RO 142.03 million was lower by 3.5 per cent compared to RO 147.23 million for the year ended 31st December 2015. Operating expenses for the year ended 31st December 2016 at RO 174.08 million was marginally higher by 1.8 per cent as compared to RO 171.06 for the same period in 2015.

Impairment for credit losses for the year of 2016 was RO 70.29 million as against RO 71.98 million for the same period in 2015. Recoveries from impairment for credit loss was RO 36.24 million for the year of 2016 as against RO 35.88 million for the same period in 2015. Share of income from

associates for the year of 2016 was RO 1.73 million against RO 2.56 million for the same period in 2015.

Net Loans and advances from conventional operation increased by 6.1 per cent to RO 7,102 million as against RO 6,695 million as at 31st December 2015. Customer deposits from the conventional operations decreased by 0.6 per cent to RO 6,695 million as against RO 6,738 million as at 31st December 2015.

Islamic financing receivables amounted to RO 855 million of 31st December 2016 compared to RO 635 million in the same period of 2015. Islamic Banking customer deposits amounted to RO 763 million as of 31st December 2016 compared to RO 625 million reported in 31st December 2015.

The basic earnings per share were RO 0.067 in 2016 against RO 0.067 in the year 2015. The bank's capital adequacy ratio stood at 16.90 per cent as on 31 December 2016 after appropriation for proposed dividend for the year 2016 against the minimum required level of 12.625 per cent as per Basel III regulations issued by the Central Bank of Oman.

The Board of Directors has proposed a dividend of 30%, 25% in the form of cash and 5% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 62.406 million on Bank's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 124,812,512 shares of RO 0.100 each amounting to RO 12.481 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders and regulatory authorities.

Key developments

- The bank was mandated to arrange syndicated loans for a petrochemical project and a liquefied petroleum gas (LPG) project. The bank was also mandated as Lead Arranger to finance two power generation projects and a water desalination plant project.

- The bank successfully structured the debut investment transaction for the first real estate fund in Oman structured on REIT principles. The Izdihar Real Estate Fund closed two transactions adding USD 85 million to the AUM
- Endorsing global investor confidence, the bank achieved successful pricing and closure of a 5 year, USD 500 million bond issuance under its Euro Medium Term Note (EMTN) programme.
- Promoting secure digital banking solutions, the bank enhanced the network of ATM/CDM, mobile banking, online banking and Call Centre. A mobile application showcasing key asset management services was launched to familiarise customers with the world of investment. The bank also launched 'BM Offers' app showcasing new product promotions and developments.
- Marking a new phase in customer-centric initiatives, the bank launched a new dedicated social media communication channel on Twitter for customer care. As part of efforts to enhance customer experience, the bank launched CareMore initiative offering soft skills training for employees.
- The bank, as part of its commitment to secure banking and in line with the Omani government's ambitious eGovernment project, maintained lead in distribution of Chip and PIN debit cards to customers across the Sultanate with special desks in all branches and extended working hours in select branches across the Sultanate.
- The bank successfully completed, becoming the first bank in Oman to be certified for ISO 9001:2015 Quality Management System standards.
- Meethaq Islamic Banking took a major stride in supporting the Sultanate's economic development as Oman's first and only Shari'a based aircraft finance was extended to the national carrier Oman Air for acquiring its second Boeing 787 Dreamliner.
- Aimed at enhancing in-country value and sustainable development, Meethaq Islamic Banking hosted a Memorandum of Understanding (MoU) between BAUER Nimr and Sebacic Oman for castor cultivation using treated oil contaminated water.

CSR & Sustainability

- On the occasion of 46th National Day, the bank launched Imprints, a first-of-its-kind social responsibility initiative focused on four key programmes to inculcate financial literacy, promote sustainable tourism, sustain green environment and encourage enriched and healthy lifestyle.
- The bank evoked big response to Green Sports programme as 86 sports teams from across the Sultanate applied seeking support for greening and infrastructure development of football fields in 2017. Marking the sixth year of the unique CSR initiative, the bank will support the development of 15 football fields in 2017.
- As part of Tadamun initiative, supporting people with special needs to equip them to join mainstream society, the bank presented hearing aids to children with hearing disabilities. The bank also extended a helping hand for rehabilitation of two children with Down Syndrome.
- The bank as part of 'Jesr al Mustaqbal' (Bridge to Future) initiative, joined hands with the Ministry of Higher Education to provide 20 scholarships to students pursuing undergraduate programmes in Oman.

Awards and Accolades

The bank won prestigious global, regional and local awards in 2016. The bank unanimously won the Best Bank in Oman awards from the most important international institutions - Global Finance, The Banker and Euromoney. The notable accolades for the bank included the unique distinction of being the only Omani company to be ranked in the Forbes Top 100 Companies in the Arab World 2016, the Best Private Bank in Oman award by Global Finance, the Best Online Service in Oman award by Banker Middle East.

The Year Ahead

Cautious optimism prevails for Oman's economy in 2017 owing to its stable fundamentals and prudent policies to support fiscal reforms and non-oil sectors. A modest two per cent growth in GDP in 2017, as projected in Oman's State Budget for the year, will be the focus as the government makes headway on privatisation reform and implementation of Tanfeedh-led non-oil economic diversification strategy. The 9th Five Year Plan projects provide room for the private sector to participate in infrastructure projects which will continue to give a fillip to the economy as well as

generate employment opportunities. Going forward, the bank is well positioned to continue its prudent policies and align growth, finding new opportunities in challenging market conditions.

In Conclusion

On behalf of the Board of Directors, I take this opportunity to thank the banking community, both in Oman and overseas, the shareholders and clients for the confidence. I would also like to thank the Management Team and all our employees for their dedication to reach higher levels of excellence. Following 34 years of successful growth, the Sultanate's flagship financial institution is poised to further consolidate its leading position, driven by the 'Let's Do More' vision which reflects the strategy for the coming period. The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Market Authority to strengthen the financial market in the Sultanate.

As Oman marches into 47th year of the glorious Renaissance in 2017, we express our deep gratitude and appreciation to our leader, His Majesty Sultan Qaboos Bin Said for his vision and guidance, which has helped the country along its path of success, growth and prosperity.



Khalid bin Mustahail Al Mashani

Draft subject to Central Bank of Oman approval

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**CONSOLIDATED STATEMENT CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

Attributable to equity holders of Parent Company											
Notes	Share capital RO 000	Share premium RO 000	General reserve RO 000	Legal reserve RO 000	Revaluation reserve RO 000	Subordinated loan reserve RO 000	Cash flow hedge reserve RO 000	Cumulative changes in fair value RO 000	Foreign currency translation reserve RO 000	Retained profit RO 000	Total RO 000
At 1 January 2016	229,183	464,951	169,808	76,394	5,305	138,600	(718)	19,264	(1,820)	295,992	1,396,959
Profit for the year	-	-	-	-	-	-	-	-	-	176,560	176,560
Share of other comprehensive income/(expense) of an associate	-	-	-	-	-	-	-	217	(6)	-	211
Other comprehensive income/(expense)	-	-	-	-	-	-	417	(247)	(140)	-	30
Total comprehensive income/(expense) for the year	-	-	-	-	-	-	417	(30)	(146)	176,560	176,801
Dividends paid	26	-	-	-	-	-	-	-	-	(57,295)	(57,295)
Issue of bonus shares during the year	23	11,458	-	-	-	-	-	-	-	(11,458)	-
Transfer to legal reserve	24	-	-	6,814	-	-	-	-	-	(6,814)	-
Conversion of mandatory convertible bonds	18	8,984	21,291	-	-	-	-	-	-	-	30,275
Transfer from subordinated loan reserve	25	-	-	75,000	-	-	(75,000)	-	-	-	-
Transfer to subordinated loan reserve	25	-	-	-	-	33,090	-	-	-	(33,090)	-
At 31 December 2016 (RO 000's)	249,625	486,242	244,808	83,208	5,305	96,690	(301)	19,234	(1,966)	363,895	1,546,740
At 31 December 2016 (US\$ 000's)	648,377	1,262,966	635,865	216,125	13,779	251,143	(782)	49,958	(5,106)	945,182	4,017,507

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The notes and other explanatory information on pages 13 to 100 form an integral part of these consolidated financial statements.

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**CONSOLIDATED STATEMENT CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

Attributable to equity holders of Parent Company												
	Notes	Share capital RO 000's	Share premium RO 000's	General reserve RO 000's	Legal reserve RO 000's	Revaluation reserve RO 000's	Subordinated loan reserve RO 000's	Cash flow hedge reserve RO 000's	Cumulative changes in fair value RO 000's	Foreign currency translation reserve RO 000's	Retained profit RO 000's	Total RO 000's
At 1 January 2015		218,269	464,951	169,808	72,756	5,145	118,600	(576)	21,639	(925)	242,400	1,312,067
Profit for the year		-	-	-	-	-	-	-	-	-	175,451	175,451
Share of other comprehensive income/ (expense) of an associate		-	-	-	-	160	-	-	(523)	(254)	-	(617)
Other comprehensive income/ (expense)		-	-	-	-	-	-	(142)	(1,852)	(641)	-	(2,635)
Total comprehensive income for the year		-	-	-	-	160	-	(142)	(2,375)	(895)	175,451	172,199
Dividends paid	26	-	-	-	-	-	-	-	-	-	(54,567)	(54,567)
Issue of mandatory convertible bonds	26	-	-	-	-	-	-	-	-	-	(32,416)	(32,416)
Issue expenses of mandatory convertible bonds	26	-	-	-	-	-	-	-	-	-	(324)	(324)
Issue of bonus shares during the year		10,914	-	-	-	-	-	-	-	-	(10,914)	-
Transfer to legal reserve	24	-	-	-	3,638	-	-	-	-	-	(3,638)	-
Transfer to subordinated loan reserve	25	-	-	-	-	-	20,000	-	-	-	(20,000)	-
At 31 December 2015 (RO 000's)		<u>229,183</u>	<u>464,951</u>	<u>169,808</u>	<u>76,394</u>	<u>5,305</u>	<u>138,600</u>	<u>(718)</u>	<u>19,264</u>	<u>(1,820)</u>	<u>295,992</u>	<u>1,396,959</u>
At 31 December 2015 (US\$ 000's)		<u>595,281</u>	<u>1,207,665</u>	<u>441,060</u>	<u>198,426</u>	<u>13,779</u>	<u>360,000</u>	<u>(1,865)</u>	<u>50,036</u>	<u>(4,727)</u>	<u>768,810</u>	<u>3,628,465</u>

The notes and other explanatory information on pages 13 to 100 form an integral part of these consolidated financial statements.

Independent auditor's report - pages 1 - 6.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

2015 US\$ 000's	2016 US\$ 000's		Notes	2016 RO 000's	2015 RO 000's
863,673	925,139	Interest income	29	356,178	332,514
(235,483)	(274,317)	Interest expense	30	(105,612)	(90,661)
628,190	650,822	Net interest income		250,566	241,853
67,122	96,114	Income from Islamic financing/Investments	29	37,004	25,842
(18,660)	(34,863)	Distribution to depositors	30	(13,422)	(7,184)
48,462	61,251	Net income from Islamic financing		23,582	18,658
		Net interest income and income from Islamic financing		274,148	260,511
676,652	712,073				
266,964	247,507	Commission and fee income (net)	31	95,290	102,781
115,439	121,394	Other operating income	32	46,737	44,444
1,059,055	1,080,974	Operating income		416,175	407,736
		Operating expenses			
(415,249)	(419,110)	Other operating expenses	33	(161,357)	(159,871)
(29,052)	(33,042)	Depreciation	12	(12,721)	(11,185)
(444,301)	(452,152)			(174,078)	(171,056)
(1,558)	(1,558)	Impairment for due from banks	6	(600)	(600)
(186,971)	(182,566)	Impairment for credit losses	7	(70,288)	(71,984)
93,191	94,130	Recoveries from provision for credit losses	7	36,240	35,879
(13,034)	(12,475)	Impairment for investments available-for-sale	9	(4,803)	(5,018)
6,652	4,486	Share of results from an associate	11	1,727	2,561
(546,021)	(550,135)			(211,802)	(210,218)
513,034	530,839	Profit before taxation		204,373	197,518
(57,317)	(72,242)	Tax expense	20	(27,813)	(22,067)
455,717	458,597	Profit for the year		176,560	175,451
		Other comprehensive income (expense)			
		<i>Net other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods</i>			
(660)	(16)	Foreign currency translation of investment in an associate	11	(6)	(254)
(1,665)	(364)	Translation of net investments in foreign operations		(140)	(641)
(1,358)	564	Share of other comprehensive income (expense) of an associate	11	217	(523)
(4,810)	(642)	Change in fair value of investments available-for-sale	21	(247)	(1,852)
(369)	1,083	Change in fair value of cash flow hedge	38	417	(142)
(8,862)	625			241	(3,412)
		<i>Other comprehensive income (expense) not to be reclassified to profit or loss in subsequent periods</i>			
416	-	Surplus on revaluation of land and building	12	-	160
(8,446)	625	Other comprehensive income (expense) for the year	21	241	(3,252)
447,271	459,222	Total comprehensive income (expense) for the year		176,801	172,199

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The notes and other explanatory information on pages 13 to 100 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

Items in the other comprehensive income are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 20.

Independent auditor's report - pages 1 - 6.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****1. Legal status and principal activities**

bank muscat SAOG (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of 154 branches within the Sultanate of Oman and one branch each in Riyadh, Kingdom of Saudi Arabia and Kuwait. The Bank has representative offices in Dubai, United Arab Emirates and Singapore. The Bank has 2 subsidiaries in Riyadh, Kingdom of Saudi Arabia. The Bank operates in Oman under a banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank has its primary listing on the Muscat Securities Market.

The Bank and its subsidiary (together, the Group) operate in five countries (2015- five countries) and employed 3,747 employees as of 31 December 2016 (2015: 3,712).

During 2013, the Parent Company inaugurated "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking license granted by the CBO on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities. The principal activities of Meethaq include: accepting customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes; undertaking Shari'a compliant investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 31 December 2016, Meethaq has 17 branches (2015 - 16 branches) in the Sultanate of Oman.

2. Basis of preparation**2.1 Statement of compliance**

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

The Islamic window operation of the Parent Company; "Meethaq" uses Financial Accounting Standards ("FAS"), issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), for preparation and reporting of its financial information. Meethaq's financial information is included in the results of the Bank, after adjusting financial reporting differences, if any, between AAOIFI and IFRS.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivative financial instruments, available-for-sale investment securities and investment recorded at fair value through profit or loss. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Group's operations.

For the ease of users, relevant balances of Meethaq are separately presented in these consolidated financial statements wherever applicable. A complete set of standalone financial statements of Meethaq, prepared under AAOIFI, is included in the Bank's annual report.

2.3 Functional and presentation currency

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

2. Basis of preparation (continued)

2.4 New Standards, implementations and amendments in existing standards

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

For the year ended 31 December 2016, the Group 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 new standards and amendments became effective as of 1 January 2016:

- Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38;
- Annual improvements to IFRSs 2012 – 2014 cycle; and
- Disclosure initiative – amendments to IAS 1.

The adoption of above amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Group. The Bank's assessment of the impact of these new standards and interpretations is set out below:

Title of the standard	IFRS 9 Financial instruments
Nature of change	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
Impact	<p>IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognizing loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.</p> <p>The application of IFRS 9 may have significant impact on amounts reported in the consolidated financial statements and will result in more extensive disclosures in the consolidated financial statements. However, the Group is currently in the process of evaluating and implementing the required changes in its systems, policies and processes to comply with IFRS 9 and regulatory requirements, and hence it is not practical to disclose a reliable quantitative impact until the implementation programme is further advanced.</p> <p>Overall, the Bank and its subsidiaries expect no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Bank plan to adopt the new standard on the required effective date.</p> <p>Debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no material change to the accounting for these assets.</p> <p>The other financial assets held by the Bank include:</p> <ol style="list-style-type: none"> 1. equity instruments currently classified as AfS for which a FVOCI election is available 2. equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under IFRS 9, and 3. debt instruments currently classified as held-to-maturity and measured at amortised cost which appear to meet the conditions for classification at amortised cost under IFRS 9. <p>Accordingly, the Bank and its subsidiaries does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.</p>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

2. Basis of preparation (continued)

2.4 New Standards, implementations and amendments in existing standards (continued)

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

Title of the standard	IFRS 9 Financial instruments
Mandatory application date/ Date of adoption by Group	<p>There will be no material impact on the Bank and its subsidiaries accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.</p> <p>The new hedge accounting rules will align the accounting for hedging instruments more closely with the Bank's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Bank and its subsidiaries are yet to undertake a detailed assessment, it would appear that the Bank's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Bank and its subsidiaries does not expect a significant impact on the accounting for its hedging relationships.</p> <p>The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Bank and its subsidiaries has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses and provisions will be more volatile.</p> <p>The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.</p>
Mandatory application date/ Date of adoption by Group	<p>Must be applied for financial years commencing on or after 1 January 2018.</p> <p>Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.</p> <p>The Group does not intend to adopt IFRS 9 before its mandatory date.</p>
Title of the standard	IFRS 15 Revenue from Contracts with Customers
Nature of change	<p>The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.</p> <p>The standard permits either a full retrospective or a modified retrospective approach for the adoption.</p>
Impact	<p>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. The Bank and its subsidiaries are currently assessing the impact of IFRS 15 and plan to adopt the new standard on the required effective date.</p>
Mandatory application date/ Date of adoption by Group	<p>Mandatory for financial years commencing on or after 1 January 2018.</p> <p>Expected date of adoption by the Bank and its subsidiaries: 1 January 2018.</p>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

2. Basis of preparation (continued)

2.4 New Standards, implementations and amendments in existing standards (continued)

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

Title of the standard	IFRS 16 Leases
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	The standard will affect primarily the accounting for the Group's operating leases. However, the Bank and its subsidiaries has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Bank and its subsidiary's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.
Mandatory application date/ Date of adoption by Group	Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Bank does not intend to adopt the standard before its effective date.

