Bank Sohar SAOG

BANK SOHAR SAOG

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2017

Registered office and principal place of business:

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

Bank Sohar SAOG

Board of Directors Report for the three months ended 31 March 2017

Our Valued Shareholders,

On behalf of the Board of Directors of Bank Sohar (SAOG), I am pleased to present the results of your bank as at 31 March 2017.

Your Bank achieved a net profit of OMR 5.992 million during the three months ended 31 March 2017 as compared to a net profit of OMR 4.163 million during the same period in 2016, a growth of 43.9%. The Bank will continue its efforts to achieve sustainable and profitable growth in the current challenging, bearish and tight liquidity environment.

Operating income increased by 4.9% from OMR 14.549 million for the first quarter of 2016 to OMR 15.256 million for the same period in the current year. Operating profit for the first three months of 2017 increased by 6.9% to OMR 6.629 million from OMR 6.199 million for the same period in 2016 . At the same time other operating income excluding AFS investment losses and dividend income grew by 84.5% from OMR 3.170 million for first quarter of 2016 to OMR 5.847 million for first quarter of 2017. Operating expenses increased by 3.3% from OMR 8.350 million for the first quarter of 2016 to OMR 8.627 million for the same period in 2017.

Gross loans increased by 12.8 % from OMR 1.736 billion as at 31 March 2016 to OMR 1.958 billion as at 31 March 2017. Similarly, net loans and advances also grew by 12.8% from OMR 1.698 billion as at 31 March 2016 to OMR 1.915 billion as at 31 March 2017. Total assets grew by 17.8 % from OMR 2.209 billion as at 31 March 2016 to OMR 2.602 billion as at 31 March 2017. Customer deposits amounted to OMR 1.682 billion as at 31 March 2017 compared to OMR 1.424 billion as at 31 March 2016, an increase of 18.1%. The Bank's market share of Private Sector Credit was 10.0% as of February 2017 compared to 9.2% as at March 2016, while its share of Private Sector Deposits was 9.4% as at end of February 2017 compared to 7.8% as of March 2016.

Your Bank reiterates its commitment to create superior banking solutions in a constantly evolving economical and financial environment. Your Bank's chief priority is its customers whose loyalty and dedication have spurred wide spread growth.

In servicing customers and with ongoing innovations, your Bank launched its revamped Al Mumayaz Savings Scheme 2017, in addition to the new Excel Visa Signature Credit Card. The new products attest to the Bank's incisive market strategy that carefully evaluates its contributions for maximum reach across a growing and diverse customer base. 2017 has already witnessed an event to reveal the winners and conclude the Al Mumayaz Savings Scheme 2016.

Your Bank's operational efficiencies and client-oriented approach have won it international acclaim; over the years it has received high commendation across various categories in the local, regional and international banking community. In the first quarter of 2017 the Bank received the regionally based Golden Order of Merit Award in the field of CSR.

Making positive and enriching contributions to society through sustained CSR activities has been another area of focus for the Bank. The year began with the launch of the Road Safety Campaign 2017 'Rakaz wa Souq' that focuses on children under the slogan "I Pledge for our Children". It emphasises the need to keep Oman's roads safe. Your Bank has also lent support to numerous initiatives that help support the community and Omani youth. These include initiatives such as Shooting Competitions, Football Tournaments and the official opening of Buraimi University's new campus.

On the digital front, the Bank continues to develop its social media channels and engage its fans and followers online; whilst utilising the medium as a channel for open communication with current and prospective customers.

Islamic Banking as an industry is growing in acceptability and market size in Oman. Sohar Islamic has posted significant growth in first quarter of 2017. It plans to conduct various Shariah training programs for staff. These sessions provide an excellent platform for staff to enhance their knowledge of Shariah compliant products. Our focus is on growing SME businesses by offering attractive program based financing products with quick turnaround processing time.

Your Bank also plans to raise additional Tier 1 capital to strengthen the foundations for growth and stability in the coming years and to abide by regulatory requirements.

On behalf of the Board of Directors, management and staff of the Bank, I would like to thank the Central Bank of Oman and the Capital Market Authority for their astute regulation and guidance. Above all, I would like to express my humble gratitude and pay tribute to His Majesty Sultan Qaboos Bin Said for his wise and discerning leadership that has firmly set Oman on the path of progress and sustainable development.