2.5 Consolidation

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee that significantly affect their returns)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

2. Basis of preparation (continued)

2.5 Consolidation (continued)

(a) Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with IFRS 10. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interests is recognised in equity of the Group in transactions where the non-controlling interests are acquired or sold without loss of control.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****2 Basis of preparation (continued)****2.5 Consolidation (continued)***(c) Investment in associates*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment is recognised in the profit or loss.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

3. Significant accounting policies

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

3.1 Foreign currency translation

- (i) Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.
- (ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.
- (iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.
- (iv) On consolidation, the assets and liabilities of foreign operations are translated into Rial Omani at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in other operating expenses or other operating income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

3.2 Revenue and expense recognition

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

3.2.1 Interest

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****3. Significant accounting policies (continued)****3.2 Revenue and expense recognition (continued)****3.2.1 Interest (continued)**

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

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

3.2.2 Fees and commission

Fees integral to the effective interest rate (EIR) is included in the EIR calculation, and are recognised over the life of the financial instrument. Fees integral to the origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

3.2.3 Dividends

Dividend income is recognised in the consolidated statement of comprehensive income in 'Other operating income', when the Group's right to receive the dividend is established.

3.2.4 Provisions

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

3.3 Financial assets and liabilities**3.3.1 Classification**

The Group 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, intention of the management and the contractual terms. Management determines the classification of its financial assets at initial recognition. The Group measures all financial liabilities at amortised cost, except for financial liabilities at fair value through profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

3. Significant accounting policies (continued)

3.3 Financial assets and liabilities (continued)

3.3.1 Classification (continued)

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

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of trading i.e. are held for trading. Management may also 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.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables in the statement of financial position includes 'cash and balances with central banks', 'due from banks', 'Loans and advances', Islamic financing receivables' and 'other assets except prepayments' and instruments for which the entity may not recover all of its initial investment other than because of credit deterioration.

When the Group 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 consolidated 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 consolidated statement of comprehensive income as 'Impairment for credit losses'.

(c) Held to maturity

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

3. Significant accounting policies (continued)

3.3 Financial assets and liabilities (continued)

3.3.1 Classification (continued)

(d) Available-for-sale financial assets

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

The Group 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 and foreign currency 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.

(e) 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in other operating income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statement of comprehensive income when the inputs become observable.

3.3.2 Derivative financial instruments and hedging activities

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

- (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

3 Significant accounting policies (continued)

3.3 Financial assets and liabilities (continued)

3.3.2 Derivative financial instruments and hedging activities (continued)

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

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

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

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****3 Significant accounting policies (continued)****3.3 Financial assets and liabilities (continued)****3.3.2 Derivative financial instruments and hedging activities (continued)****(ii) Cash flow hedges (continued)**

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

3.3.3 Recognition

The Group 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 Group becomes a party to the contractual provisions of the instrument.

3.3.4 Derecognition**(i) Financial assets**

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

- The rights to receive cash flows from the asset have expired
- The Group 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 Group has transferred substantially all the risks and rewards of the asset; Or
 - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group 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 Group's continuing involvement in the asset. In that case, the Group 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 Group 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 Group 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 THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****3 Significant accounting policies (continued)****3.3 Financial assets and liabilities (continued)****3.3.5 Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group 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.

3.3.6 Amortised cost measurement

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

3.3.7 Fair value measurement

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 43.

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 Group.

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 Group 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 consolidated 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****3 Significant accounting policies (continued)****3.3 Financial assets and liabilities (continued)****3.3.7 Fair value measurement (continued)**

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group 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 Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

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

3.3.8 Investment in equity and debt securities

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

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

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

3.3.9 Fair value measurement of derivatives

The fair value of forward contracts/options and others are estimated based on observable market inputs for such contracts as on the reporting date.

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

The fair value of options is determined based on its intrinsic values, term to maturity and implied volatility.

3.4 Identification and measurement of impairment of financial assets*(a) Assets carried at amortised cost*

The Group 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 Group about the following loss events as well as considering the guidelines issued by the Central Bank of Oman:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

3 Significant accounting policies (continued)

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

(a) Assets carried at amortised cost (continued)

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

The Group 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 Group 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 Group 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 consolidated statement of comprehensive income. Also refer to notes 3.3.1. (b) loans and receivables and 3.3.1. (c) held to maturity investments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

3 Significant accounting policies (continued)

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

3.5 Cash and cash equivalents

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

3.6 Due from banks

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

3 Significant accounting policies (continued)

3.7 Property and equipment

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

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

Revaluations of freehold land and buildings are carried out every five years on an open market value for existing use basis, by an independent valuer. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of comprehensive income. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Freehold and leasehold buildings	20 - 50
Leased hold improvements	5 - 10
Furniture, fixtures and equipment	5 - 10
Motor vehicles	3 - 5

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

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

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

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

3.8 Collateral pending sale

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****3 Significant accounting policies (continued)****3.9 Business combination and Goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date at fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

3.10 Deposits

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****3 Significant accounting policies (continued)****3.11 Income tax**

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

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

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

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

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

3.12 Fiduciary assets

The Group provides trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

3.13 Acceptances

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

3.14 Repurchase and resale agreements

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

3.15 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 the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****3 Significant accounting policies (continued)****3.16 Leases**

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

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

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

3.17 Employee terminal benefits

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of comprehensive income when accrued.

The Group's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods.

3.18 Earnings per share

The Group 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 Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

3.19 Financial guarantees contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Group'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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****3 Significant accounting policies (continued)****3.20 Borrowings**

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

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

3.21 Dividend on ordinary shares

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

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

3.22 Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman. These costs are recorded as expenses in the period in which they are incurred.

3.23 Share Capital

Ordinary shares with discretionary dividends and other eligible shares / instruments are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

4 Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in this note. Specific fair value estimates are disclosed in note 43.

The Group's significant accounting estimates were on:

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group 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 Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed 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 Group takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro economic conditions.

A table shows the sensitivity analysis and its impact of increase or decrease in the net credit loss percentages of loans and advances and Islamic financing receivables by 10 bps and 20 bps compared to the loss estimates on the impairment losses is as follows:

Sensitivity of impairment estimates	At 31 December 2016		At 31 December 2015	
	% of change in net credit losses cost (+/-)	Change in impairment for credit losses (+/-) RO,000	% of change in net credit losses (+/-)	Change in impairment for credit losses (+/-) RO,000
Carrying of loans and advances	10 bps	8,271	10 bps	7,628
Carrying of loans and advances	20 bps	16,542	20 bps	15,256

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

4 Critical accounting estimates and judgements (continued)

(b) Impairment on due from banks

The Group 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 consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating an impairment. For individually impaired placements, the Group considers the necessary impairment loss based on the expected cash flows and borrower's financial position. In addition, the Group 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.

Sensitivity of impairment estimates	At 31 December 2016		At 31 December 2015	
	% of change in net cash flows (+/-)	Change in impairment for credit losses (+/-) RO,000	% of change in net cash flows (+/-)	Change in impairment for credit losses (+/-) RO,000
Due from banks	5 bps	265	5 bps	499
Due from banks	10 bps	529	10 bps	997

(c) 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 Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group uses expected cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

The sensitivity analysis of the fair value of derivatives and other financial instruments is shown in note 43, fair value information.

(d) Impairment of available-for-sale equity investments

The Group 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 Group 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.

The sensitivity analysis and its impact of impairment of available-for-sale equity investments is shown in note 43, fair value information.

(e) Impairment loss on investments in associates

The Group reviews its investments in associates periodically and evaluates the objective evidence of impairment. Objective evidence includes the performance of the associate, the future business model, local economic conditions and other relevant factors. Based on the objective evidences, the Group determines the need for impairment loss on investments in associates. The investment in associate is a strategic investment of the Group, which is not subject to short term market variables and hence not considered sensitive.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

4 Critical accounting estimates and judgements (continued)

(f) 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 Group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Group. 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.

A table showing the impact of increase in the effective tax rate by 1% and 3% is as follows:

Sensitivity of assumptions used in the tax calculations	At 31 December 2016		At 31 December 2015	
	% of change in tax expense (+/-)	Change in tax expenses (+/-) RO,000	% of change in tax expense (+/-)	Change in tax expenses (+/-) RO,000
Changes in carrying value	5%	1,391	5%	1,103

5. Cash and balances with Central Banks

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
538,649	430,735	Cash	165,833	207,380
1,299	1,299	Capital deposit with Central Banks	500	500
26,423	1,137,023	Certificate of deposits with Central Banks	437,754	10,173
5,698,699	1,136,325	Other balances with Central Banks	437,485	2,193,999
6,265,070	2,705,382		1,041,572	2,412,052

The capital deposit with the Central Banks cannot be withdrawn without the approval of the respective Central Bank. During the year, average minimum balance to be kept with Central Banks as statutory reserves is RO 299.4 million (2015: RO 384.6 million)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

6. Due from banks

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
360,831	370,021	Nostro balances	142,458	138,920
1,800,636	652,384	Inter-bank placements	251,168	693,245
428,248	361,400	Loans to banks	139,139	164,876
2,589,715	1,383,805		532,765	997,041
(14,415)	(15,974)	Provision for impairment	(6,150)	(5,550)
2,575,300	1,367,831		526,615	991,491

The movement in provision for impairment is analysed below:

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
12,857	14,415	1 January	5,550	4,950
1,558	1,558	Provided during the year	600	600
14,415	15,973	31 December	6,150	5,550

7. Loans and advances/ Islamic financing receivables

Loans and advances - conventional

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
15,899,658	17,150,944	Loans	6,603,113	6,121,368
715,823	569,003	Overdrafts and credit cards	219,066	275,592
613,379	566,236	Loans against trust receipts	218,001	236,151
63,475	57,353	Bills purchased and discounted	22,081	24,438
843,049	881,335	Other advances	339,314	324,574
18,135,384	19,224,871		7,401,575	6,982,123
(744,512)	(777,278)	Provision for impairment	(299,252)	(286,637)
17,390,872	18,447,593		7,102,323	6,695,486

Islamic financing receivables

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
853,364	1,011,727	Housing finance	389,515	328,545
117,494	112,052	Consumer finance	43,140	45,235
706,543	1,135,039	Corporate finance	436,990	272,019
1,677,401	2,258,818		869,645	645,799
(28,753)	(38,021)	Provision for impairment	(14,638)	(11,070)
1,648,648	2,220,797		855,007	634,729

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

7. Loans and advances/islamic financing receivables (continued)

The movement in provision for impairment is analysed below:

Impairment for credit losses

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
617,535	713,721	At 1 January	274,782	237,750
186,971	182,566	Provided during the year	70,288	71,984
(90,618)	(74,540)	Released during the year	(28,698)	(34,888)
(3,756)	(5,925)	Written off during the year	(2,281)	(1,446)
-	(59,795)	Transfer to memorandum portfolio	(23,021)	-
4,091	3,164	Transfer from memorandum portfolio	1,218	1,575
(312)	(132)	Foreign currency translation difference	(51)	(120)
(190)	-	Transfer to collateral pending sale	-	(73)
713,721	759,059	31 December (a)	292,237	274,782

Contractual interest/profit not recognised

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
54,917	59,544	At 1 January	22,925	21,144
30,364	36,257	Contractual interest not recognised	13,959	11,690
(24,644)	(12,374)	Contractual interest recovered	(4,764)	(9,488)
(1,335)	(2,499)	Written off during the year	(962)	(514)
242	260	Transfer from memorandum portfolio	100	93
-	(24,948)	Transfer to memorandum portfolio	(9,605)	-
59,544	56,240	At 31 December (b)	21,653	22,925
773,265	815,299	Total impairment (a) + (b)	313,890	297,707

Recoveries during the year of RO 36.240 million (2015: RO 35.879 million) include RO 7.542 million (2015: RO 0.991 million) recovered from loans written off earlier. The loans transferred to memorandum portfolio, during the year of RO 32.626 million (2015: RO nil) were fully provided by the Group.

As of 31 December 2016, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 240.3 million (2015: RO 209.5 million).

During the year, written off loans amounting to RO 1.32 million (2015: RO 1.67 million) which were upgraded from classified portfolio. Accordingly these loans were reclassified from memorandum account to loans and advances. These accounts were fully provided.

Memorandum portfolio are off balance sheet loan balances. The Memorandum portfolio comprises those account balances on which 100% impairment provision has been made and there are no cash flow movements in these accounts for more than 12 months. These account balances are transferred to memorandum portfolio for very close monitoring and for legal and recovery purposes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

8. Other assets

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
195,891	186,912	Acceptances (Note 19)	71,961	75,418
64,686	64,645	Other debtors and prepaid expenses	24,888	24,904
		Positive fair value of derivatives (Note 38)		
65,481	56,384		21,708	25,210
56,000	76,727	Accrued interest	29,540	21,560
1,745	1,309	Deferred tax asset (Note 20)	504	672
32,894	15,922	Others	6,130	12,664
		Collateral pending sale (net of provisions)		
19,719	19,719		7,592	7,592
436,416	421,618		162,323	168,020

During 2016, the Parent Company acquired collateral amounting to RO nil (2015: RO 0.309 million; net of provisions RO 0.234 million) towards loan settlement. A portion of collateral amounting to RO nil (2015: RO 6.36 million) was also disposed. In accordance with the CBO's requirements, the bank has retained the existing impairment provision of RO 4.54 (2015: RO 4.54 million) till all the properties are disposed.

9. Investment securities

	Fair value through profit or loss RO 000's	Available-for- sale RO 000's	Held to maturity RO 000's	2016 Total RO 000's	2015 Total RO 000's
Quoted investments	50,996	357,057	113,749	521,802	498,259
Unquoted investments:					
Treasury bills	-	-	433,514	433,514	967,648
Bonds/equities	-	51,690	16,338	68,028	63,347
Total unquoted	-	51,690	449,852	501,542	1,030,995
Total investments	50,996	408,747	563,601	1,023,344	1,529,254
Impairment losses on investments	-	(13,420)	-	(13,420)	(10,870)
Net investments	50,996	395,327	563,601	1,009,924	1,518,384
2015	51,227	444,973	1,022,184	1,518,384	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

9. Investment securities (continued)

	Fair value through profit or loss US\$ 000's	Available-for- sale US\$ 000's	Held to maturity US\$ 000's	2016 Total US\$ 000's	2015 Total US\$ 000's
Quoted investments	132,457	927,421	295,452	1,355,330	1,294,179
Unquoted investments:					
Treasury bills	-	-	1,126,010	1,126,010	2,513,371
Bonds/equities	-	134,260	42,436	176,696	164,538
Total unquoted	-	134,260	1,168,446	1,302,706	2,677,909
Total investments	132,457	1,061,681	1,463,898	2,658,036	3,972,088
Impairment losses on investments	-	(34,857)	-	(34,857)	(28,234)
Net investments	132,457	1,026,824	1,463,898	2,623,179	3,943,854
2015	133,057	1,155,774	2,655,023	3,943,854	

An analysis of available-for-sale investments is set out below:

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
		Quoted investments		
		Equity		
101,522	126,561	Foreign securities	48,726	39,086
67,703	54,825	Other services sector	21,108	26,066
20,730	27,127	Unit funds	10,444	7,981
15,221	15,358	Financial services sector	5,913	5,860
3,582	9,369	Industrial sector	3,607	1,379
		Debt		
735,574	632,678	Government bonds	243,581	283,196
76,743	60,938	Foreign bonds	23,461	29,546
852	564	Local bonds	217	328
1,021,927	927,420	Total quoted investments	357,057	393,442
		Unquoted investments		
		Equity		
38,603	28,782	Foreign securities	11,081	14,862
55,125	50,774	Local securities	19,548	21,223
2,021	2,049	Unit funds	789	778
		Debt		
66,332	52,656	Local bonds	20,272	25,538
162,081	134,261	Total unquoted investments	51,690	62,401
1,184,008	1,061,681	Total available-for-sale investments	408,747	455,843
(28,234)	(34,857)	Impairment losses on investments	(13,420)	(10,870)
1,155,774	1,026,824	Available-for-sale investments (net)	395,327	444,973

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the value of the security below its cost is also evidence that the assets are impaired. A decline in value of security below its cost over twenty percent is considered significant. Further, a decline in value of security below its cost for a continuous period of twelve months is considered prolonged.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

9. Investments securities (continued)

The movement in impairment of investment securities is summarised as follows:

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
17,042	28,234	At 1 January	10,870	6,561
13,034	12,475	Provided during the year	4,803	5,018
(873)	-	Written off during the year	-	(336)
(969)	(5,852)	Released during the year on disposal	(2,253)	(373)
28,234	34,857	At 31 December	13,420	10,870

The movement in investment securities may be summarised as follows:

	Available-for-sale RO 000's	Held to maturity RO 000's	Fair value through profit or loss RO 000's	Total RO 000's
At 1 January 2016	444,973	1,022,184	51,227	1,518,384
Exchange differences on monetary assets	(30)	(130)	-	(160)
Additions	45,440	1,887,986	-	1,933,426
Disposals and redemption	(91,443)	(2,347,556)	(8)	(2,439,007)
Loss from change in fair value	(316)	-	-	(316)
Impairment losses	(4,803)	-	-	(4,803)
Amortisation of discount / premium	(2,323)	1,117	-	(1,206)
Realised/unrealised gains/(losses)	3,829	-	(223)	3,606
At 31 December 2016	395,327	563,601	50,996	1,009,924
US\$ 000's	1,026,823	1,463,899	132,457	2,623,179

	Available-for-sale RO 000's	Held to maturity RO 000's	Fair value through profit or loss RO 000's	Total RO 000's
At 1 January 2015	320,574	420,196	-	740,770
Exchange differences on monetary assets	(129)	-	-	(129)
Additions	212,589	1,009,999	50,963	1,273,551
Disposals and redemption	(81,561)	(409,717)	-	(491,278)
Loss from change in fair value	(1,824)	-	-	(1,824)
Impairment losses	(5,018)	-	-	(5,018)
Amortisation of discount / premium	(2,596)	1,706	-	(890)
Realised/unrealised gains/(losses)	2,938	-	264	3,202
At 31 December 2015	444,973	1,022,184	51,227	1,518,384
US\$ 000's	1,155,774	2,655,023	133,057	3,943,854

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

10. Investments in subsidiaries

Details regarding the Parent company's investment in subsidiaries are set out below:

Company name	Country of incorporation	Proportion held	
		2016	2015
Muscat Capital LLC	Kingdom of Saudi Arabia (KSA)	100%	100%
Muscat Real Estate Company LLC	Kingdom of Saudi Arabia (KSA)	100%	-

As at 31 December 2016, the authorised and issued share capital of Muscat Capital LLC is SAR 60 million (2015 - SAR 60 million).

Muscat Real Estate Company LLC is a limited liability company registered in Riyadh, Saudi Arabia in May 2016

The company is fully owned by the Bank with authorised and paid-up capital of SAR 500,000. The company has been set up for the purpose of registration and management of the real estate assets of the bank as collaterals, sale and purchase of real estates for financing purposes in accordance with the Banking Control Regulations under the Saudi Arabian Monetary Agency.

11. Investments in an associate

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
		Al Salam Bank ('ASB'), Kingdom of Bahrain		
124,016	124,868		48,074	47,746
124,016	124,868		48,074	47,746

During 2016, share of results from associate amounted to RO 1.727 million (2015: RO 2.561 million) and share of other comprehensive income from associate amounted to RO 0.21 million (2015: and share of other comprehensive expense of RO 0.62 million).

(i) Al Salam Bank ('ASB'), Kingdom of Bahrain

As of 31 December 2016, the Bank held 14.74% (2015 - 14.74%) shareholding in ASB. The Bank is the single largest shareholder in ASB and has board representation. Accordingly, the bank has significant influence over ASB and the investment is recorded as an associate. The carrying value of the investment in ASB as on 31 December 2016 was as follows:

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
123,244	124,016	Carrying value of the investment	47,746	47,449
6,652	4,486	Share of results for the period	1,727	2,561
(1,603)	548	Share of other comprehensive income/ (expense)	211	(617)
(4,187)	(4,182)	Dividends received	(1,610)	(1,612)
(90)	-	Other movements	-	(35)
124,016	124,868	At 31 December	48,074	47,746

The Bank's share of the results and other comprehensive income of ASB are reflected on the basis of reviewed results for the period ended 30 September 2016. The financial statements of ASB are prepared in accordance with Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The Management of the Bank believes that it is not practicable to restate the financial statements of ASB in order to reflect the position as per International Financial Reporting Standards and also considers the impact not to be material to the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

11. Investments in an associate (continued)

(ii) Financial information relating to ASB as at 30 September 2016

Financial information relating to an ASB is summarised as follows:

Summarised statement of financial position as at 30 September

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
496,535	404,114	Cash and balances with banks	155,584	191,166
185,675	241,558	Due from banks	93,000	71,485
2,149,865	1,849,997	Loans and receivables	712,249	827,698
1,608,449	1,651,829	Investments	635,954	619,253
290,631	137,169	Other assets	52,810	111,893
4,731,155	4,284,667	Total assets	1,649,597	1,821,495
262,018	231,397	Due from banks	89,088	100,877
3,321,306	2,823,200	Customer deposits	1,086,932	1,278,703
296,104	373,613	Other liabilities	143,841	114,000
3,879,428	3,428,210	Total liabilities	1,319,861	1,493,580
851,727	856,457	Net assets	329,736	327,915
842,945	852,756	Equity attributable to the shareholders of the bank	328,311	324,534
8,782	3,701	Non-controlling interest	1,425	3,381

Summarised statement of comprehensive income for the period ended 30 September

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
120,699	107,148	Financing income	41,252	46,469
31,338	32,803	Fees and other income	12,629	12,065
(54,605)	(43,990)	Profit sharing expense	(16,936)	(21,023)
(53,538)	(49,600)	Operating expenses	(19,096)	(20,612)
(7,164)	(12,756)	Net provisions and others	(4,911)	(2,758)
36,730	33,605	Net profit for the period	12,938	14,141
36,322	34,291	Net profit attributable to the shareholders of the bank	13,202	13,984
408	(686)	Non-controlling interest	(264)	157

Reconciliation of the summarized financial information presented to the carrying amount of its interest in the associate is as follows:

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
871,969	848,629	Opening net assets at 1 January	326,722	335,708
36,730	33,605	Profit/(loss) for the period	12,938	14,141
(27,078)	2,613	Other comprehensive income/ (expense)	1,006	(10,425)
(29,891)	(28,390)	Dividend paid during the year	(10,930)	(11,508)
851,730	856,457	Closing net assets attributable to shareholders as at 30 September	329,736	327,916
842,945	852,756	Net asset attributable to the shareholders of the bank	328,311	324,534
8,784	3,701	Non-controlling interest	1,425	3,382
14.736%	14.736%	Investment in associate	14.736%	14.736%
125,511	126,208		48,380	47,823
(201)	(795)	Other adjustments	(306)	(77)
125,310	125,413	Carrying value at 30 September	48,074	47,746

Impairment testing of investment in an associate was carried out as required under IAS 28 and IAS 36 and the results showed no impairment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

12. PROPERTY AND EQUIPMENT

	Land and buildings RO 000's	Furniture, fixtures and equipment RO 000's	Motor vehicles RO 000's	Total RO 000's
Cost or valuation:				
At 1 January 2016	49,882	118,189	1,039	169,110
Additions during the year	201	10,100	155	10,456
Disposals	-	(128)	(74)	(202)
Translation adjustment	(1)	(9)	-	(10)
At 31 December 2016	<u>50,082</u>	<u>128,152</u>	<u>1,120</u>	<u>179,354</u>
Accumulated depreciation:				
At 1 January 2016	9,943	81,897	649	92,489
Charge for the year	1,025	11,554	142	12,721
Relating to disposals	-	(8)	(74)	(82)
Translation adjustment	(1)	(5)	-	(6)
At 31 December 2016	<u>10,967</u>	<u>93,438</u>	<u>717</u>	<u>105,122</u>
Net book value:				
At 31 December 2016	<u>39,115</u>	<u>34,714</u>	<u>403</u>	<u>74,232</u>
At 31 December 2016 (US\$ 000's)	<u>101,597</u>	<u>90,166</u>	<u>1,047</u>	<u>192,810</u>

	Land and buildings RO 000's	Furniture, fixtures and equipment RO 000's	Motor vehicles RO 000's	Total RO 000's
Cost or valuation:				
At 1 January 2015	49,893	102,543	823	153,259
Additions during the year	-	15,739	225	15,964
Disposals	-	(70)	(9)	(79)
Translation adjustment	(11)	(23)	-	(34)
At 31 December 2015	<u>49,882</u>	<u>118,189</u>	<u>1,039</u>	<u>169,110</u>
Accumulated depreciation:				
At 1 January 2015	8,909	71,922	564	81,395
Charge for the year	1,044	10,047	94	11,185
Relating to disposals	-	(51)	(9)	(60)
Translation adjustment	(10)	(21)	-	(31)
At 31 December 2015	<u>9,943</u>	<u>81,897</u>	<u>649</u>	<u>92,489</u>
Net book value:				
At 31 December 2015	<u>39,939</u>	<u>36,292</u>	<u>390</u>	<u>76,621</u>
At 31 December 2015 (US\$ 000's)	<u>103,738</u>	<u>94,265</u>	<u>1,013</u>	<u>199,016</u>

Land and buildings above includes leasehold land and buildings of RO 33.415 million (2015: RO 34.186 million). The Bank has a policy to revalue its owned land and buildings at the end of every five years. In accordance with the Bank's policy, the owned land and buildings were revalued during 2012 by independent professional valuers on an open market basis.

Had the freehold land and buildings been carried at cost less depreciation, the carrying amount would have been RO 0.269 million (2015: RO 0.298 million).

The revaluation reserve is not available for distribution until the related asset is disposed.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

13. FINANCE LEASE LIABILITIES

The Group has entered into a lease agreement with a third party (a quasi government entity) to lease a purpose built head office which was constructed for exclusive use of the Group. The construction of building was completed in 2009. The lease is for a period of 50 years. The annual lease payment of the building for the initial 25 years is RO 2.7 million. Subsequently, for the next 10 years, the annual rent will increase by 25% to RO 3.4 million. From 36th year onwards, the annual rent will further increase by 10% to RO 3.7 million. Due to this the minimum lease payments in the first 25 years of the lease period are less than the finance charges payable every year.

The minimum lease payments and total liability in respect of these leases relating to future periods are as follows:

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
(122)	(130)	Current	(50)	(47)
99,795	99,919	Non-current	38,469	38,421
99,673	99,789	Total (note 19)	38,419	38,374
Represented by:				
370,979	363,974	Gross finance lease payment due	140,130	142,827
(271,306)	(264,184)	Less: future finance charges	(101,711)	(104,453)
99,673	99,790	Net lease liability/ present value recognised as property	38,419	38,374

The following tables show the maturity analysis of finance lease payable:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
RO 000's					
As at 31 December 2016					
Total minimum lease payments	2,697	2,697	8,091	126,645	140,130
Less: Amounts representing finance charges	(2,747)	(2,751)	(8,276)	(87,937)	(101,711)
Net finance lease liability	(50)	(54)	(185)	38,708	38,419

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
US\$ 000's					
As at 31 December 2016					
Total minimum lease payments	7,005	7,005	21,016	328,948	363,974
Less: Amounts representing finance charges	(7,135)	(7,145)	(21,496)	(228,408)	(264,184)
Net finance lease liability	(130)	(140)	(480)	100,540	99,790

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

13. FINANCE LEASE LIABILITIES (continued)

The following table shows the maturity analysis of finance lease payable:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
RO 000's					
As at 31 December 2015					
Total minimum lease payments	2,697	2,697	8,091	129,342	142,827
Less: Amounts representing finance charges	(2,744)	(2,747)	(8,263)	(90,699)	(104,453)
Net finance lease liability	(47)	(50)	(172)	38,643	38,374

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
US\$ 000's					
As at 31 December 2015					
Total minimum lease payments	7,005	7,005	21,016	335,953	370,979
Less: Amounts representing finance charges	(7,127)	(7,135)	(21,462)	(235,582)	(271,306)
Net finance lease liability	(122)	(130)	(446)	100,371	99,673

14. DEPOSITS FROM BANKS

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
637,249	1,058,442	Inter bank borrowings	407,500	245,341
6,190,187	187,057	Vostro balances	72,017	2,383,222
600,000	915,000	Other money market deposits	352,275	231,000
7,427,436	2,160,499		831,792	2,859,563

15. CUSTOMER DEPOSITS

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
5,501,061	5,624,626	Deposit accounts	2,165,481	2,117,908
5,789,003	6,137,195	Savings accounts	2,362,820	2,228,766
5,237,239	4,640,935	Current accounts	1,786,760	2,016,337
823,306	870,018	Call accounts	334,957	316,973
151,509	116,338	Margin accounts	44,790	58,331
17,502,118	17,389,112		6,694,808	6,738,315

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

16. ISLAMIC CUSTOMER DEPOSITS

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
1,058,626	1,173,346	Deposit accounts	451,738	407,571
158,325	242,745	Savings accounts	93,457	60,955
172,257	241,743	Current accounts	93,071	66,319
234,514	323,774	Margin accounts	124,653	90,288
1,623,722	1,981,608		762,919	625,133

17. EURO MEDIUM TERM NOTES

Euro medium term notes are issued by the Parent Company under its Euro Medium Term Note Programme and are denominated in US Dollars. These are non-convertible, unsecured and listed on Luxembourg stock exchange. During 2016 notes of RO 192.5 million (2015 – RO nil) were issued and RO nil (2015: RO nil) were matured. The Parent Company has entered into an interest rate swap, which is designated as a fair value hedge, for hedging the interest rate risk on Euro medium term notes. The cumulative change in the fair value of the Euro medium term notes (hedged item) attributable to the risk hedged is recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position. The maturity profile and interest rates of floating rate notes are disclosed in notes 42.3.2 and 42.4.4 respectively.

18. MANDATORY CONVERTIBLE BONDS

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
161,660	245,857	At 1 January	94,655	62,239
84,197	-	Issuance during the year	-	32,416
-	(78,636)	Conversion during the year	(30,275)	-
245,857	167,221	At 31 December	64,380	94,655

The maturity profile and interest rate of mandatory convertible bonds are disclosed in notes 42.3.2 and 42.4.4 respectively. Mandatory convertible bonds were issued by the Parent Company as part of its dividend distribution. On maturity, the bonds will be converted to ordinary shares of the Parent Company by using a “conversion price” which will be calculated by applying 20% discount to 3 month average share price of the Parent Company on the Muscat Securities Market prior to the conversion.

During March 2016, the Bank converted a portion of its mandatory convertible bonds issued in 2013 into share capital. The conversion amounting to RO 30.275 million was credited to the share capital and share premium amounting to RO 8.984 million and RO 21.291 million, respectively. Based on the terms of prospectus, conversion price was calculated at RO 0.337 which represented a 20% discount to average closing market price over the preceding 90 calendar day period prior to the conversion date after adjusting for the impact of bonus shares issued in Q1-2016. The Bank issued 89,836,531 shares on account of conversion.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

19. OTHER LIABILITIES

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
396,730	339,513	Other liabilities and accrued expenses	130,713	152,741
195,891	186,912	Acceptances (note 8)	71,961	75,418
128,992	154,956	Accrued interest	59,658	49,662
99,673	99,790	Finance lease (note 13)	38,419	38,374
		Negative fair value of derivatives		
89,574	49,665	(note 38)	19,121	34,486
26,249	22,634	Unearned discount and interest	8,714	10,106
17,842	17,729	Employees' terminal benefits	6,826	6,869
5,306	5,049	Deferred tax liability (note 20)	1,944	2,043
960,257	876,248		337,356	369,699

The charge for the year and amounts paid in respect of employees' terminal benefits were RO 1.002 million (2015: RO 1.587 million) and RO 0.576 million (2015: RO 0.582 million), respectively.

20. TAXATION

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
62,225	66,244	Current liability:	25,504	23,957
11,983	19,548	Current year	7,526	4,613
74,208	85,792	Prior years	33,030	28,570
2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
62,225	66,244	Consolidated statement of comprehensive income:		
(5,017)	5,561	Current year	25,504	23,957
57,208	71,805	Prior years	2,141	(1,932)
			27,645	22,025
109	437	Relating to origination and reversal of temporary differences	168	42
57,317	72,242		27,813	22,067

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. TAXATION (continued)

(i) The tax rate applicable to the Parent Company is 12 % (2015: 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 13.61 % (2015: 11.17 %).

The difference between the applicable tax rate of 12 % (2015: 12%) and effective tax rate of 13.61 % (2015: 11.17 %) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(ii) The reconciliation of taxation on the accounting profit before tax for the year at RO 204.4 million (2015: RO 197.5 million) after the basic exemption limit of RO 30,000 and the taxation charge in the consolidated financial statements is as follows:

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
61,556	63,691	Tax charge at 12% on accounting profit before tax	24,521	23,699
(2,421)	(1,717)	Add/(less) tax effect of:		
3,029	3,336	Income not taxable	(661)	(932)
		Expenses not deductible or deferred	1,284	1,166
13	816	Foreign taxes on foreign-sourced income	314	5
49	119	Tax relating to subsidiary	46	19
		Relating to origination and reversal of temporary differences	168	42
109	436	Charge/(reversal) of provision for prior years	2,141	(1,932)
(5,018)	5,561			
		Tax charge as per consolidated statement of comprehensive income	27,813	22,067
57,317	72,242			

(iii) The deferred tax asset/liability has been recognised at the effective tax rate of 12 % (2015 - 12%).

Deferred tax asset/(liability) in the statement of financial position and the deferred tax credit/ (charge) in the statement of comprehensive income relates to the tax effect of provisions and accelerated depreciation and changes in fair value hedge.

	At 1 January 2016 RO 000's	(Charged)/ reversal to consolidated statement of comprehensive income RO 000's	At 31 December 2016 RO 000's
Asset:			
Tax effect of provisions	1,616	97	1,713
Change in fair value of hedge	98	(57)	41
Liability:			
Tax effect of accelerated tax depreciation	(1,042)	(208)	(1,250)
	672	(168)	504

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

20. TAXATION (continued)

	At 1 January 2015 RO 000's	(Charged)/ reversal to consolidated statement of comprehensive income RO 000's	At 31 December 2015 RO 000's
Asset			
Tax effect of provisions	1,086	530	1,616
Change in fair value of hedge	78	20	98
Liability:			
Tax effect of accelerated tax depreciation	(450)	(592)	(1,042)
	<u>714</u>	<u>(42)</u>	<u>672</u>

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	31 December 2016			31 December 2015		
	Before tax RO 000's	Tax (charge)/ credit RO 000's	After tax RO 000's	Before tax RO 000's	Tax (charge)/ credit RO 000's	After tax RO 000's
Foreign currency translation of net investment in associates	(6)	-	(6)	(254)	-	(254)
Translation of net investments in foreign operations	(140)	-	(140)	(641)	-	(641)
Share of other comprehensive income of associate	217	-	217	(523)	-	(523)
Changes in fair value of investments available for sale	(346)	99	(247)	(1,792)	(60)	(1,852)
Changes in fair value of the hedge	417		417	(142)		(142)
Surplus on revaluation of land and building		-		160	-	160
Total	<u>142</u>	<u>99</u>	<u>241</u>	<u>(3,192)</u>	<u>(60)</u>	<u>(3,252)</u>

	1 January 2016 RO 000's	Tax (charge)/ credit RO 000's	31 December 2016 RO 000's	1 January 2015 RO 000's	Tax (charge)/ Credit RO 000's	31 December 2015 RO 000's
Deferred tax liability	<u>2,043</u>	<u>(99)</u>	<u>1,944</u>	1,983	60	2,043

During the year, the Group charged deferred tax liability of RO 0.99 million (2015: RO 0.60 million tax credit) relating to fair value changes of investments available for sale, which may be taxable in the future. The deferred tax credit/charge is disclosed under other comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

20. TAXATION (continued)

	31 December 2016			31 December 2015		
	Before tax US\$ 000's	Tax (charge)/ credit US\$ 000's	After tax US\$ 000's	Before tax US\$ 000's	Tax (charge)/ credit US\$ 000's	After tax US\$ 000's
Foreign currency translation of net investment in associates	(16)	-	(16)	(660)	-	(660)
Translation of net investments in foreign operations	(364)	-	(364)	(1,665)	-	(1,665)
Share of other comprehensive income of associate	564	-	564	(1,358)	-	(1,358)
Changes in fair value of investments available for sale	(899)	257	(642)	(4,655)	(156)	(4,810)
Changes in fair value of the hedge	1,083		1,083	(369)		(369)
Surplus on revaluation of land and building	-	-	-	416	-	416
Total	<u>368</u>	<u>257</u>	<u>625</u>	<u>(8,291)</u>	<u>(156)</u>	<u>(8,446)</u>
	1 January 2016 US\$ 000's	Tax charge/ (credit) US\$ 000's	31 December 2016 US\$ 000's	1 January 2015 US\$ 000's	Tax charge/ (credit) US\$ 000's	31 December 2015 US\$ 000's
Deferred tax liability	<u>5,306</u>	<u>(257)</u>	<u>5,049</u>	<u>5,151</u>	<u>155</u>	<u>5,306</u>

The Bank's tax assessments have been completed by the tax authorities up to tax year 2011.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

21 Subordinated liabilities

In accordance with the CBO regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes. During the year, the Bank has obtained additional Tier II capital of RO nil (2015: RO nil) and repaid RO 75 million (2015: RO nil).