Abdullah Humaid Al Mamary
Chairman

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Note	31 March 2017 RO'000	31 December 2016 RO'000
ASSETS			
Cash and balances with Central Bank	*B1*	**100,249**	119,613
Due from banks and other money market placements	*B2*	**134,215**	98,642
Loans, advances and financing (net)	*B3*	**1,915,030**	1,913,075
Investment securities	*B4*	**407,673**	351,271
Property, equipment and fixtures	*B5*	**16,351**	15,724
Investment properties	*B6*	**2,900**	2,900
Other assets	*B7*	**25,114**	18,876
TOTAL ASSETS		**2,601,532**	2,520,101
LIABILITIES			
Due to banks and other money market borrowings	*B8*	**501,545**	575,547
Customers' deposits	*B9*	**1,682,136**	1,531,689
Other liabilities	*B10*	**36,323**	29,046
Subordinated loans	*B11*	**86,119**	86,615
Compulsorily convertible bonds	*B12*	**4,858**	4,805
Certificates of deposits	*B13*	**18,684**	18,513
TOTAL LIABILITIES		**2,329,665**	2,246,215
SHAREHOLDERS' EQUITY			
Share capital	*B14*	**176,495**	160,450
Share premium	*B14*	**17,193**	17,193
Legal reserve	*B15*	**18,905**	18,905
General reserve	*B16*	**988**	988
Fair value reserve	*B17*	**(761)**	(772)
Subordinated loans reserve	*B11*	**50,000**	50,000
Retained earnings		**9,047**	27,122
TOTAL SHAREHOLDERS' EQUITY		**271,867**	273,886
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**2,601,532**	2,520,101
Net assets per share (in baizas)	*B18*	**154.04**	170.70
CONTINGENT LIABILITIES	*B19.a*	**422,483**	432,729
COMMITMENTS	*B19.b*	**352,951**	319,899

The financial statements were approved and authorised for issue by the Board of Directors on 27 April, 2017 and signed on their behalf by:

Chairman *Board member*

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 MARCH 2017

	Note	**3 Months ended 31 March 2017 RO'000**	3 Months ended 31 March 2016 RO'000
Interest income	*C1*	**25,604**	20,347
Interest expense	*C2*	**(15,401)**	(8,295)
Net interest income		**10,203**	12,052
Net income from Islamic financing and investing activities	*C8*	**752**	699
Other operating income	*C3*	**6,367**	4,207
Losses from available-for-sale investment securities		**(2,066)**	(2,409)
OPERATING INCOME		**15,256**	14,549
Staff costs		**(5,148)**	(5,053)
Other operating expenses	*C4*	**(2,962)**	(2,845)
Depreciation	*B5*	**(517)**	(452)
OPERATING EXPENSES		**(8,627)**	(8,350)
NET OPERATING INCOME		**6,629**	6,199
Impairment on available-for-sale investment securities	*B4.c*	**1,987**	609
Impairment allowance on portfolio basis	*B3,C5*	**(38)**	(542)
Impairment allowance on specific basis – net	*B3*	**(1,543)**	(1,517)
PROFIT BEFORE TAX		**7,035**	4,749
Income tax expense	*C6*	**(1,043)**	(586)
PROFIT FOR THE PERIOD		**5,992**	4,163
OTHER COMPREHENSIVE INCOME / (EXPENSE)			
Items which will be reclassified to profit or loss in subsequent periods			
Net movement in fair value of available-for-sale investment securities, net of income tax		**11**	(55)
Total other comprehensive income / (expense) for the period, net of income tax		**11**	(55)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**6,003**	4,108
Basic earnings per share for the period – **in baizas**	*C7*	**3.395**	2.384
Basic earnings per share for the period (annualized)–**in baizas**	*C7*	**13.769**	9.589
Diluted earnings per share for the period – **in baizas**	*C7*	**3.348**	2.344
Diluted earnings per share for the period (annualized)–**in baizas**	*C7*	**13.579**	9.428
Profit / (Loss) for the period			
Conventional banking		**6,027**	4,029
Islamic banking		**(35)**	134
Total		**5,992**	4,163