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
454,545	259,740	Fixed rate Rial Omani subordinated loans	100,000	175,000
170,000	170,000	Floating rate US\$ subordinated loans	65,450	65,450
624,545	429,740		165,450	240,450

Subordinated loans are repayable at par on maturity. The maturity profile and interest rate of subordinated liabilities are disclosed in notes 42.3.2 and 42.4.4 respectively.

22. Share capital

Share capital

The authorised share capital of the Parent Company is 3,500,000,000 shares of RO 0.100 each (2015: 3,500,000,000 of RO 0.100 each). At 31 December 2016, 2,496,250,258 shares of RO 0.100 each (2015: 2,291,822,597 shares of RO 0.100 each) have been issued and fully paid. The Bank's shares are listed on Muscat Securities Market, Bahrain stock exchange and London stock exchange. Listing in London stock exchange is through Global Depository Receipts issued by the Bank.

During March 2016, the Bank converted remaining 50% portion of its mandatory convertible bonds issued in 2013 into shares (refer note 18).

Significant shareholders

The following shareholders held 10% or more of the Parent Company's capital, either individually or together with other Group companies:

2015			2016	
No.of shares	% holding		No.of shares	% holding
540,469,925	23.58%	Royal Court Affairs	589,844,518	23.63%
282,671,899	12.33%	Dubai Financial Group	308,669,563	12.37%

23. Share Premium

During March 2016, the Bank converted remaining 50% portion of its mandatory convertible bonds issued in 2013 into shares (refer note 18). The conversion amounting to RO 30.275 million was credited to the share capital and share premium amounting to RO 8.984 million and RO 21.291 million, respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****24. Legal and general reserves**

(i) In accordance with the Omani Commercial Companies Law of 1974, the Parent Company is required to transfer 10% of its profit for the year to legal reserve until the accumulated balance of the reserve equals one third of the Parent Company's paid up share capital. During the year RO 6.814 million (2015: RO 3.638 million) was transferred from profits to legal reserve. After this transfer the Parent Company's legal reserve is equal to one third of its share capital.

(ii) The general reserve is established to support the operations and the capital structure of the Group.

25. Subordinated loan reserve

The subordinated loan reserve is created in accordance with the guidelines provided by the Bank of International Settlement and CBO. During the year 2016, the Parent Company transferred RO 33.09 million (2015: RO 20 million) to subordinated loan reserve from its retained profit.

A subordinated loan of RO 75 million was repaid during the year (2015: RO nil). On maturity, the reserve of RO 75 million (2015: RO nil) related to this loan was thus transferred to general reserve.

26. Proposed dividends

The Board of Directors has proposed a dividend of 30%, 25% in the form of cash and 5% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 62.406 million on Bank's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 124,812,512 shares of RO 0.100 each amounting to RO 12.481 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders and regulatory authorities.

For 2015, the Board of Directors had proposed a dividend of 30%, 25% in the form of cash and 5% in the form of bonus shares. Thus, shareholders received cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 57.295 million on Bank's existing share capital. In addition, they received bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 114,591,130 shares of RO 0.100 each amounting to RO 11.46 million.

27. Net assets per share

The calculation of net assets per share is based on net assets as at 31 December 2016 attributable to ordinary shareholders of RO 1,546.740 million (2015: RO 1,396.959 million) and on ordinary shares 2,496,250,258 (2015: 2,291,822,597 ordinary shares) being the number of shares outstanding as at 31 December 2016.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

28. Contingent liabilities and commitments

(a) Legal proceedings

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. At year-end, there were a number of legal proceedings outstanding against the Parent Company. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Credit related commitments

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

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

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

Irrevocable commitments to extend credit at the reporting date amounted to RO 616 million (2015: RO 619.3 million).

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

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
2,126,585	1,858,622	Letters of credit	715,569	818,735
6,149,810	5,903,688	Guarantees	2,272,920	2,367,677
<u>8,276,395</u>	<u>7,762,310</u>		<u>2,988,489</u>	<u>3,186,412</u>

(c) Capital commitments

As of the reporting date, capital commitments were as follows:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
<u>5,078</u>	<u>1,776</u>	Purchase of property and equipment	<u>684</u>	<u>1,955</u>

(d) As of the reporting date, the Bank has not pledged any of its assets as security (2015: no assets were pledged).

(e) As of the reporting date, the amount payable on partly paid shares investments held by the Bank was RO 2.4 million (2015: RO 5.8 million)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

28. Contingent liabilities and commitments (continued)

28.1 Concentration of credit related commitments

The table below analyses the concentration of credit related commitments by economic sector:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
35,779	32,727	Agriculture/allied activity	12,600	13,775
1,730,429	1,744,019	Construction	671,447	666,215
2,190	2,722	Export trade	1,048	843
2,980,910	2,903,295	Financial institutions	1,117,768	1,147,650
964,039	819,423	Government	315,478	371,155
374,117	307,756	Import trade	118,486	144,035
226,571	213,584	Manufacturing	82,230	87,230
355,569	156,026	Mining and quarrying	60,070	136,894
16,771	21,036	Real estate	8,099	6,457
1,144,200	1,133,283	Services	436,314	440,517
65,023	90,813	Transport	34,963	25,034
86,945	109,057	Utilities	41,987	33,474
185,156	152,756	Wholesale and retail trade	58,811	71,285
108,696	75,813	Others	29,188	41,848
8,276,395	7,762,310		2,988,489	3,186,412

29. Interest income / income on islamic financing

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
793,370	832,183	Loans and advances	320,390	305,447
27,997	34,974	Due from banks	13,465	10,779
42,306	57,982	Investments	22,323	16,288
863,673	925,139		356,178	332,514
65,338	90,166	Islamic financing receivable	34,714	25,155
236	351	Islamic due from banks	135	91
1,548	5,597	Islamic investment income	2,155	596
67,122	96,114		37,004	25,842
930,795	1,021,253		393,182	358,356

Effective annual rates on yielding assets are provided in note 42.4.4.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

30. Interest expense / distribution to depositors

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
165,019	185,954	Customers' deposits	71,592	63,532
50,049	37,948	Subordinated liabilities / mandatory convertible bonds	14,610	19,269
1,262	-	Certificates of deposits	-	486
8,369	23,888	Bank borrowings	9,197	3,222
10,784	26,527	Euro medium term notes	10,213	4,152
235,483	274,317		105,612	90,661
17,743	31,086	Islamic customers' deposits	11,968	6,831
917	3,777	Islamic bank borrowings	1,454	353
18,660	34,863		13,422	7,184
254,143	309,180		119,034	97,845

Interest expense on customers deposits include accruals towards prize schemes of RO 10 million (2015: RO 9 million) offered by the bank to its saving deposit holders.

Effective annual rate of interest bearing liabilities are provided in note 42.4.4.

31. Commission and fees income (net)

The commission and fee income shown in the consolidated statement of comprehensive income is net of commission and fees paid of RO 1.035 million (2015: RO 0.732 million).

32. Other operating income

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
84,090	84,335	Foreign exchange	32,469	32,375
8,317	9,366	Profit on sale of non-trading investments	3,606	3,202
7,777	12,244	Dividend income	4,714	2,994
15,255	15,449	Other income	5,948	5,873
115,439	121,394		46,737	44,444

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

33. Other operating expenses

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
165,546	169,822	Employees' salaries	65,381	63,735
62,923	61,562	Other staff costs	23,701	23,725
12,810	13,156	Contribution to social insurance schemes	5,065	4,932
2,823	2,603	Employees' end of service benefits	1,002	1,587
244,102	247,143		95,149	93,979
131,670	132,464	Administrative expenses	50,999	50,693
38,958	38,984	Occupancy costs	15,009	14,999
519	519	Directors' remuneration	200	200
415,249	419,110		161,357	159,871

34. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
1,440,062	1,096,829	Due from banks	422,279	554,424
6,263,771	2,704,083	Cash and balances with Central Banks	1,041,072	2,411,552
2,513,371	1,126,010	Treasury bills	433,514	967,648
(6,653,769)	(1,371,057)	Deposits from banks	(527,857)	(2,561,701)
3,563,435	3,555,865		1,369,008	1,371,923

35. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2016	2015
Profit attributable to ordinary shareholders of parent company for basic earnings per share (RO 000's)	176,560	175,451
Interest on convertible bonds, net of taxation (RO 000's)	2,526	3,252
	179,086	178,703
Weighted average number of ordinary shares adjusted for effect of dilution (in 000's)	2,685,160	2,657,090
Basic earnings per share (RO)	0.067	0.067
Basic earnings per share (US\$)	0.17	0.17

There are no other instruments that are dilutive in nature, hence the basic and diluted earnings per share are same for both the years.

The weighted number of ordinary shares (in 000's) have been calculated as follows:

	2016	2015
At 1 January	2,291,688	2,182,688
Effect of shares issued in conversion of convertible bonds	25,282	-
Effect of bonus shares issued in 2016	114,591	114,591
Effect of bonus shares issued in 2015	-	109,134
Weighted average number of ordinary shares for Basic earnings per share	2,431,696	2,406,414
Estimated effect of dilution from convertible bonds on conversion	170,499	250,676
Weighted average number of ordinary shares adjusted for effect of dilution	2,602,195	2,657,090

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

36. Related party transactions

In the ordinary course of business, the Group conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. The terms of these transactions are approved by the Bank's Board and Management. As of the reporting date balances and transactions with directors and their related concerns during the year were as follows:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
		Loans and advances (net)		
77,225	89,168	At 1 January	34,329	29,731
36,758	11,735	Disbursed during the year	4,518	14,152
(24,457)	(23,200)	Repaid during the year	(8,932)	(9,416)
(358)	(306)	Less: increase in provisions	(118)	(138)
89,168	77,397	At 31 December	29,797	34,329
		Current deposit and other accounts		
188,108	117,638	At 1 January	45,290	72,421
10,634	57,278	Received during the year	22,052	4,094
(81,104)	(15,047)	Repaid during the year	(5,793)	(31,225)
117,638	159,869	At 31 December	61,549	45,290
		Customers' liabilities under documentary credits, guarantees and other commitments		
36,317	23,808		9,167	13,983

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

36. Related party transactions (continued)

At 31 December 2016, the placements and other receivable balances due from an associate amount to RO 4.25 million (2015: RO 1.03 million) and the deposits due to an associate amount to RO 0.19 million (2015: RO 0.33 million).

Loans, advances or receivables and non-funded exposure due from related parties or holders of 10% or more of Banks shares, or their family members, less all provisions and write-offs, are further analysed as follows:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
42,706	41,442	Royal Court Affairs	15,955	16,442
21,953	22,260	Dubai Financial Group:	8,570	8,452
(21,953)	(22,260)	Gross	(8,570)	(8,452)
		Less: provisions		
74,548	48,281	H.E. Sheikh Mustahail Ahmed Al	18,588	28,701
8,231	11,483	Mashani group companies	4,421	3,169
		Others		
<u>125,485</u>	<u>101,206</u>		<u>38,964</u>	<u>48,312</u>

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
2,920	3,956	Interest income	1,523	1,124
1,428	2,790	Interest expenditure	1,074	550
327	319	Directors' remuneration	123	126
192	200	Directors' sitting fees	77	74

Interest expense incurred on deposits:

Items of expense which were paid to related parties or holders of 10% or more of the bank's shares, or their family members, during the year can be further analysed as follows:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
792	1,987	Royal Court Affairs	765	305
621	725	H.E. Sheikh Mustahail Ahmed Al	279	239
16	81	Mashani group companies	31	6
		Others		
<u>1,429</u>	<u>2,793</u>		<u>1,075</u>	<u>550</u>

Key management compensation

Key management comprises of 5 members (2015: 6 members) of the management executive committee in the year 2016.

In the ordinary course of business, the Group conducts transactions with certain of its key management personnel and companies in which they have a significant interest. The balances in respect of these related parties included in the consolidated statement of financial position as at the reporting date are as follows:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
6,732	10,070	Loans and advances	3,877	2,592
332	657	Current, deposit and other accounts	253	128

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

36. Related party transactions (continued)

Key management compensation (continued)

The income and expenses in respect of these related parties included in the consolidated financial statements are as follows:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
423	416	Interest income	160	163
3	36	Interest expenditure	14	1
10,086	8,592	Salaries and other short-term benefits	3,308	3,883
184	135	Post-employment benefits	52	71
<u>10,270</u>	<u>8,727</u>		<u>3,360</u>	<u>3,954</u>

The amounts disclosed in the table are the amounts accrued / paid recognised as an expense during the reporting period related to key management personnel. Certain components of key management compensation are on deferral basis and are disclosed accordingly. The previous year figures are revised considering the actual payment wherever applicable.

37. Fiduciary activities

The Bank's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals. The aggregate amounts of funds managed, which are not included in the Group's statement of financial position, are as follows:

2015 US \$ 000's	2016 US \$ 000's		2016 RO 000's	2015 RO 000's
<u>1,191,101</u>	<u>1,240,662</u>	Funds under management	<u>477,655</u>	<u>458,574</u>

38. Derivatives

In the ordinary course of business, the Group 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 on derivatives classified as and fair value hedges are included in the statement of comprehensive income. The Group uses the following derivative financial instruments:

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. Forwards are customised contracts transacted in the over-the-counter market. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Interest rate swaps are contractual agreements between two parties to exchange interest differentials based on a specific notional amount. Counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****38. Derivatives (continued)****Derivative product types (continued)**

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

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group 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 financial position exposures.

The Group uses forward foreign exchange contracts, currency options and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the changes in the cash flow arising from certain fixed interest rate loans and deposits.

For interest rate risks strategic hedging is carried out by monitoring the repricing 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 Parent Company has entered into interest rate swaps that are designated as fair value hedges, for hedging the interest rate risk movement on Euro medium term notes and certain of its customer deposits and as cash flow hedges for hedging the cash flow volatility risk on its subordinated liabilities. The cumulative change in the fair value of the hedged liabilities attributable to the risk hedged is recorded as part of their respective carrying values and are accordingly presented in statement of financial position.

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

38. Derivatives (continued)

31 December 2016	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity		
	RO 000's (Note 8)	RO 000's (Note 19)	RO 000's	Within 3 months	4-12 months	>12 months
Derivatives:						
Fair value hedge	-	2,162	494,391	-	-	494,391
Cash flow hedge	-	341	65,450	-	-	65,450
Interest rate swaps	8,726	8,726	257,809	-	5,812	251,997
Cross currency swap	-	988	115,500	38,500	77,000	-
Currency options - bought	824	-	47,201	24,292	22,909	-
Currency options - sold	-	826	47,299	24,330	22,969	-
Commodities purchase contracts	3,366	1,185	74,625	57,206	16,685	734
Commodities sale contracts	1,247	3,364	72,237	62,572	8,931	734
Forward purchase contracts	839	736	823,902	485,967	298,311	39,624
Forward sales contracts	6,706	793	815,888	475,556	301,633	38,699
	<u>21,708</u>	<u>19,121</u>	<u>2,814,302</u>	<u>1,168,423</u>	<u>754,250</u>	<u>891,629</u>
US\$ 000's	<u>56,384</u>	<u>49,665</u>	<u>7,309,875</u>	<u>3,034,865</u>	<u>1,959,091</u>	<u>2,315,919</u>

31 December 2015	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity		
	RO 000's (Note 8)	RO 000's (Note 19)	RO 000's	Within 3 months	4-12 months	>12 months
Derivatives:						
Fair value hedge	-	2,440	527,454	-	-	527,454
Cash flow hedge	-	816	65,540	-	-	65,540
Interest rate swaps	12,715	12,718	380,035	-	51,695	328,340
Cross currency swap	-	8,873	412,597	-	297,101	115,496
Currency options - bought	350	-	44,401	26,938	17,463	-
Currency options - sold	-	350	44,231	26,754	17,477	-
Commodities purchase contracts	1,778	3,382	70,677	47,161	20,359	3,157
Commodities sale contracts	3,400	1,713	57,855	43,166	11,676	3,013
Forward purchase contracts	286	3,743	1,004,692	519,352	455,717	29,623
Forward sales contracts	6,681	451	988,908	514,330	445,472	29,106
	<u>25,210</u>	<u>34,486</u>	<u>3,596,390</u>	<u>1,177,701</u>	<u>1,316,960</u>	<u>1,101,729</u>
US\$ 000's	<u>65,481</u>	<u>89,574</u>	<u>9,341,273</u>	<u>3,058,964</u>	<u>3,420,675</u>	<u>2,861,634</u>

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FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

39. Repurchase agreements

The Group did not have any repurchase transactions outstanding as of the reporting date (2015: RO nil).

40. Geographical distribution of assets and liabilities

The geographical distribution of assets and liabilities was as follows:

At 31 December 2016	Sultanate of Oman RO 000's	Other GCC countries RO 000's	Europe RO 000's	United States of America RO 000's	Others RO 000's	Total RO 000's
Cash and balances with Central Banks	890,417	151,155	-	-	-	1,041,572
Due from banks	11,576	187,375	191,760	42,843	93,061	526,615
Loans and advances	7,506,468	434,014	151	15	16,682	7,957,330
Investments	883,595	134,461	11,215	10,198	18,529	1,057,998
Property and equipment and other assets	226,287	10,268	-	-	-	236,555
Total assets	9,518,343	917,273	203,126	53,056	128,272	10,820,070
Deposits from banks	42,646	406,585	59,245	686	322,630	831,792
Customers' deposits and certificates of deposit	6,957,177	477,863	2,889	294	19,504	7,457,727
Euro medium term notes	-	-	383,595	-	-	383,595
Other liabilities and taxation	354,136	16,102	-	-	148	370,386
Subordinated liabilities / mandatory convertible bonds	164,380	-	-	65,450	-	229,830
Shareholders' funds	1,546,740	-	-	-	-	1,546,740
Total liabilities and equity	9,065,079	900,550	445,729	66,430	342,282	10,820,070

At 31 December 2016	Sultanate of Oman US\$ 000's	Other GCC countries US\$ 000's	Europe US\$ 000's	United States of America US\$ 000's	Others US\$ 000's	Total US\$ 000's
Cash and balances with Central Banks	2,312,772	392,610	-	-	-	2,705,382
Due from banks	30,067	486,688	498,078	111,281	241,717	1,367,831
Loans and advances	19,497,320	1,127,309	392	39	43,330	20,668,390
Investments	2,295,053	349,249	29,130	26,488	48,127	2,748,047
Property and equipment and other assets	587,758	26,670	-	-	-	614,428
Total assets	24,722,970	2,382,526	527,600	137,808	333,174	28,104,078
Deposits from banks	110,769	1,056,065	153,883	1,782	838,000	2,160,499
Customers' deposits and certificates of deposit	18,070,589	1,241,203	7,504	764	50,660	19,370,720
Euro medium term notes	-	-	996,351	-	-	996,351
Other liabilities and taxation	919,833	41,823	-	-	384	962,040
Subordinated liabilities / mandatory convertible bonds	426,961	-	-	170,000	-	596,961
Shareholders' funds	4,017,507	-	-	-	-	4,017,507
Total liabilities and equity	23,545,659	2,339,091	1,157,738	172,546	889,044	28,104,078

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

40. Geographical distribution of assets and liabilities (continued)

At 31 December 2015	Sultanate of Oman RO 000's	Other GCC countries RO 000's	Europe RO 000's	United States of America RO 000's	Others RO 000's	Total RO 000's
Cash and balances with						
Central Banks	2,349,937	62,115	-	-	-	2,412,052
Due from banks	66,274	473,745	190,245	128,210	133,017	991,491
Loans and advances	6,848,927	446,888	7,358		27,042	7,330,215
Investments	1,147,238	364,335	11,090	11,089	32,378	1,566,130
Property and equipment and other assets	237,157	7,484	-	-	-	244,641
Total assets	10,649,533	1,354,567	208,693	139,299	192,437	12,544,529
Deposits from banks	34,386	139,562	35,259	3,803	2,646,553	2,859,563
Customers' deposits and certificates of deposit	6,911,224	421,683	16,289	277	13,975	7,363,448
Euro medium term notes	-	-	191,185	-	-	191,185
Other liabilities and taxation	387,728	10,541	-	-	-	398,269
Subordinated liabilities / mandatory convertible bonds	269,655	-	-	65,450	-	335,105
Shareholders' funds	1,396,959	-	-	-	-	1,396,959
Total liabilities and equity	8,999,952	571,786	242,733	69,530	2,660,528	12,544,529

At 31 December 2015	Sultanate of Oman US\$ 000's	Other GCC countries US\$ 000's	Europe US\$ 000's	United States of America US\$ 000's	Others US\$ 000's	Total US\$ 000's
Cash and balances with						
Central Banks	6,103,732	161,338	-	-	-	6,265,070
Due from banks	172,139	1,230,506	494,143	333,013	345,499	2,575,300
Loans and advances	17,789,421	1,160,748	19,112	-	70,239	19,039,520
Investments	2,979,838	946,325	28,805	28,803	84,099	4,067,870
Property and equipment and other assets	615,993	19,439	-	-	-	635,432
Total assets	27,661,123	3,518,356	542,060	361,816	499,837	32,583,192
Deposits from banks	89,313	362,499	91,582	9,878	6,874,164	7,427,436
Customers' deposits and certificates of deposit	17,951,232	1,095,281	42,309	719	36,299	19,125,840
Euro medium term notes	-	-	496,584	-	-	496,584
Other liabilities and taxation	1,007,086	27,379	-	-	-	1,034,465
Subordinated liabilities / mandatory convertible bonds	700,402	-	-	170,000	-	870,402
Shareholders' funds	3,628,465	-	-	-	-	3,628,465
Total liabilities and equity	23,376,498	1,485,159	630,475	180,597	6,910,463	32,583,192

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

41. Segmental information

Management has determined the operating segments based on the reports reviewed by the executive committee that are used to make strategic decisions. The committee considers the business from both a geographic and product perspective. Geographically, management considers the performance of whole bank in Oman and International markets. The Oman market is further segregated into corporate, consumer, wholesale and Islamic banking, as all of these business lines are located in Oman. Segment information in respect of geographical locations is as follows:

For the year ended 31 December 2016:

Total US\$ 000's	International US\$ 000's	Oman US\$ 000's	Segment revenue	Oman RO 000's	International RO 000's	Total RO 000's
925,139	53,956	871,183	Interest income	335,405	20,773	356,178
(274,317)	(30,286)	(244,031)	Interest expense	(93,952)	(11,660)	(105,612)
96,114	-	96,114	Income from Islamic financing	37,004	-	37,004
(34,863)	-	(34,863)	Distribution to depositors	(13,422)	-	(13,422)
247,507	15,356	232,151	Commission and fee income (net)	89,378	5,912	95,290
121,394	2,512	118,882	Other operating income	45,770	967	46,737
<u>1,080,974</u>	<u>41,538</u>	<u>1,039,436</u>		<u>400,183</u>	<u>15,992</u>	<u>416,175</u>
			Segment costs			
(419,110)	(21,463)	(397,647)	Other operating expenses	(153,094)	(8,263)	(161,357)
(33,042)	(711)	(32,331)	Depreciation	(12,447)	(274)	(12,721)
(1,558)	-	(1,558)	Impairment for placements	(600)	-	(600)
(182,566)	(31,319)	(151,247)	Impairment for credit losses	(58,230)	(12,058)	(70,288)
94,130	21,829	72,301	Recoveries from impairment for credit losses	27,836	8,404	36,240
(12,475)	-	(12,475)	Impairment for investments	(4,803)	-	(4,803)
4,486	4,486	-	Share of profit from associates	-	1,727	1,727
(72,242)	(1,009)	(71,233)	Tax expense	(27,425)	(388)	(27,813)
<u>(622,377)</u>	<u>(28,187)</u>	<u>(594,190)</u>		<u>(228,763)</u>	<u>(10,852)</u>	<u>(239,615)</u>
<u>458,597</u>	<u>13,351</u>	<u>445,246</u>	Segment profit for the year	<u>171,420</u>	<u>5,140</u>	<u>176,560</u>
			Other information			
<u>28,104,078</u>	<u>1,997,055</u>	<u>26,107,023</u>	Segment assets	<u>10,051,204</u>	<u>768,866</u>	<u>10,820,070</u>
<u>27,158</u>	<u>288</u>	<u>26,870</u>	Segment capital expenses	<u>10,345</u>	<u>111</u>	<u>10,456</u>

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41. Segmental information (continued)

For the year ended 31 December 2015:

Total US\$ 000's	International US\$ 000's	Oman US\$ 000's		Oman RO 000's	International RO 000's	Total RO 000's
863,673	38,875	824,798	Segment revenue			
(235,483)	(12,353)	(223,130)	Interest income	317,547	14,967	332,514
67,122	-	67,122	Interest expense	(85,905)	(4,756)	(90,661)
(18,660)	-	(18,660)	Income from Islamic financing	25,842	-	25,842
266,964	15,932	251,032	Distribution to depositors	(7,184)	-	(7,184)
115,439	4,029	111,410	Commission and fee income (net)	96,647	6,134	102,781
			Other operating income	42,893	1,551	44,444
<u>1,059,055</u>	<u>46,483</u>	<u>1,012,572</u>		<u>389,840</u>	<u>17,896</u>	<u>407,736</u>
			Segment costs			
(415,249)	(22,778)	(392,471)	Other operating expenses	(151,102)	(8,769)	(159,871)
(29,052)	(739)	(28,313)	Depreciation	(10,900)	(285)	(11,185)
(1,558)	-	(1,558)	Impairment for placements	(600)	-	(600)
(186,971)	(31,042)	(155,929)	Impairment for credit losses	(60,033)	(11,951)	(71,984)
93,191	4,094	89,097	Recoveries from impairment for credit losses	34,303	1,576	35,879
(13,034)	-	(13,034)	Impairment for investments	(5,018)	-	(5,018)
6,652	6,652	-	Share of profit from associates	-	2,561	2,561
(57,317)	(84)	(57,233)	Tax expense	(22,035)	(32)	(22,067)
<u>(603,338)</u>	<u>(43,897)</u>	<u>(559,441)</u>		<u>(215,385)</u>	<u>(16,900)</u>	<u>(232,285)</u>
<u>455,717</u>	<u>2,586</u>	<u>453,131</u>	Segment profit for the year	<u>174,455</u>	<u>996</u>	<u>175,451</u>
			Other information			
<u>32,583,192</u>	<u>1,795,494</u>	<u>30,787,698</u>	Segment assets	<u>11,853,264</u>	<u>691,265</u>	<u>12,544,529</u>
<u>41,465</u>	<u>1,192</u>	<u>40,273</u>	Segment capital expenses	<u>15,505</u>	<u>459</u>	<u>15,964</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

41. Segmental information (continued)

The Group reports the segment information by the following business segments: Corporate, Consumer, Wholesale, International and Islamic Banking. The following table shows the distribution of the Group's operating income, profit and total assets by business segments

As at 31 December 2016	Corporate banking RO 000's	Consumer banking RO 000's	Wholesale banking RO 000's	International banking * RO 000's	Subtotal RO 000's	Islamic banking RO 000's	Total RO 000's
Segment revenue							
Net interest income	99,360	128,127	13,740	9,339	250,566	-	250,566
Net income from Islamic financing	-	-	-	-	-	23,582	23,582
Commission, fees and other income (net)	23,684	63,152	46,238	7,030	140,104	1,923	142,027
Operating income	123,044	191,279	59,978	16,369	390,670	25,505	416,175
Segment costs							
Operating expenses (including depreciation)	(26,804)	(108,513)	(16,537)	(10,680)	(162,534)	(11,544)	(174,078)
Impairment for credit losses (net)	(15,518)	(9,881)	(600)	(4,457)	(30,456)	(3,592)	(34,048)
Impairment on due from banks / for investments	-	-	(5,202)	-	(5,202)	(201)	(5,403)
Share of results from an associate	-	-	-	1,727	1,727	-	1,727
Tax expense	(11,109)	(10,043)	(5,185)	(256)	(26,593)	(1,220)	(27,813)
	(53,431)	(128,437)	(27,524)	(13,666)	(223,058)	(16,557)	(239,615)
Segment profit for the year	69,613	62,842	32,454	2,703	167,612	8,948	176,560
Segment assets	4,090,095	2,893,473	2,028,480	768,323	9,780,370	1,039,700	10,820,070
Operating income (US \$ 000's)	319,595	496,829	155,787	42,517	1,014,727	66,247	1,080,974
Segment profit for the year (US \$ 000's)	180,812	163,226	84,296	7,021	435,355	23,242	458,597
Segment assets (US \$ 000's)	10,623,622	7,515,514	5,268,779	1,995,644	25,403,559	2,700,519	28,104,078

* International banking includes overseas operations and cost allocations from Oman operations.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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41. Segmental information (continued)

As at 31 December 2015	Corporate banking RO 000's	Consumer banking RO 000's	Wholesale banking RO 000's	International banking * RO 000's	Subtotal RO 000's	Islamic banking RO 000's	Total RO 000's
Segment revenue							
Net interest income	91,456	108,862	31,216	10,319	241,853	-	241,853
Net income from Islamic financing	-	-	-	-	-	18,658	18,658
Commission, fees and other income (net)	22,795	69,737	45,234	7,973	145,739	1,486	147,225
Operating income	114,251	178,599	76,450	18,292	387,592	20,144	407,736
Segment costs							
Operating expenses (including depreciation)	(26,422)	(108,069)	(15,991)	(11,399)	(161,881)	(9,175)	(171,056)
Impairment for credit losses (net)	(12,824)	(8,926)	(600)	(10,375)	(32,725)	(3,380)	(36,105)
Impairment on due from banks / for investments	-	-	(5,021)	-	(5,021)	(597)	(5,618)
Share of results from an associate	-	-	-	2,561	2,561	-	2,561
Tax expense	(8,410)	(6,957)	(5,770)	14	(21,123)	(944)	(22,067)
	(47,656)	(123,952)	(27,382)	(19,199)	(218,189)	(14,096)	(232,285)
Segment profit/ (loss) for the year	66,595	54,647	49,068	(907)	169,403	6,048	175,451
Segment assets	3,954,988	2,660,032	4,471,071	691,265	11,777,356	767,173	12,544,529
Operating income (US \$ 000's)	296,756	463,894	198,571	47,512	1,006,733	52,322	1,059,055
Segment profit/ (loss) for the year (US \$ 000's)	172,975	141,940	127,449	(2,356)	440,008	15,709	455,717
Segment assets (US \$ 000's)	10,272,696	6,909,174	11,613,171	1,795,494	30,590,535	1,992,657	32,583,192

bank muscat SAOG**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****42. Financial risk management****42.1 Introduction and overview**

Risk Management is a process by which bank muscat SAOG (the Group) identifies key risks, applies consistent, understandable risk measures, and chooses which risks to reduce and which to hold and by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that the Group operates within the risk appetite levels set by its Board of Directors while various business functions pursue their objective of maximizing the risk adjusted returns. The Group has exposure to the following core risks from its use of financial instruments:

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

Risk management is the overall responsibility of the Group's Board of Directors and managed through the Board Risk Committee (BRC). BRC provides recommendations to the Board of Directors on the risk-reward strategy, risk appetite and policies and framework for managing different types of risks. The Board reviews and approves the risk management strategy of the Group and defines the risk appetite of the Group. The Board approved strategy is implemented at management level through management committees. For the purpose of day-to-day management of risks, the Group has created an independent Risk Management department (RMD). Risk Management department objectively reviews and ensures that the various functions of the Group operate in compliance with the risk parameters set by the Board of Directors. Risk Management department has a direct reporting line to the Board of Directors of the Group. The risk appetite, approved by the Board of Directors of the Group, in various business areas is defined and communicated through an enterprise-wide risk policy. The Group's risk policy, approved by the Board of Directors, analyses and sets risk limits for core risks - Credit risk, Liquidity risk, Market risk and Operational risk. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels reported on a quarterly basis. This ensures prudent management of the risks assumed by the Group in its normal course of business. The risk policy is updated regularly, based on an analysis of the economic trends and the operating environment in the countries where the Group operates.

The Group's risk management processes have proven effective throughout the review year. Group's Board of Directors have remained closely involved with key risk management initiatives, in ensuring the Group's risks are effectively managed, appropriate levels of liquidity are maintained and adequate capital is held in line with the requirements.

The Group recognises that an effective risk management process is key to its objective of enhancing shareholder value and is committed to developing risk management as an area of core competence. It continues in investing in its risk management capabilities so as to ensure that it is able to deliver on its growth plans while managing the underlying risks in an effective manner.

42.2 Credit risk**42.2.1 Management of credit risk**

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. It includes the below sub types:

- Cross border risk
- Counterparty Risk
- Settlement risk

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****42. Financial risk management (continued)****42.2 Credit risk (continued)****42.2.1 Management of credit risk (continued)**

The function of credit risk management is to maximise the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Group's risk exposure. Credit risk management process of the Group begins with the risk policy, updated regularly, which clearly defines parameters for each type of risks assumed by the Group.

Risk limit control and mitigation policies

The Group has set for itself clear and well defined limits to address different dimensions of credit risk including concentration risk. Compliance with the various parameters set in the risk policy, is reviewed on a regular basis and exceptions are reported to enable remedial actions.

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off, all are governed by the Group's credit manual which is reviewed by Risk Management department and approved by appropriate approval authorities. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'.
- All Corporate lending proposals, where the proposed credit limit for a borrower or related Group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.
- All Corporate relationships are reviewed at least once a year. Retail portfolio, including credit cards and mortgage portfolio, is reviewed on a portfolio basis at a product level at least once a year.
- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Group's risk policy.
- Credit exposures are risk rated to provide support for credit decisions. The portfolio is analysed based on risk grades and risk grade migration to focus on management of prevalent credit risk.
- Retail portfolio is rated using an application score card.

A robust collateral management system is in place to mitigate any operational risk. The Group has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collaterals. While securities such as listed equities are valued regularly, credit policy mandates securities obtained by way of legal mortgage over real estate to be valued at least once in 3 years or more frequently if situation warrants.