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2017

	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	General reserve RO'000	Fair value reserve RO'000	Subordinated loans reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 1 January 2016	144,144	16,702	16,994	988	(7,208)	40,000	41,542	253,162
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	-	-	4,163	4,163
Other comprehensive income for the period								
Impairment of available-for-sale investments – net of tax	-	-	-	-	1,155	-	-	1,155
Net change in fair value of available for sale investments – net of tax	-	-	-	-	(1,223)	-	-	(1,223)
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	13	-	-	13
Total comprehensive income for the period	-	-	-	-	(55)	-	4,163	4,108
Issue of bonus shares for the year 2015	14,414	-	-	-	-	-	(14,414)	-
Dividend paid for the year 2015	-	-	-	-	-	-	(7,206)	(7,206)
Balance as at 31 March 2016	158,558	16,702	16,994	988	(7,263)	40,000	24,085	250,064
Balance as at 1 April 2016	158,558	16,702	16,994	988	(7,263)	40,000	24,085	250,064
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	-	-	14,949	14,949
Other comprehensive income								
Impairment of available-for-sale investments- net of tax	-	-	-	-	5,553	-	-	5,553
Net change in fair value of available for sale investments – net of tax	-	-	-	-	480	-	-	480
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	458	-	-	458
Total comprehensive income for the period	-	-	-	-	6,491	-	14,949	21,440
Transfers	-	-	1,911	-	-	10,000	(11,911)	-
Conversion of compulsorily convertible bonds to share capital (note B12)	1,892	491	-	-	-	-	-	2,383
Balance as at 31 December 2016	160,450	17,193	18,905	988	(772)	50,000	27,122	273,886
Balance as at 1 January 2017	**160,450**	**17,193**	**18,905**	**988**	**(772)**	**50,000**	**27,122**	**273,886**
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	-	-	**5,992**	**5,992**
Other comprehensive income for the period								
Impairment of available-for-sale investments – net of tax	-	-	-	-	**(148)**	-	-	**(148)**
Net change in fair value of available for sale investments – net of tax	-	-	-	-	**339**	-	-	**339**
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	**(180)**	-	-	**(180)**
Total comprehensive income for the period	-	-	-	-	**11**	-	**5,992**	**6,003**
Issue of bonus shares for the year 2016	**16,045**	-	-	-	-	-	**(16,045)**	-
Dividend paid for the year 2016	-	-	-	-	-	-	**(8,022)**	**(8,022)**
Balance as at 31 March 2017	**176,495**	**17,193**	**18,905**	**988**	**(761)**	**50,000**	**9,047**	**271,867**

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 MARCH 2017

	31 March 2017 RO'000	31 March 2016 RO'000
OPERATING ACTIVITIES		
Net profit for the period before tax	**7,035**	4,749
Adjustments for:		
Depreciation	**517**	452
Impairment for credit losses	**1,581**	2,059
Losses on sale of available-for-sale financial assets	**2,066**	2,409
Impairment write back on available-for-sale financial assets	**(1,987)**	(609)
Income from Islamic investment activities	**(114)**	-
Interest on investment securities	**(1,498)**	(1,130)
Interest accrued on compulsorily convertible bonds and subordinated loans	**1,458**	890
Cash from operating activities before changes in operating assets and liabilities	**9,058**	8,820
Due from banks and money market placements	**9,754**	11,390
Loans, advances and financing	**(3,536)**	(52,950)
Investment in held for trading investments	**(25,564)**	-
Other assets	**(6,423)**	(4,554)
Due to banks and other money market borrowings	**124,367**	35,109
Customers' deposits	**150,448**	(40,168)
Certificate of deposits	**171**	179
Other liabilities	**9,619**	5,052
Cash from / (used in) operating activities	**267,894**	(37,122)
Income tax paid	**(3,222)**	(3,975)
Net cash from / (used in) operating activities	**264,672**	(41,097)
INVESTING ACTIVITIES		
Purchase of investments (net)	**(2,505)**	(1,782)
Proceeds from sale/redemption of investments	**10,158**	2,251
Purchase of property, equipment and fixtures	**(1,144)**	(431)
Interest received on investment securities	**1,498**	1,015
Net cash from investing activities	**8,007**	1,053
FINANCING ACTIVITIES		
Dividends paid	**(8,022)**	(7,206)
Interest paid on compulsorily convertible bonds and subordinated loans	**(1,902)**	(1,631)
Net cash used in financing activities	**(9,924)**	(8,837)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**262,755**	(48,881)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	**120,072**	266,190
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**382,827**	217,309
REPRESENTING:		
Cash and balances with Central Bank (other than capital deposit)	**99,749**	92,282
Due from banks and other money market placements	**114,460**	85,567
Investments securities	**233,600**	107,862
Due to banks and other money market borrowings	**(64,982)**	(68,402)
	382,827	217,309

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017

A1 Legal status and principal activities

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

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

The Bank employed 694 employees as of 31 March 2017 (31 December 2016: 702).