The Group executes Credit Support annex to the International Swaps and Derivatives Association (ISDA) document with major counterparty banks to mitigate credit risk arising out of change in the value of underlying for the derivative exposures. The Treasury Middle office undertakes daily valuation of all the derivative deals and raises appropriate margin calls.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.1 Management of credit risk (continued)

All loans and advances of the Group 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 Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

42.2.2 Exposure to credit risk – Statement of financial position items

	Loans and advances and Islamic financing to customers		Due from banks	
	2016	2015	2016	2015
	RO 000's	RO 000's	RO 000's	RO 000's
Individually impaired				
Sub-Standard	32,211	17,115	-	-
Doubtful	38,700	10,433	-	-
Loss	102,354	114,243	-	-
Gross amount	173,265	141,791	-	-
Allowance for impairment	(115,889)	(113,608)	-	-
Carrying amount	57,376	28,183	-	-
Collectively impaired				
Sub-Standard	8,962	8,594	-	-
Doubtful	11,977	11,236	-	-
Loss	51,221	47,855	-	-
Gross amount	72,160	67,685	-	-
Allowance for impairment	(65,902)	(62,475)	-	-
Carrying amount	6,258	5,210	-	-
Past due but not impaired				
Standard	85,485	147,698	-	-
Carrying amount	85,485	147,698	-	-
Past due but not impaired				
1-30 days	28,470	65,333	-	-
30-60 days	45,799	51,921	-	-
60-90 days	11,216	30,444	-	-
	85,485	147,698	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.2 Exposure to credit risk – Statement of financial position items (continued)

	Loans and advances and Islamic financing to customers		Due from banks	
	2016 RO 000's	2015 RO 000's	2016 RO 000's	2015 RO 000's
Neither past due nor impaired				
Standard	7,403,895	6,813,965	532,765	997,041
Special mention	536,415	456,783	-	-
Gross amount	7,940,310	7,270,748	532,765	997,041
Allowance for impairment	(132,099)	(121,623)	(6,150)	(5,550)
Carrying amount	7,808,211	7,149,125	526,615	991,491
Total carrying amount	7,957,330	7,330,215	526,615	991,491
Carrying amount in USD'000	20,668,390	19,039,520	1,367,831	2,575,300
Total allowances for impairment	(313,890)	(297,707)	(6,150)	(5,550)
US\$ 000's	(815,299)	(773,265)	(15,974)	(14,415)

Total impairment above includes impairment for off-balance sheet exposures as well.

Restructured loans on standard and special mentioned portfolio as at 31st Dec 2016: RO 35.881 million (2015: RO 95.556 million)

Restructured loans on classified portfolio as at 31st Dec 2016: RO 76.826 million (2015: 64.471 million)

Other assets is outlined in note 8 includes elements of credit risk for which the Group does not hold any impairment provision.

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk equivalents relating to off-balance sheet items calculated as per Basel II guidelines are as follows:

2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's
629,161	743,265	Financial guarantees	286,157	242,227
2,484,803	2,386,779	Other credit related liabilities	918,910	956,649
561,470	530,512	Loan commitments	204,247	216,166
3,675,434	3,660,556		1,409,314	1,415,042

The above table represents a worst case scenario of credit risk exposure as of 31 December 2016 and 2015, without taking into account of any collateral held or other credit enhancements attached.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****42. Financial risk management (continued)****42.2 Credit risk (continued)****42.2.2 Exposure to credit risk – Statement of financial position items (continued)**

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from the Group's loan and advances portfolio based on the following:

- Regular review of the loans and advances portfolio to identify any potential risk;
- 96.0% of the loans and advances portfolio are considered to be neither past due nor impaired (2015: 95.3%);
- Of the RO 4,974 million (2015: RO 4,649 million) loans and advances assessed on an individual basis, less than 3.5% is impaired (2015: 3%);
- Personal and housing loans represent 39.87% (2015: 39.05%) of total loans and advances which are backed by salary assignment and/or by collaterals;
- Well diversified loans and advances portfolio to avoid concentration risk in segment, sector, geographies and counterparty.

42.2.3 Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and security agreements. Those loans are categorised either as Sub-standard, Doubtful or Loss in the internal credit risk system.

42.2.4 Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

42.2.5 Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. A collective loan loss allowance is established for Groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. The Group makes provision for bad and doubtful debts promptly when required in line with the conservative provisioning norms it has set for itself.

42.2.6 Write-off policy

The Group writes off a loan or security and any related allowances for impairment when the Group determines that the loan or security is uncollectible. This determination is reached after considering factors such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure or legal measures to recover the dues. For smaller balance standardized loans, charge off decisions generally based on a product specific past due status and borrower's capacity to repay the loan.

The Group holds collateral against credit exposures to customers in the form of cash on deposits, bank guarantees, quoted securities, mortgage interest over property, other registered securities over assets and other guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated regularly.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.7 Analysis of impairment and collaterals

- (a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances and Islamic financing to customers			Loans and advances and Islamic financing to customers		
2015 US\$ 000's	2016 US\$ 000's		2016 RO 000's	2015 RO 000's	
		Against individually impaired			
331,229	264,400	Property	101,794	127,523	
1,429	18	Equities	7	550	
4,792	2,603	Others	1,002	1,845	
337,450	267,021		102,803	129,918	
		Against past due but not impaired			
1,003,270	267,927	Property	103,152	386,259	
496,021	28,384	Equities	10,928	190,968	
9,099	65,229	Others	25,113	3,503	
1,508,390	361,540		139,193	580,730	
		Against neither past due nor impaired			
7,000,894	10,094,922	Property	3,886,545	2,695,344	
1,452,566	1,895,319	Equities	729,698	559,238	
734,356	1,019,249	Others	392,411	282,727	
9,187,816	13,009,490		5,008,654	3,537,309	
11,033,656	13,638,051		5,250,650	4,247,957	

(b) *Reposessed collateral*

The Group obtains assets by taking possession of collateral held as security. The carrying value of collateral held for sale as at 31 December 2016 is as follows:

Nature of assets	Carrying Amount	
	2016 RO 000's	2015 RO 000's
Residential/commercial property	7,592	7,592
US\$ 000's	19,719	19,719

Reposessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Reposessed property is classified in the statement of financial position within other assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Credit rating analysis

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation, based on Moody's ratings or their equivalent:

At 31 December 2016

Debt and T Bills Rated:	2016 RO 000's	2015 RO 000's
Aaa to Aa3	43,816	627,465
A1 to A3	58,015	724,796
Baa1 to Baa3	756,679	16,052
Ba1 to Ba3	4,968	3,506
Unrated	6,478	2,144
	869,956	1,373,963
Equity	153,388	155,291
Total investment securities	1,023,344	1,529,254
Total investment securities (US\$ 000's)	2,658,036	3,972,088

The debt securities, treasury bills and other eligible bills include element of credit risk for which the Group does not hold any impairment provision.

The following table shows the gross placements held with counterparties at the reporting date:

Banks rated:	2016 RO 000's	2015 RO 000's
Aaa to Aa3	104,405	37,908
A1 to A3	145,478	367,585
Baa1 to Baa3	193,678	460,336
Ba1 to Ba3	57,687	57,356
B1 & Below	175	150
Banks unrated	31,342	73,706
Total	532,765	997,041
Total (US\$ 000's)	1,383,805	2,589,715

The Group performs an independent assessment based on quantitative and qualitative factors where a Bank is unrated.

The following table shows the gross off balance sheet held with counterparties at the reporting date:

Rated:	2016 RO'000	2015 RO'000
Aaa to Aa3	163,107	124,162
A1 to A3	481,181	643,887
Baa1 to Baa3	148,234	187,746
Ba1 to Ba3	140,731	87,902
B1 & Below	2,463	6,018
Unrated	2,052,773	2,136,697
Total	2,988,489	3,186,412
Total (US\$ 000's)	7,762,309	8,276,395

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.2.9 Concentration of credit risk

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

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or businesses. It also obtains appropriate security concentration by location for loans and advances and is measured based on the location of the Group holding the asset, which has a high co-relation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

An analysis of concentrations of credit risk as the reporting date is shown below.

Carrying amount	Gross loans and advances and Islamic financing to customers		Due from banks	
	2016 RO 000's	2015 RO 000's	2016 RO 000's	2015 RO 000's
Concentration by sector				
Corporate	4,516,940	4,235,464	-	-
Sovereign	9,994	10,146	-	-
Financial institution	446,727	403,482	532,765	997,041
Retail	3,297,559	2,978,830	-	-
Total	8,271,220	7,627,922	532,765	997,041
US\$ 000's	21,483,689	19,812,785	1,383,805	2,589,715

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

2015 USD 000's	2016 USD 000's		2016 RO 000's	2015 RO 000's
		Corporate and other loans		
1,884,008	2,120,158	Services	816,261	725,343
1,202,208	1,109,626	Mining and quarrying	427,206	462,850
1,344,740	1,266,169	Manufacture	487,475	517,725
742,610	1,013,769	Real estate	390,301	285,905
506,855	534,717	Wholesale and retail trade	205,866	195,139
1,140,249	1,119,891	Import trade	431,158	438,996
1,048,005	1,160,330	Financial institutions	446,727	403,482
1,180,195	1,200,096	Utilities	462,037	454,375
1,892,182	2,201,106	Transport	847,426	728,490
844,873	890,868	Construction	342,984	325,276
26,353	25,958	Government	9,994	10,146
62,730	63,125	Agriculture and allied activities	24,303	24,151
28,608	25,239	Export trade	9,717	11,014
171,948	187,549	Others	72,206	66,200
12,075,564	12,918,601		4,973,661	4,649,092
7,737,221	8,565,088	Personal and housing loans	3,297,559	2,978,830
19,812,785	21,483,689		8,271,220	7,627,922

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.2.9 Concentration of credit risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk by location at the reporting date is shown below.

Carrying amount	Gross loans and advances and Islamic financing to customers		Due from banks	
	2016 RO 000's	2015 RO 000's	2016 RO 000's	2015 RO 000's
Concentration by location				
Sultanate of Oman	7,765,333	7,123,373	17,726	720,183
Other GCC countries	491,633	484,387	187,375	19,041
Europe	-	-	191,760	106,315
United States of America	-	-	42,843	87,785
Others	14,254	20,162	93,061	63,717
Total	8,271,220	7,627,922	532,765	997,041
US\$ 000's	21,483,689	19,812,785	1,383,805	2,589,715

42.2.10 Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honor its obligation to deliver cash, securities or other assets as contractually agreed.

The Group mitigates settlement risk by conducting settlements through a settlement / clearing agent or having bilateral payment netting agreements.

42.3 Liquidity risk

Liquidity risk is the potential inability of the Group to meet its maturing obligations to counterparty.

42.3.1 Management of liquidity risk

Liquidity risk arises when the Group is unable to generate sufficient cash resources to meet obligations as they fall due or can do so only at materially disadvantageous terms. Such liquidity risk may arise even when the institution is solvent. Liquidity stress may be caused by counterparties withdrawing credit lines or of not rolling over existing funding or as a result of general disruption in the markets or run on Group deposits etc.

Asset Liability Committee (ALCO) of the Group manages the liquidity position of the Group. In order to ensure that the Group meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Liquidity risk management ensures that the Group has the ability, under varying levels of stress to efficiently and economically meet liquidity needs.

The Group consciously diversifies its funding base to include deposits raised from intergroup, issue of Certificate of deposits, retail customer deposits, bonds and medium term funds raised through Euro medium term notes and subordinated liabilities. These together with the strength of the Group's equity and asset quality ensure that funds are available at competitive rates at all times.

The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and ensure a robust management of liquidity risks. The Group undertakes structural profiling based on the actual behavioral patterns of customers to study the structural liquidity position and initiate measures to fund these gaps.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.3. Liquidity risk (continued)

42.3.1 Management of liquidity risk (continued)

The group undertakes liquidity management through both cash flow approach and stock approach. Under stock approach, Liquid assets to total deposits and Liquid assets to total assets ratios are closely monitored and managed. Under cash approach, assets and liabilities are bucketed based on their residual maturity to ascertain liquidity gaps. The ALCO reviews the liquidity position on a continuous basis.

The Group's statement on maturity of asset and liability is outlined in note 42.3.2 to the consolidated financial statements.

42.3.2. Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of liquid assets to total deposits and liquid assets to total assets. For this purpose the liquid assets include cash and balances with Central Banks, government securities, treasury bills and due from banks. The table below provides the ratio of liquid assets to deposits from customers and liquid assets to total assets at the reporting date and during the reporting period.

	Liquid assets to total assets ratio		Liquid assets to total deposits ratio	
	2016	2015	2016	2015
As at 31 December	16.28%	20.12%	21.03%	27.65%
Average for the period	20.89%	23.05%	28.30%	32.46%
Maximum for the period	25.63%	26.45%	34.69%	36.43%
Minimum for the period	16.28%	19.53%	21.03%	27.65%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.3. Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

The asset and liability maturity profile was as follows:

	On demand or within 3 months RO 000's	Four months to 12 months RO 000's	One to five years RO 000's	More than five years RO 000's	Total RO 000's
At 31 December 2016					
Cash balances with central banks	846,379	52,858	101,196	41,139	1,041,572
Due from banks	422,279	99,916	4,001	419	526,615
Loans and advances	1,977,209	736,340	1,679,150	3,564,631	7,957,330
Investments	561,783	73,620	210,608	211,987	1,057,998
Property and equipment and other assets	124,547	34,260	4,241	73,507	236,555
Total assets	3,932,197	996,994	1,999,196	3,891,683	10,820,070
 Future interest cash flows	 90,957	 223,401	 760,194	 556,717	 1,631,269
 Deposits from banks	 527,857	 54,961	 248,974	 -	 831,792
Customers' deposits and certificates of deposit	1,481,551	1,639,870	3,131,492	1,204,814	7,457,727
Euro medium term notes	-	-	383,595	-	383,595
Other liabilities and taxation	203,429	163,407	2,803	747	370,386
Subordinated liabilities / Mandatory convertible bonds	49,964	-	179,866	-	229,830
Shareholders' funds	-	-	-	1,546,740	1,546,740
Total liabilities and equity	2,262,801	1,858,238	3,946,730	2,752,301	10,820,070
 Future interest cash flows	 18,064	 58,501	 165,979	 94,144	 336,688

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.3. Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

	On demand or within 3 months US\$ 000's	Four months to 12 months US\$ 000's	One to five years US\$ 000's	More than five years US\$ 000's	Total US\$ 000's
As of 31 December 2016					
Cash balances with central banks	2,198,386	137,294	262,847	106,855	2,705,382
Due from banks	1,096,829	259,522	10,392	1,088	1,367,831
Loans and advances	5,135,608	1,912,570	4,361,429	9,258,783	20,668,390
Investments	1,459,176	191,221	547,034	550,616	2,748,047
Property and equipment and other assets	323,498	88,987	11,016	190,927	614,428
Total assets	10,213,497	2,589,595	5,192,718	10,108,268	28,104,078
Future interest cash flows	236,252	580,262	1,974,530	1,446,018	4,237,062
Deposits from banks	1,371,057	142,756	646,686	-	2,160,499
Customers' deposits and certificates of deposit	3,848,185	4,259,403	8,133,745	3,129,387	19,370,720
Euro medium term notes	-	-	996,351	-	996,351
Other liabilities and taxation	528,386	424,433	7,281	1,940	962,040
Subordinated liabilities / Mandatory convertible bonds	129,777	-	467,184	-	596,961
Shareholders' funds	-	-	-	4,017,507	4,017,507
Total liabilities and equity	5,877,405	4,826,592	10,251,247	7,148,834	28,104,078
Future interest cash flows	46,919	151,951	431,114	244,530	874,514

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.3. Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

	On demand or within 3 months RO 000's	Four months to 12 months RO 000's	One to five years RO 000's	More than five years RO 000's	Total RO 000's
At 31 December 2015					
Cash balances with central banks	2,146,488	84,162	113,596	67,806	2,412,052
Due from banks	554,424	316,636	120,431	-	991,491
Loans and advances	1,860,781	657,730	1,579,434	3,232,270	7,330,215
Investments	853,678	557,979	54,738	99,735	1,566,130
Property and equipment and other assets	142,945	22,666	4,560	74,470	244,641
Total assets	5,558,316	1,639,173	1,872,759	3,474,281	12,544,529
Future interest cash flows	76,015	206,968	752,865	504,005	1,539,853
Deposits from banks	2,561,701	66,862	231,000	-	2,859,563
Customers' deposits and certificates of deposit	1,449,659	1,902,538	2,526,317	1,484,934	7,363,448
Euro medium term notes	-	-	191,185	-	191,185
Other liabilities and taxation	243,800	152,890	782	797	398,269
Subordinated liabilities / Mandatory convertible bonds	30,275	75,000	164,380	65,450	335,105
Shareholders' funds	-	-	-	1,396,959	1,396,959
Total liabilities and equity	4,285,435	2,197,290	3,113,664	2,948,140	12,544,529
Future interest cash flows	17,432	56,062	121,217	104,361	299,072

	On demand or within 3 months US \$ 000's	Four months to 12 months US \$ 000's	One to five years US \$000's	More than five years US \$ 000's	Total US \$ 000's
As of 31 December 2015					
Cash balances with central banks	5,575,293	218,603	295,055	176,119	6,265,070
Due from banks	1,440,061	822,431	312,808	-	2,575,300
Loans and advances	4,833,198	1,708,390	4,102,426	8,395,506	19,039,520
Investments	2,217,345	1,449,296	142,177	259,052	4,067,870
Property and equipment and other assets	371,286	58,873	11,844	193,429	635,432
Total assets	14,437,183	4,257,593	4,864,310	9,024,106	32,583,192
Future interest cash flows	197,442	537,579	1,955,494	1,309,104	3,999,619

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.3. Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

	On demand or within 3 months US \$ 000's	Four months to 12 months US \$ 000's	One to five years US \$ 000's	More than five years US \$ 000's	Total US \$ 000's
Deposits from banks	6,653,768	173,668	600,000	-	7,427,436
Customers' deposits and certificates of deposit	3,765,350	4,941,657	6,561,862	3,856,971	19,125,840
Euro medium term notes	-	-	496,584	-	496,584
Other liabilities and taxation	633,247	397,117	2,031	2,070	1,034,465
Subordinated liabilities / Mandatory convertible bonds	78,636	194,805	426,961	170,000	870,402
Shareholders' funds	-	-	-	3,628,465	3,628,465
Total liabilities and equity	11,131,001	5,707,247	8,087,438	7,657,506	32,583,192
Future interest cash flows	45,278	145,616	314,849	271,068	776,811

Interest cash flows shown in the above table represent inflows and outflows up to the contractual maturity of financial assets and liabilities. Mismatch in interest cash flows arise as contractual maturity of financial assets is longer than contractual maturity of financial liabilities. Historically, financial liabilities are rolled over on contractual maturity which is not considered in the future interest cash flow calculations. Furthermore, the interest cash flows do not factor in the stable nature of unambiguous maturity financial liabilities such as demand and savings accounts.

As on the reporting date, deposits from Ministries and other Government organisations represent 35.9 % of the total customer deposits (2015: 35.8 %).

42.4 Market risk

42.4.1 Management of market risks

The Group sets limits for each product and risk type in order to ensure that the Group's market risk is managed well within the overall regulatory requirements set by the Central Bank of Oman and internal regulations contained in the Risk Policy. The Group does not enter into trading positions in commodities & derivatives. Limits and all internal/external guidelines are strictly adhered to, deviations, if any, are immediately escalated and action taken wherever necessary.

The principal categories of market risk faced by the Group are set out below:

- Foreign exchange risk
- Investment price risk
- Interest rate risk
- Commodity price risk

42.4.2 Foreign exchange risk

Foreign exchange risk is the risk of loss due to volatility in the exchange rates. Foreign exchange risk management in the Group is ensured through regular measurement and monitoring of open foreign exchange positions against approved limits. Majority of the foreign exchange transactions carried out by the division are on behalf of corporate customers and are on a back-to-back basis. The treasury ensures that positions with customers are covered in the interbank market.

The Group conservatively restricts its open currency position at below 35% of its net worth as against the regulatory limit of 40% of net worth.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.2 Foreign exchange risk (continued)

It also stipulates that exposure on any single non parity currency should be restricted to the extent of 3% of Parent Company's net worth and restricted to the extent of 10% of the Parent Company's net worth for all non-parity currencies taken together. As at the reporting date, the Group had the following net exposures denominated in foreign currencies:

2015 USD 000's	2016 USD 000's		2016 RO 000's	2015 RO 000's
343	19,758	UAE Dirhams	7,607	132
458,405	64,270	US Dollar	24,744	176,486
176,379	91,761	Saudi Riyal	35,328	67,906
14,945	11,023	Qatari Riyal	4,244	5,754
8,416	8,514	Pakistani Rupee	3,278	3,240
9,761	9,943	Indian Rupee	3,828	3,758
60,964	62,997	Kuwait Dinar	24,254	23,471
127,730	126,810	Bahraini Dinar	48,822	49,176
8,158	10,416	Others	4,010	3,141
865,101	405,492		156,115	333,064

Positions are monitored on a daily basis to ensure positions are maintained within the limits approved by the Central Bank of Oman.

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas associates and branches of equivalent RO 95 million (2015: RO 93 million) which are exempted from regulatory limit on foreign exchange exposure.

The Group's significant portion of foreign exchange exposure is in USD and other GCC currencies which have (other than Kuwaiti Dinar) fixed parity with Omani Rial.

Exposure and sensitivity analysis:

The table below indicates the sensitivity analysis of foreign exchange exposure of the Group to changes in the non-parity foreign currency prices as at 31 December 2016 with all other variables held constant.

Non parity foreign currency net assets	At 31 December 2016		At 31 December 2015	
	% of change in the currency price(+/-)	Change in Profit and equity (+/-)	% of change in the currency price(+/-)	Change in profit and equity (+/-)
Indian Rupees	10%	383	10%	376
Pakistani Rupees	10%	328	10%	324
Kuwaiti Dinar	10%	2,425	10%	2,347
Others	10%	401	10%	314

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.3 Investment Price Risk

Investment price risk is the risk of decline in the market value of the Group's portfolio as a result of diminishment in the market value of individual investments. The Group's investments are governed by the Investment Policy and Risk Policy approved by the Board of Directors and are subject to rigorous due diligence. Investment limits such as position limits, exposure limits, stop loss limits, sectorial limits are defined in various policies enabling proper risk management of the Group's investments. The Group's Investment Committee monitors the investments. The rating and cost vis-a-vis the market price of the instruments are monitored on daily basis and necessary actions taken to reduce exposure, if needed. Traded portfolio is revalued on daily basis and the rest at regular interval to ensure that unrealised losses, if any, on account of reduction in the market value of the investments over its cost remain within the acceptable parameters defined in the Group's Investment Policy.

Exposure and sensitivity analysis

The Group analyses price sensitivity of the equity portfolio as follows:

- (a) *For the local quoted equity portfolio, based on the beta factor of the portfolio performance to the MSM30 Index performance.*
- (b) *For the international quoted equity portfolio, based on the individual security market price movement.*

The Group's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Group's local equity portfolio has a correlation to the performance of MSM30 Index.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2016 was 0.14. Thus, a +/- 5% change in the value of MSM30 index may result in 0.72% change in the value of Group's quoted local equity portfolio, amounting to RO 0.389 Million decrease in the unrealized gain recognized in the statement of other comprehensive income and changes in equity for the year

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2015 was 0.19. Thus, a +/- 5% change in the value of MSM30 index may result in 0.93% change in the value of Group's quoted local equity portfolio, amounting to RO 0.541 million increase in the unrealized gain recognized in the statement of other comprehensive income for the year.

International quoted equity portfolio of the Group comprises of shares listed in GCC stock markets, Indian Stock markets and other international markets. A +/-5% change in the market price of the respective securities, have resulted in change in value of the portfolio of +/- RO 2.64 million (2015: +/-RO 2.36 million) and consequently increased or decreased in the unrealised gain recognised in the statement of other comprehensive income.

42.4.4. Interest rate risk management.

Interest rate risk is the risk of adverse impact on the Bank's financial position due to change in market interest rates. While the impact on the trading book is by way of change in the value of the portfolio, the banking book leads to impact on the net Interest Income (NII) and/or Economic Value of Equity (EVE). The short term impact of interest rate risk is measured by studying the impact on the NII of the Bank while the long term impact is measured through the study of the impact on the Economic Value of Equity. The responsibility for interest rate risk management rests with the Parent Company's Treasury under the supervision of the ALCO. The Group's interest rate sensitivity position of assets and liabilities, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.4. Interest rate risk management (continued)

	Effective annual interest rate %	Floating rate or within 3 months RO 000's	Months 4 to 12 RO 000's	Year 1 to 5 RO 000's	Over 5 years RO 000's	Non-interest sensitive RO 000's	Total RO 000's
As of 31 December 2016							
Cash and balances with Central Banks	0-0.5	434,705	1,879	-	-	604,988	1,041,572
Due from banks	1.21	335,124	148,957	4,001	35,448	3,085	526,615
Loans and advances	4.56	2,477,914	987,830	2,389,752	2,089,519	12,315	7,957,330
Investments	2.15	436,373	84,599	214,858	164,922	157,246	1,057,998
Property and equipment and other assets	None	-	-	-	-	236,555	236,555
Total assets		3,684,116	1,223,265	2,608,611	2,289,889	1,014,189	10,820,070
Deposits from banks	1.76	516,622	57,668	248,974	1,934	6,594	831,792
Customers' deposits and certificates of deposit	1.15	666,962	3,975,377	1,410,698	150,845	1,253,845	7,457,727
Euro medium term notes	3.29	-	-	383,595	-	-	383,595
Other liabilities and taxation	None	-	-	-	-	370,386	370,386
Subordinated liabilities / Mandatory convertible bonds	5.09	49,964	65,450	114,416	-	-	229,830
Shareholders' funds	None	-	-	-	-	1,546,740	1,546,740
Total liabilities and equity		1,233,548	4,098,495	2,157,683	152,779	3,177,565	10,820,070
Total interest rate sensitivity gap		2,450,568	(2,875,230)	450,928	2,137,110	(2,163,376)	-
Cumulative interest rate sensitivity gap		2,450,568	(424,662)	26,266	2,163,376	-	-
In US\$ 000		6,365,112	(1,103,018)	68,223	5,619,158	-	-

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.4. Interest rate risk management (continued)

	Effective annual interest rate %	Floating rate or within 3 months RO 000's	Months 4 to 12 RO 000's	Year 1 to 5 RO 000's	Over 5 years RO 000's	Non-interest sensitive RO 000's	Total RO 000's
As of 31 December 2015							
Cash and balances with Central Banks	0-0.5	42,050	1,263	-	-	2,368,739	2,412,052
Due from banks	1.03	531,147	363,937	4,007	19,563	72,837	991,491
Loans and advances	4.64	2,392,063	886,233	2,248,364	1,803,555	-	7,330,215
Investments	1.83	472,467	599,439	214,360	120,678	159,186	1,566,130
Property and equipment and other assets	None	-	-	-	-	244,641	244,641
Total assets		<u>3,437,727</u>	<u>1,850,872</u>	<u>2,466,731</u>	<u>1,943,796</u>	<u>2,845,403</u>	<u>12,544,529</u>
Deposits from banks	0.96	743,158	270,354	-	2,350	1,843,701	2,859,563
Customers' deposits and certificates of deposit	1.06	608,965	4,290,521	856,443	356,970	1,250,549	7,363,448
Euro medium term notes	2.70	-	-	191,185	-	-	191,185
Other liabilities and taxation	None	-	-	-	-	398,269	398,269
Subordinated liabilities / Mandatory convertible bonds	5.58	30,275	-	304,830	-	-	335,105
Shareholders' funds	None	-	-	-	-	1,396,959	1,396,959
Total liabilities and equity		<u>1,382,398</u>	<u>4,560,875</u>	<u>1,352,458</u>	<u>359,320</u>	<u>4,889,478</u>	<u>12,544,529</u>
Total interest rate sensitivity gap		<u>2,055,329</u>	<u>(2,710,003)</u>	<u>1,114,273</u>	<u>1,584,476</u>	<u>(2,044,075)</u>	<u>-</u>
Cumulative interest rate sensitivity gap		<u>2,055,329</u>	<u>(654,674)</u>	<u>459,599</u>	<u>2,044,075</u>	<u>-</u>	<u>-</u>
In US\$ 000		<u>5,338,517</u>	<u>(1,700,452)</u>	<u>1,193,764</u>	<u>5,309,286</u>	<u>-</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.4. Interest rate risk management (continued)

- (i) The repricing profile is based on the remaining period to the next interest repricing date.
- (ii) An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment.

Re-pricing gap is the difference between interest rate sensitive assets and liabilities spread over distinct maturity bands based on residual maturity or re-pricing dates. The Parent Company uses currency-wise and consolidated re-pricing gaps to quantify interest rate risk exposure over distinct maturities and analyse the magnitude of portfolio changes necessary to alter existing risk profile. The distribution of assets and liabilities over these time bands is done based on the actual repricing schedules. The schedules are used as a guideline to assess interest rate risk sensitivity and to focus the efforts towards reducing the mismatch in the repricing pattern of assets and liabilities.

The Parent Company uses simulation reports as an effective tool for understanding risk exposure under variety of interest rate scenarios. These reports help ALCO to understand the direction of interest rate risk in the Parent Company and decide on the appropriate strategy and hedging mechanism for managing it. The Parent Company's current on- and off-balance sheet exposures are evaluated under static environment to quantify potential effect of external interest rate shocks on the earnings and economic value of equity at risk, using assumptions about future course of interest rates and changes in Parent Company's business profile.

Economic Value of Equity (EVE) is the present value of all asset cash flows subtracted by the present value of all liability cash flows. By calculating the EVE the bank is able to show the effect of different interest rate changes on its total capital. This is a key tool that allows bank to prepare against constantly changing interest rate. The impact of interest rate changes on EVE is monitored by recognising the changes in the value of assets and liabilities for a given change in the market interest rate. The interest rate risk management is facilitated by limits of 5% NII impact and 20% impact on EVE for a 200 basis points shock.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates is as follows:

**Impact on Net Interest
income**

	+200 bps RO 000's	-200 bps RO 000's	+100 bps RO 000's	-100 bps RO 000's	+50 bps RO'000's	-50 bps RO 000's
2016						
As at 31 December	19,486	(18,246)	10,399	(9,129)	5,095	(4,022)
Average for the period	18,025	(12,027)	9,934	(5,038)	4,794	(415)
Maximum for the period	21,852	(18,246)	11,941	(9,129)	5,882	(4,022)
Minimum for the period	7,860	(1,815)	5,049	(1,275)	2,335	1,821
2015						
As at 31 December	6,372	4,804	4,071	2,409	1,815	2,916
Average for the period	9,998	2,077	5,991	2,116	2,721	2,915
Maximum for the period	22,966	13,463	12,427	8,571	5,895	6,409
Minimum for the period	(7,823)	(6,843)	(2,941)	(3,359)	(1,755)	(52)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.4. Interest rate risk management (continued)

Impact on Economic Value	+200 bps RO 000's	-200 bps RO 000's	+100 bps RO 000's	-100 bps RO 000's	+50 bps RO 000's	-50 bps RO 000's
2016						
As at 31 December	(317,089)	442,720	(167,287)	336,863	118,758	245,533
Average for the period	(258,341)	372,086	(138,321)	215,422	(3,478)	129,642
Maximum for the period	(210,901)	459,773	(117,698)	336,863	121,059	245,533
Minimum for the period	(317,089)	287,133	(167,287)	136,178	(75,782)	61,994
2015						
As at 31 December	91,520	617,638	(119,658)	133,735	(61,244)	64,298
Average for the period	76,756	579,548	(109,617)	128,417	(57,706)	60,763
Maximum for the period	162,019	706,004	(101,055)	139,860	(51,787)	66,888
Minimum for the period	1,870	476,434	(119,658)	119,147	(70,276)	56,089
Impact on Net Interest income	+200 bps US\$ '000	-200 bps US\$ '000	+100 bps US\$ '000	-100 bps US\$ '000	+50 bps US\$ '000	-50 bps US\$ '000
2016						
As at 31 December	50,613	(47,392)	27,010	(23,712)	13,234	(10,447)
Average for the period	46,818	(31,239)	25,803	(13,086)	12,452	(1,078)
Maximum for the period	56,758	(47,392)	31,016	(23,712)	15,278	(10,447)
Minimum for the period	20,416	(4,714)	13,114	(3,312)	6,065	4,730
2015						
As at 31 December	16,551	12,478	10,574	6,257	4,714	7,574
Average for the period	25,969	5,395	15,561	5,496	7,068	7,571
Maximum for the period	59,652	34,969	32,278	22,262	15,312	16,647
Minimum for the period	(20,319)	(17,774)	(7,639)	(8,725)	(4,558)	(135)
Impact on Economic Value	+200 bps US\$ 000's	-200 bps US\$ 000's	+100 bps US\$ 000's	-100 bps US\$ 000's	+50 bps US\$ 000's	-50 bps US\$ 000's
2016						
As at 31 December	(823,608)	1,149,922	(434,512)	874,969	308,462	637,748
Average for the period	(671,016)	966,457	(359,275)	559,538	(9,034)	336,732
Maximum for the period	(547,795)	1,194,216	(305,709)	874,969	314,439	637,748
Minimum for the period	(823,608)	745,800	(434,512)	353,709	(196,836)	161,023
2015						
As at 31 December	237,714	1,604,255	(310,800)	347,364	(159,075)	167,008
Average for the period	199,366	1,505,319	(284,719)	333,551	(149,886)	157,826
Maximum for the period	420,829	1,833,777	(262,481)	363,273	(134,512)	173,735
Minimum for the period	4,857	1,237,491	(310,800)	309,473	(182,535)	145,686

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****42. Financial risk management (continued)****42.5 Commodity Price Risk**

As part of its treasury operations, the Group offers commodities hedging facility to its clients. Customers of the Group who are exposed to commodities like Copper, Aluminium and also Jewellers with exposure to gold prices cover their commodity exposures through the Group. The Group covers all its commodity exposures back-to-back in the interbank market.

The Group operates in the commodities market purely as a provider of hedging facilities and does not either trade in commodities or bullion or maintain positions in commodities. Customers of the Group are sanctioned a transaction volume limit based on their turn-over/ orders as well as a Variation Margin limit is applied to mitigate any mark-to-market related credit exposures for the Group. The transaction volume limit is to restrict the total outstanding contracts value to the business requirement of the customer and the variation margin limit is to protect the Group from excessive credit risk due to adverse price movement in the underlying commodity prices. Margin calls for additional collateral or cash deposits is demanded from customers on the breach of the Variation Margin limit. The treasury middle-office monitors customers' positions and MTMs on daily basis.

42.6 Operational risks

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

Losses from external events such as a natural disaster that has a potential to damage the Group's physical assets or electrical or telecommunications failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Group's specific products and business lines; they are more specific to the Group's operations than the risks due to external events. Operational risks faced by the Group include IT Security, telecom failure, fraud, and operational errors.

The Group has developed its own Operational Risk Management Software to aid assessment of operational risks as well as the collection and analysis of operational losses.

The Group's risk policy provides the framework to identify, assess, monitor, control and report operational risks in a consistent and comprehensive manner across the Group. Operational Risk Management function independently supports business units in the management of operational risks. Operational risk management in the Group is driven by the objective to increase the efficiency and effectiveness of the available resources, minimise losses and utilise opportunities. The main objectives of Operational Risk Management are as follows:

- To achieve strong risk control by harnessing the latest risk management technologies and techniques, resulting in a distinctive risk management capability, enabling business units to meet their performance and growth objectives.
- To enable adequate capital allocation in respect of potential impact of operational risks
- To minimize the impact of operational risks through means such as a fully functional IT Disaster Recovery facility, Business Continuity Plans, up-to-date documentation and by developing general operational risk awareness within the Group.

Operational risk appetite is defined at a business unit and Group level. Business units have the primary responsibility for identifying, measuring and managing the operational risks that are inherent in their respective operations. Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. The responsibility of overseeing the process lies with Operational Risk Unit in accordance with the Operational Risk Management Framework. Internal Audit independently reviews effectiveness of the Group's internal controls and its ability to minimise the impact of operational risks.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****42. Financial risk management (continued)****42.6 Operational risks (continued)**

The Operations committee is the primary oversight body for operational risk. The Operations committee is represented by business and control functions and is responsible for ensuring that the Group has an adequate risk management process that covers identification, evaluation and management of operational risks and the formulation of adequate policies pertaining to operational risk management.