A2 Basis of preparation

Since these are interim condensed financial statements, they do not contain all information and disclosures for the full financial statements prepared in accordance with IFRS and should be read in conjunction with the Bank's annual financial statements as at 31 December 2016.

A2.1 Statement of compliance

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

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

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

A2.2 Basis of measurement

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

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

A2.3 Functional and presentation currency

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

A2.4 Use of estimates and judgements

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

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

A2 Basis of preparation (continued)

A2.4 Use of estimates and judgements (continued)

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the Bank to have a significant risk of material adjustment in subsequent periods are discussed in note A4.

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

For the period ended 31 March 2017, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for period beginning on 1 January 2017.

The following standards, amendments and interpretations became effective from 1 January 2017:

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

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

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning after 1 January 2017 or later periods, but the Bank has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 31 March 2017:

- IFRS 15 'Revenue from contracts with customers'(Annual periods beginning on or after 1 January 2018) : IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

- IFRS 9 'Financial instruments'(Annual periods beginning on or after 1 January 2018) In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Bank started implementing IFRS 9 in the first quarter of 2017 to ensure it is ready to adopt by 2018.

- IFRS 16 'Leases' (Annual periods beginning on or after 1 January 2019) In January 2016, IASB issued IFRS 16 Leases, which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be applicable for annual periods beginning on or after 1 January 2019. Early adoption is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with customers, has been applied, or is applied at the same date as IFRS 16.

A3 Significant accounting policies

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

A3.1 Foreign currency transactions

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

A3.2 Revenue and expense recognition

A3.2.a Interest income and expense

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

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

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

A3.2.b Fair value gains and losses

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

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

A3.2.c Dividend income

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

A3.2.d Fees and commission

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

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

A3.2.e Provisions

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

A3 Significant accounting policies (continued)

A3.2 Revenue and expense recognition (continued)

A3.2.f Offsetting of income and expense

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

A3.2.g Temporary significant influence

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

A3.3 Financial assets and liabilities

A3.3.a Recognition

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

A3.3.b Classification

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

Financial assets at fair value through profit or loss

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

i) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
ii) The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
iii) The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

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

Loans and receivables

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.b Classification (continued)

Held to maturity financial assets

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

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

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

Available-for-sale financial assets

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

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

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

Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the change in fair value of available-for-sale financial assets. 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 available-for-sale financial assets and removed from the change in fair value of investments available-for-sale.

A3.3.c Derecognition

(i) Financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.c Derecognition (continued)

(ii) Financial liabilities

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

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

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

A3.3.e Amortised cost measurement

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

A3.3.f Fair value measurement

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.f Fair value measurement (continued)

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

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

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

A3.3.g Impairment of financial assets

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

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

(i) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.g Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

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

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

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

If in a subsequent period, the amount of impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income. Also refer to note B3 for loans, advances and financing.

(ii) Assets classified as available-for-sale

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

A3.3.h Cash and cash equivalents

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

A3.3.i Repurchase and resale agreements

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

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

A3.3.j Acceptances

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

A3.3.k Derivatives held for risk management purposes

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

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

Fair value hedge

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

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

Cash flow hedge

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

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

Other non-trading derivative

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

A3.4 Property, equipment and fixtures

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

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

Land and capital work in progress are not depreciated, but tested for impairment. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

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

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

A3 Significant accounting policies (continued)

A3.4 Property, equipment and fixtures (continued)

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

A3.5 Investment properties

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

A3.6 Deposits, debt securities issued and subordinated liabilities

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

A3.7 Taxation

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

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

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

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

A3.8 Fiduciary assets

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

A3.9 Trade and settlement date accounting

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

A3.10 Leases

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

A3 Significant accounting policies (continued)

A3.11 Financial guarantees

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

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

A3.12 Employee benefits

A3.12.a Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended.

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

A3.12.b Short term benefits

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

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

A3.13 Earnings per share

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

A3.14 Dividend on ordinary shares

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

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

A3.15 Segment reporting

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

A3 Significant accounting policies (continued)

A3.16 Directors' remuneration and sitting fees

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

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

A4 Critical accounting estimates and judgements

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

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

A4.1 Impairment losses on loans and advances

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

A4.2 Impairment on due from banks

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

A4 Critical accounting estimates and judgements (continued)

A4.3 Fair value of derivatives and other financial instruments

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

A4.4 Impairment of available-for-sale financial assets

For debt securities classified as available-for-sale financial assets, the Bank applies the same criteria as applicable for assets carried at amortised cost. For equity investments other than debt securities, the Bank determines the impairment when there has been a significant or prolonged decline in the fair value below its cost or any other objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Bank evaluates among other factors, the volatility in share price. However, any decline in fair value of an equity investment below its cost by 35% or more is considered as “significant” and any decline in fair value of an equity investment below its cost for a continuous period of more than 12 months is considered as “prolonged”, by the end of the current financial year. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

A4.5 Taxes

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

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

A4.6 Fair value estimation of unquoted securities

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

A4.7 Fee and commission income

The recognition of fee and commission income depends on the purpose for which fees are assessed and the basis of accounting for any associated financial instrument. Management applies certain assumptions and judgements to determine the fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B1 Cash and balances with Central Bank

	31 March 2017 RO'000	31 December 2016 RO'000
Cash	**16,647**	16,883
Capital deposit with CBO	**506**	505
Balance with CBO	**83,096**	102,225
	100,249	119,613

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

B2 Due from banks and other money market placements

	31 March 2017 RO'000	31 December 2016 RO'000
Local currency:		
Money market placements	**-**	10,159
	-	10,159
Foreign currency:		
Money market placements	**96,262**	42,354
Lending to banks	**29,903**	29,654
Demand balances	**8,200**	16,623
	134,365	88,631
	134,365	98,790
Impairment allowance on portfolio basis on lending to banks	**(150)**	(148)
	134,215	98,642

The movement in the impairment allowance on portfolio basis on lending to banks is as analysed below:

	31 March 2017 RO'000	31 December 2016 RO'000
Balance at beginning of the period	**148**	110
Provided during the period (note C5)	**2**	38
Balance at the end of the period	**150**	148

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B3 Loans, advances and financing - net

	31 March 2017 RO'000	31 December 2016 RO'000
Corporate loans	**1,341,282**	1,351,878
Retail loans	**616,930**	602,625
Gross loans, advances and financing	**1,958,212**	1,954,503
Impairment allowance on portfolio basis	**(23,330)**	(23,294)
Impairment allowance on specific basis (including contractual interest not recognised)	**(19,852)**	(18,134)
Net loans and advances	**1,915,030**	1,913,075

Gross loans and advances include RO 124,449,758 (2016: RO 96,835,189) through Sohar Islamic financing activities, under Islamic mode of financing.

Loans, advances and financing comprise:

	31 March 2017 RO'000	31 December 2016 RO'000
Loans	**1,705,124**	1,715,199
Overdrafts	**113,379**	111,674
Loan against trust receipts	**92,988**	85,816
Bills discounted	**46,721**	41,814
Advances against financing	**-**	-
Gross loans and advances	**1,958,212**	1,954,503
Impairment allowance on portfolio basis	**(23,330)**	(23,294)
Impairment allowance on specific basis (including contractual interest not recognised)	**(19,852)**	(18,134)
Net loans and advances	**1,915,030**	1,913,075

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B3 Loans, advances and financing - net (continued)

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

	31 March 2017 RO'000	31 December 2016 RO'000
Impairment allowance on portfolio basis		
Balance at beginning of period	**23,294**	20,588
Provided during the period (note C5)	**36**	2,706
Balance at the end of the period	**23,330**	23,294
Impairment allowance on specific basis		
1) Loan loss provision		
Balance at beginning of period	**12,923**	10,861
Provided during the period	**3,304**	13,551
Written back due to recovery	**(1,761)**	(7,816)
Written off during the period	**(9)**	(41)
Transfer (to) / from memoranda accounts	**56**	(3,632)
Balance at the end of the period (a)	**14,513**	12,923
2) Contractual interest not recognised		
Balance at beginning of period	**5,211**	4,598
Not recognised during the period	**775**	2,275
Written back due to recovery	**(647)**	(828)
Transfer (to) / from memoranda accounts	**-**	(834)
Balance at end of the period (b)	**5,339**	5,211
Total impairment (a) + (b)	**19,852**	18,134

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

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained by the Bank to comply with rules, regulations and guidelines issued by CBO against loans and advances which are impaired. As of 31 March 2017, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 35,455,630 (2016: RO 33,082,070).