Business Continuity Planning (BCP)

Business Continuity Management within the Group is the implementation and management of preventative measures, planning and preparation to ensure the Group can continue to operate following an incident, significant unplanned event or major operational disruption. The Group ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. The Group has put in place Business Continuity Plans (BCP) to ensure that its business runs effectively in the event of most unforeseen disasters as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards. The Group continuously strengthens and enhances its existing plans by implementing a robust business continuity framework to ensure that its systems and procedures are resilient and ready to meet 'emergency preparedness'. The BCM Committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Group. The BCM Committee continuously review and agree the strategic Business Continuity assessment and planning information to ensure Business Continuity Management, planning and maintenance responsibilities are assigned, understood and implemented across the business areas.

The Group has made significant strides in enhancing its business continuity framework. Some of the major developments in line with the objective of the continuous evolution of the Group's BCM framework were:

- BCM Committee ensures business continuity is closely aligned and integrated with business initiatives and developments.
- Fire evacuation drills were conducted for each section of the Seeb Head Office and a collective, full-fledged surprise fire drill and evacuation was conducted in conjunction with the Royal Oman Police. Fire evacuation response leaders were appointed and trained.
- Comprehensive testing of the recovery of the Group's key systems and applications was conducted in conjunction with the Business.
- The Group's Business Recovery Centre of the Group has the capability to meet any unforeseen disaster and ensure continual operational capability in the event of a major operational disruption. To ensure the functionality of the Business Recovery Centre.

42.7 Capital management**42.7.1 Regulatory capital**

The Parent Company's regulator, Central Bank of Oman (CBO), sets and monitors capital requirements for the Parent Company as a whole. In implementing Basel III's capital requirement, the CBO requires the Parent Company to maintain a minimum of 12.625% ratio of total capital to total risk-weighted assets. The Group's regulatory capital as per Basel III regulations is grouped into:

- Common Equity Tier 1 (CET1) capital will includes common shares, share premium resulting from the issue of common shares, retained earnings net of any interim losses and net of any interim and/or final dividend proposed/declared, other disclosed reserves, qualifying minority interest (i.e. CET 1 capital instruments issued by consolidated subsidiaries of the bank held by third parties.) and less regulatory adjustments applied in the calculation of CET 1 Capital.
- Additional Tier 1 capital shall consists of capital instruments issued by the Bank that meet the criteria specified for additional tier 1 capital, and not included in CET 1 capital, share premium resulting from the issue of Additional Tier 1 instruments, qualifying Additional Tier 1 capital instruments issued by consolidated subsidiaries of the bank held by third parties and less regulatory adjustments applied in the calculation of additional Tier 1 Capital.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****42.7 Capital management (continued)****42.7.1 Regulatory capital (continued)**

- Tier 2 capital, which includes capital instruments issued by the Bank that fulfil the criteria specified in Tier 2 capital instrument, and are not included in Tier 1 capital, share premium resulting from the issue of Tier 2 instruments, qualifying capital instruments issued by consolidated subsidiaries of the bank held by third parties, loan/financing loss provisions, revaluation reserves with a haircut of 55%, Profit Equalisation & Investment risk reserves of Islamic Banks and less regulatory adjustments applied in the calculation of Tier 2 capital.

Various limits are applied to elements of the capital base. The qualifying Tier II and Tier III capital cannot exceed Tier I capital; qualifying subordinated liabilities may not exceed fifty percent of Tier I capital; and amount of collective impairment allowances that may be included as part of Tier II capital is limited to 1.25 percent of the total risk-weighted assets.

42.7.2 Capital adequacy

Capital adequacy indicates the ability of the Group in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the Group's assets helps promote financial stability and confidence of the stakeholders and creditors. The Group aims to maximise the shareholder's value through an optimal capital structure that protects the stakeholders interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders. The Group has a forward looking capital policy which considers the current risk, planned growth and an assessment of the emerging risk for the forecasted period.

While risk coverage is the prime factor influencing capital retention, the Group is conscious of the fact that as a business entity, its capital needs to be serviced and a comfortable rate of return needs to be provided to the shareholders. Excessive capital will dilute the return on capital and this in turn can exert pressure for profitability, propelling business asset growth resulting in the Group assuming higher levels of risk. Hence, with regards to the retention of capital, the Group's policy is governed by the need for adequately providing for associated risks and the needs for servicing the capital retained. The Group makes good use of subordinated loans as Tier II Capital and raises share capital as and when the need arises. The Group's strong and diverse shareholder profile gives the Group the necessary confidence in its ability to raise capital when it is needed.

The Group desires to move to more advanced approaches for measuring credit risk, market risk and operational risk and has put in place a 'building block' approach. A road map has been laid down for each core area of risk viz. credit, market, operational. Progress has been made in line with the road map and is being monitored on a continuous basis and reported.

Basel III regulatory reporting

The Central Bank of Oman has issued final guidelines on the implementation of the new capital norms along with the phase-in arrangements and reporting norms. The Group remains strongly capitalised and is ahead of the transitional phase-in arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

42. Financial risk management (continued)

42.7 Capital management (continued)

42.7.2 Capital adequacy (continued)

The following table sets out the capital adequacy position of the Group:

2015 USD 000's	2016 USD 000's		2016 RO 000's	2015 RO 000's
		Common Equity Tier 1 (CET1) capital:		
		Instruments and reserves		
595,281	648,377	Share capital	249,625	229,183
1,207,665	1,262,966	Share premium	486,242	464,951
198,426	216,125	Legal reserve	83,208	76,394
441,060	635,865	General reserve	244,808	169,808
360,000	251,143	Subordinated loan reserve	96,690	138,600
619,990	783,088	Retained profit (post proposed cash dividend)	301,489	238,696
3,422,422	3,797,564	Total	1,462,062	1,317,632
		Less:		
(7,527)	(813)	Cumulative loss on fair value	(313)	(2,898)
(1,865)	(782)	Cumulative loss on cash flow hedge	(301)	(718)
(1,745)	(1,309)	Deferred tax assets	(504)	(672)
(4,727)	(5,106)	Foreign currency translation reserve	(1,966)	(1,820)
(103,603)	(130,465)	Significant investments in the common stock of banking, financial and insurance entities	(50,229)	(39,887)
(119,467)	(138,475)	Total regulatory adjustments to CET1	(53,313)	(45,995)
3,302,955	3,659,089	Total Common Equity Tier 1 capital (CET1)	1,408,749	1,271,637
-	-	Additional Tier 1 capital (AT1)	-	-
3,302,955	3,659,089	Total Tier 1 capital (T1 = CET1 + AT1)	1,408,749	1,271,637
		<i>Tier 2 capital: instruments and provisions</i>		
25,904	22,847	Cumulative change in fair value (45%)	8,796	9,973
272,977	300,758	General Loan loss impairment	115,792	105,096
213,545	127,597	Subordinated liabilities (net of reserves)	49,125	82,215
161,660	83,026	Mandatory convertible Bonds	31,965	62,239
674,086	534,228		205,678	259,523
		<i>Less: Regulatory adjustments</i>		
(25,901)	-	Significant investments in the common stock of banking, financial and insurance entities	-	(9,972)
648,185	534,228	Tier 2 capital (T2)	205,678	249,551
3,951,140	4,193,317	Total Regulatory Capital (TC = T1 + T2)	1,614,427	1,521,188
24,538,345	24,814,928	Total risk weighted assets	9,553,747	9,447,263
21,680,960	22,373,951	Of which: Credit risk weighted assets	8,613,971	8,347,170
1,073,642	534,003	Of which: Market risk weighted assets	205,591	413,352
1,783,743	1,906,974	Of which: Operational risk weighted assets	734,185	686,741

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

42. Financial risk management (continued)

42.7 Capital management (continued)

42.7.2 Capital adequacy (continued)

2015	2016	Capital Ratios: (expressed as a % of total risk weighted assets)	2016	2015
13.46%	14.75%	Common Equity Tier 1	14.75%	13.46%
13.46%	14.75%	Tier 1	14.75%	13.46%
16.10%	16.90%	Total capital	16.90%	16.10%

The total regulatory capital adequacy ratio of 16.90 % (2015: 16.10 %) is after considering the proposed dividend of 30 % (25% Cash and 5% Stock) (2015: 30% (25% Cash and 5% Stock)). The total capital adequacy pre consideration of dividend would be 17.55% (2015: 16.71%).

Capital Adequacy as per Basel II reporting for monitoring purposes:

The following table sets out the capital adequacy position as per Basel II guidelines issued by Central Bank of Oman of the Group for monitoring purposes:

2015 USD 000's	2016 USD 000's		2016 RO 000's	2015 RO 000's
3,341,805	3,724,319	Tier I Capital	1,433,863	1,286,594
660,333	519,997	Tier II Capital	200,199	254,229
4,002,138	4,244,316	Total regulatory capital	1,634,062	1,540,823
		Risk weighted assets		
21,680,961	22,373,951	Credit risk	8,613,971	8,347,170
1,073,642	534,003	Market risk	205,591	413,352
1,783,743	1,906,974	Operational risk	734,185	686,741
24,538,346	24,814,928	Total risk weighted assets	9,553,747	9,447,263
		Capital ratios		
16.31%	17.10%	Total regulatory capital expressed as a % of total risk weighted assets	17.10%	16.31%
13.62%	15.01%	Total Tier I capital expressed as a % of total risk weighted assets	15.01%	13.62%

The total regulatory capital adequacy ratio of 17.10% (2015: 16.31%) is after considering the proposed dividend of 25% Cash and 5% stock (2015: 25% Cash, 5% Stock). The total capital adequacy ratio pre consideration of dividend would be 17.76% (2015: 16.92%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****42. Financial risk management (continued)****42.7 Capital management (continued)****42.7.3 Internal Capital Adequacy Assessment Process (ICAAP):**

Apart from the regulatory capital which is based on the guidelines issued by Central Bank of Oman, the Group has in place Internal Capital Adequacy Assessment Process (ICAAP) which provides an assessment of the Group's actual capital adequacy based on advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, interest rate risk on banking book along with the core risks. The purpose of the Group's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to estimate future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The process covers a forward looking plan for the next 5 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Group's risk profile. It will scrutinize the current business model of the Group and may lead to corresponding adjustments if the inherent risk goes beyond the Group's risk appetite. ICAAP is approved by the Board of Directors and submitted to Central Bank annually. On a quarterly basis, reporting is done to the Board of Directors on the adequacy of capital. The Group believes that its current and foreseen capital supply is suitable to support its business strategy. The present plan will be updated at least annually on a rolling basis for forward-looking planning period of 5 years.

The forward looking assessment of capital adequacy has helped the Group to plan ahead for capital management.

42.7.4 Capital allocation

The allocation of capital between specific business units and activities is, to large extent, driven by optimisation of the return on capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular business units or activities, it is not the sole basis used for decision making. Other factors such as synergies between the units or activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives are taken in to account while allocating capital.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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43. Fair value information

Based on the valuation methodology outlined below, the fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values:

	Notes	Loans and receivables RO 000's	Available-for- sale RO 000's	Held-to- maturity RO 000's	Fair value through profit or loss RO 000's	Other amortised cost RO 000's	Total carrying value RO 000's	Fair value RO 000's
At 31 December 2016								
Cash and balances with Central Banks	5	1,041,572	-	-	-	-	1,041,572	1,041,572
Due from banks	6	526,615	-	-	-	-	526,615	526,615
Loans and advances	7	7,102,323	-	-	-	-	7,102,323	7,102,323
Islamic financing receivables	7	855,007	-	-	-	-	855,007	855,007
Investment securities	9	-	395,327	563,601	50,996	-	1,009,924	1,006,673
		<u>9,525,517</u>	<u>395,327</u>	<u>563,601</u>	<u>50,996</u>	<u>-</u>	<u>10,535,441</u>	<u>10,532,190</u>
Deposits from banks	14	-	-	-	-	831,792	831,792	831,792
Customers' deposits	15	-	-	-	-	6,694,808	6,694,808	6,694,808
Islamic customer deposits	15	-	-	-	-	762,919	762,919	762,919
Euro Medium Term Notes	17	-	-	-	-	383,595	383,595	383,595
Subordinated liabilities / mandatory convertible bonds	18,21	-	-	-	-	229,830	229,830	233,652
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,902,944</u>	<u>8,902,944</u>	<u>8,906,766</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

43. Fair value information (continued)

	Notes	Loans and receivables RO 000's	Available-for- sale RO 000's	Held-to-maturity RO 000's	Fair value through profit or loss RO 000's	Other amortised cost RO 000's	Total carrying value RO 000's	Fair value RO 000's
At 31 December 2015								
Cash and balances with Central Banks	5	2,412,052	-	-	-	-	2,412,052	2,412,052
Due from banks	6	991,491	-	-	-	-	991,491	991,491
Loans and advances	7	6,695,486	-	-	-	-	6,695,486	6,695,486
Islamic financing receivables	7	634,729	-	-	-	-	634,729	634,729
Investment securities	9	-	444,973	1,022,184	51,227	-	1,518,384	1,514,142
		<u>10,733,758</u>	<u>444,973</u>	<u>1,022,184</u>	<u>51,227</u>	<u>-</u>	<u>12,252,142</u>	<u>12,247,900</u>
Deposits from banks	14	-	-	-	-	2,859,563	2,859,563	2,859,563
Customers' deposits	15	-	-	-	-	6,738,315	6,738,315	6,738,315
Islamic customers' deposits	15	-	-	-	-	625,133	625,133	625,133
Euro medium term notes	17	-	-	-	-	191,185	191,185	191,185
Subordinated liabilities / mandatory convertible bonds	18,21	-	-	-	-	335,105	335,105	336,512
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,749,301</u>	<u>10,749,301</u>	<u>10,750,708</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

43. Fair value information (continued)

Effective 1 January 2010, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December:

2016	Level 1 RO 000's	Level 2 RO 000's	Level 3 RO 000's	Total RO 000's
Assets				
Derivatives	-	21,708	-	21,708
Fair value through profit or loss	50,996	-	-	50,996
Available-for-sale financial assets:				
- Equity securities	76,378	-	31,418	107,796
- Debt investments	267,259	-	20,272	287,531
Total assets	394,633	21,708	51,690	468,031
Liabilities				
Derivatives	-	19,121	-	19,121

2015	Level 1 RO 000's	Level 2 RO 000's	Level 3 RO 000's	Total RO 000's
Assets				
Derivatives	-	25,210	-	25,210
Fair Value through profit or loss	51,227	-	-	51,227
Available-for-sale financial assets:				
- Equity securities	69,502	-	36,863	106,365
- Debt investments	313,070	-	25,538	338,608
Total assets	433,799	25,210	62,401	521,410
Liabilities				
Derivatives	-	34,486	-	34,486

There are no transfers between levels of fair value measurement hierarchy during the years 2016 and 2015.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

43. Fair value information (continued)

A table showing the impact of change in estimates by 5% on the Group's assets and liabilities that are measured at fair value at 31 December, on the other comprehensive income is as follows:

2016	Level 1 RO 000's	Level 2 RO 000's	Level 3 RO 000's	Total RO 000's
Assets				
Derivatives	-	1,085	-	1,085
Fair Value through profit or loss	2,550	-	-	2,550
Available-for-sale financial assets:				
- Equity securities	3,819	-	1,571	5,390
- Debt investments	13,363	-	1,014	14,377
Total assets	19,732	1,085	2,585	23,402
Liabilities				
Derivatives	-	956	-	956

2015	Level 1 RO 000's	Level 2 RO 000's	Level 3 RO 000's	Total RO 000's
Assets				
Derivatives	-	1,261	-	1,261
Fair Value through profit or loss	2,561	-	-	2,561
Available-for-sale financial assets:				
- Equity securities	3,475	-	1,843	5,318
- Debt investments	15,654	-	1,277	16,931
Total assets	21,690	1,261	3,120	26,071
Liabilities				
Derivatives	-	1,724	-	1,724

The following table demonstrate the movement of the Group's level 3 investments:

	Equity securities RO 000's	Debt investments RO 000's	Total RO 000's
At 1 January 2016	36,863	25,538	62,401
Realised gain on sale	1,342	-	1,342
(Loss)/gain from change in fair value	(2,621)	-	(2,621)
Additions	1,694	18,025	19,719
Disposals and redemption	(5,854)	(23,291)	(29,145)
Exchange differences	(6)	-	(6)
At 31 December 2016	31,418	20,272	51,690

	Equity securities RO 000's	Debt investments RO 000's	Total RO 000's
At 1 January 2015	23,912	36,004	59,916
Realised gain on sale	1,191	-	1,191
Gain from change in fair value	3,773	-	3,773
Additions	11,136	15,199	26,335
Disposals and redemption	(3,122)	(25,665)	(28,787)
Exchange differences	(27)	-	(27)
At 31 December 2015	36,863	25,538	62,401

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****43. Fair value information (continued)**

As of 31 December 2016, 64 % (2015: 59%) of the level 3 equity securities were valued on fair value provided by the investment management company and 36 % (2015: 41%) were valued on the basis of latest available capital accounts statement of the investee companies received from independent fund managers as at 30 September 2016 and adjusted for subsequent cash flows till 31 December 2016. The Group holds adequate provisioning on the above investments as of the reporting date.

43.1 Estimation of fair values

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

43.1.1 Loans and advances

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

43.1.2 Investments carried at cost and derivatives

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

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

43.1.3 Available for sale and fair value through profit or loss investments

Fair values for quoted investments are based on quoted bid prices as at the reporting date. Unquoted equity investments are valued on fair value provided by the investment management company or are valued on the basis of latest available capital accounts statement of the investee companies received from independent fund managers and adjusted for subsequent cash flows up to the reporting date.

43.1.4 Bank and customer deposits

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

43.1.5 Other on-balance sheet financial instruments

The fair values of all on-balance sheet financial instruments are considered to approximate their book values.

43.1.6 Off-balance sheet financial instruments

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

43. Fair value information (continued)

43.1.6 Off-balance sheet financial instruments (continued)

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

44. Comparative figures

No material corresponding figures for 2015 included for comparative purposes were reclassified.

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