B4 Investment securities

	31 March 2017 RO'000	31 December 2016 RO'000
Held for trading investments	**85,886**	60,271
Available-for-sale investments securities	**268,973**	237,784
Held to maturity investments	**52,814**	53,216
	407,673	351,271

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B4 Investment securities (continued)

B4.a Held-for-trading investments includes:

	31 March 2017 RO'000	31 December 2016 RO'000
Government development bonds – Oman	80,478	54,926
Sukuk trust certificates – secured	5,408	5,345
	85,886	60,271

B4.b Available-for-sale investment securities include:

	Carrying / fair value 31 March 2017 RO'000	Cost 31 March 2017 RO'000	Carrying / fair value 31 December 2016 RO'000	Cost 31 December 2016 RO'000
Unquoted securities	1,390	1,390	1,390	1,390
Quoted securities	38,250	38,845	47,609	48,093
Treasury bills	233,327	233,127	194,766	194,820
	272,967	273,362	243,765	244,303
Provision for impairment	(3,994)	-	(5,981)	-
	268,973	273,362	237,784	244,303

- Treasury bills include an investment in USD Treasury bills of RO 223.40 million (2016: RO 184.88 million) assigned as collaterals against the Bank's borrowings.
- Unquoted securities include an investment of RO 1,356,095 (2016: RO 1,356,095) in Oman Development Fund SAOC ("Fund"). The Fund was incorporated on 7 May 2014 under the license no. 1196427 with the Bank playing the role of the founder shareholder. The purpose of the Fund is to identify mid-segment industrial and manufacturing sectors that leverage Oman's unique advantages such as its infrastructure, tax treaties, geography and natural mineral resources for potential investment opportunities. The Bank currently holds a 16.9% (2016: 16.9%) stake in the Fund. The bank has an Investment Management Agreement with the Fund.

B4.c Movement in provision for impairment of investments:

	31 March 2017 RO'000	31 December 2016 RO'000
Balance at the beginning of the period	5,981	3,008
Impaired during the period(before tax)	433	7,305
Reclassified to profit or loss on sale	(2,420)	(4,332)
Balance at the end of the period	3,994	5,981

B4.d Held-to-maturity investments include:

	31 March 2017 RO'000	31 December 2016 RO'000
Quoted	49,744	50,184
Unquoted	3,070	3,032
	52,814	53,216

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B5 Property, equipment and fixtures

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
1 January 2017	**4,100**	**10,864**	**4,966**	**5,895**	**822**	**3,769**	**30,416**
Additions	**-**	**347**	**98**	**300**	**-**	**399**	**1,144**
Transfers/disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**
As at 31 March 2017	**4,100**	**11,211**	**5,064**	**6,195**	**822**	**4,168**	**31,560**
Accumulated depreciation:							
1 January 2017	**-**	**(6,171)**	**(3,480)**	**(4,459)**	**(582)**	**-**	**(14,692)**
Depreciation	**-**	**(244)**	**(119)**	**(131)**	**(23)**	**-**	**(517)**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**
As at 31 March 2017	**-**	**(6,415)**	**(3,599)**	**(4,590)**	**(605)**	**-**	**(15,209)**
Net book value at							
31 March 2017 (OMR'000)	**4,100**	**4,796**	**1,465**	**1,605**	**217**	**4,168**	**16,351**

Included in capital work in progress are costs incurred towards new head office project and upgrade of core banking system.

During the period, staff costs amounting to RO 120 thousand were capitalised under capital work in progress towards upgrade of core banking system.

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
At 1 January 2016	4,100	9,483	4,659	5,354	766	1,921	26,283
Additions	-	1,381	307	541	135	1,848	4,212
Transfers/disposals	-	-	-	-	(79)	-	(79)
At 31 December 2016	4,100	10,864	4,966	5,895	822	3,769	30,416
Accumulated depreciation:							
At 1 January 2016	-	(5,308)	(3,001)	(3,986)	(566)	-	(12,861)
Depreciation	-	(863)	(479)	(473)	(95)	-	(1,910)
Disposals	-	-	-	-	79	-	79
As at 31 December 2016	-	(6,171)	(3,480)	(4,459)	(582)	-	(14,692)
Net book value at							
31 December 2016(OMR'000)	4,100	4,693	1,486	1,436	240	3,769	15,724

B6 Investment properties

Investment properties represent two plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. The Bank has recorded the land based on the average valuation carried out during 2008 by two professional valuators. The plots of land are currently held vacant. The most recent valuation was at year end 2016 and amounted to RO 3.0 million (2015: RO 3.053 million).

B7 Other assets

	31 March 2017 RO'000	31 December 2016 RO'000
Acceptances	**15,304**	8,989
Prepayments	**2,866**	2,506
Receivables	**2,672**	1,813
Deferred tax asset (note C6)	**-**	170
Positive fair value of derivatives	**1,855**	3,185
Others	**2,417**	2,213
	25,114	18,876

B8 Due to banks and other money market borrowings

	31 March 2017 RO'000	31 December 2016 RO'000
Local currency:		
Money market borrowings	**25,001**	22,001
Demand balances	**1,720**	2,549
	26,721	24,550
Foreign currency:		
Money market borrowings	**378,215**	454,401
Syndicated borrowings	**96,609**	96,596
	474,824	550,997
	501,545	575,547

Foreign currency borrowings include bank borrowings with underlying collaterals in the form of USD Treasury bills amounting to RO 223.40 million which are held as investments (2016 : RO 184.88 million).

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B9 Customers' deposits

	31 March 2017 RO'000	31 December 2016 RO'000
Term deposits	**949,244**	904,729
Demand deposits	**438,576**	330,808
Saving deposits	**280,448**	283,243
Margin deposits	**13,868**	12,909
	1,682,136	1,531,689

	31 March 2017			31 December 2016		
	Conventional banking RO'000	**Islamic banking RO'000**	**Total RO'000**	Conventional banking RO'000	Islamic banking RO'000	Total RO'000
Retail customers:						
Term deposits	**62,904**	**5,775**	**68,679**	61,896	5,697	67,593
Demand deposits	**122,563**	**2,034**	**124,597**	20,752	1,853	22,605
Saving deposits	**249,451**	**30,997**	**280,448**	249,425	33,818	283,243
Corporate customers:						
Term deposits	**803,875**	**76,690**	**880,565**	791,292	45,844	837,136
Demand deposits	**309,119**	**4,860**	**313,979**	302,259	5,944	308,203
Margin deposits	**9,229**	**4,639**	**13,868**	7,656	5,253	12,909
	1,557,141	**124,995**	**1,682,136**	1,433,280	98,409	1,531,689

B10 Other liabilities

	31 March 2017 RO'000	31 December 2016 RO'000
Acceptances	**15,304**	8,989
Staff entitlements	**2,332**	3,350
Income tax payable	**740**	3,219
Negative fair value of derivatives	**932**	2,982
Deferred tax liabilities (note C6)	**151**	-
Dividends payable	**8,022**	-
Other accruals and provisions	**8,842**	10,506
	36,323	29,046

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B11 Subordinated loans

The Bank had raised unsecured subordinated loans of RO 50 million during the year 2010 with a maturity of 7 years. These instruments are unlisted, non-transferable, non-negotiable and non-convertible with no early call option and carries a fixed rate of interest. The principal amount of the subordinated loans is repayable on maturity i.e. in 2017 while interest is payable semi-annually. The Bank is required to create a subordinated loan reserve equal to 20% of the issue value annually during the last five years of the term of the subordinated loans. This reserve is created at the end of each financial year from retained earnings. Accordingly, for the above subordinated loans, during 2016 an amount of RO 10 million was transferred to this reserve from retained earnings.

During the year 2016, the Bank had further raised unsecured subordinated loans of RO 35 million with a maturity of 7 years. These instruments are also unlisted, non-transferable, non-negotiable and non-convertible with no early call option and carries a fixed rate of interest. The principal amount of the subordinated loans is repayable on maturity i.e. in 2023 while interest is payable semi-annually. The Bank is required to create a subordinated loan reserve equal to 20% of the issue value annually during the last five years of the term of the subordinated loans. This reserve is created at the end of each financial year from retained earnings.

The combined outstanding of both the subordinated loans with accrued interest as of 31 March 2017 stands at RO 86.119 million (2016: RO 86.615 million).

According to the Regulations of CBO, the amount of subordinated loans as reduced by subordinated loan reserve is considered as Tier II capital for capital adequacy purposes.

B12 Compulsorily convertible bonds

The compulsorily convertible bonds of RO 7.150 million carrying an annual coupon rate of 4.5% were issued on 28 April 2013 as part of dividend distribution. These bonds have to be converted into ordinary shares of the Bank in three equal instalments at the end of 3rd, 4th and 5th years from the date of their issue at a conversion price derived by applying a discount of 20% to the 3 months average share price of the Bank on the Muscat Securities Market prior to the date of conversion. Accordingly during 2016, one-third of these bonds, amounting to RO 2.38 million were converted into ordinary shares of the Bank, which include RO 491 thousand towards share premium. The current outstanding with accrued interest as of 31 March 2017 amounts to RO 4.858 million (2016: RO 4,805 million).

B13 Certificate of Deposits

During 2017, the Bank has not issued any certificate of deposits (2016: RO 18,500,000). The certificates of deposits issued by the Bank are unsecured, denominated in Rial Omani and with a maturity of 3 years at a fixed interest rate.

B14 Share capital

The authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2016: 2,000,000,000 of RO 0.100 each). The issued and paid up share capital of the Bank is 1,764,949,275 shares of RO 0.100 each (2016: 1,604,499,341 shares of RO 0.100 each).

In the Annual General Meeting held on 30 March 2017, the shareholders approved the Board's recommendation to distribute bonus shares equal to 10% of issued and paid up share capital as at 31 December 2016, resulting in the issuance of 160,449,934 new shares.

As of 31 March 2017, the following shareholders held 10% or more of the Bank's capital, either individually or together with related parties:

	Number of shares	*% Holding*
Oman Investment & Finance Co. SAOG	**268,020,646**	**15.19%**
The Royal Court of Affairs	**257,136,056**	**14.57%**

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B15 Legal reserve

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

B16 General reserve

General reserve of RO 988,000 was created to cover the losses incurred by the Sohar Islamic window for the initial two years, 2013 and 2014. Sohar Islamic window started making profits since 2015 and accordingly, no additional reserves were created.

B17 Fair value reserve

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

B18 Net assets per share

The calculation of net assets per share is based on net assets of RO 271,867,000 as at 31 March 2017 (2016 - RO 273,886,000) attributable to ordinary shareholders on 1,764,949,275 ordinary shares, being the number of shares outstanding as at 31 March 2017 (2016: 1,604,499,341 ordinary shares).

B19 Contingent liabilities and commitments

B19.a Contingent liabilities

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

	31 March 2017 RO'000	31 December 2016 RO'000
Guarantees	**376,363**	378,092
Documentary letters of credit	**46,120**	54,637
	422,483	432,729

B19.b Commitments

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

	31 March 2017 RO'000	31 December 2016 RO'000
Capital commitments	**1,518**	2,653
Credit related commitments	**351,433**	317,246
	352,951	319,899

B19.c Litigation

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. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B20 Related party transactions

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

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

	31 March 2017 RO'000	31 December 2016 RO'000
Key management personnel		
Loans and advances (balance at end of period)	**3,517**	3,502
Loans disbursed during the period	**200**	472
Loans repaid during the period	**(146)**	(765)
Deposits (balance at end of period)	**821**	610
Deposits received during the period	**383**	333
Deposits paid during the period	**(171)**	(786)
Interest income (during the period)	**37**	154
Other related parties		
Loans and advances (balance at end of period)	**5,564**	4,967
Loans disbursed during the period	**3,714**	30,987
Loans repaid during the period	**(3,118)**	(42,408)
Deposits (balance at end of period)	**12,821**	12,631
Deposits received during the period	**11,633**	19,323
Deposits paid during the period	**(11,444)**	(13,089)
Interest income (during the period)	**82**	322
Interest expense (during the period)	**145**	339
Key management personnels' compensation		
Salaries and other short term benefits	**899**	3,192
Post-employment benefits	**25**	162
Directors' sitting fees and remuneration	**155**	202
Shari'a Supervisory Board members	**7**	52

The aggregate amount of balances and the income and expenses generated with shareholders holding 10% or more of the banks' shares are as follows:

	31 March 2017 RO'000	31 December 2016 RO'000
Loans and advances (balance at end of period)	**4,000**	7,002
Loans disbursed during the period	**5,551**	87,393
Loans repaid during the period	**(19,737)**	(79,205)
Deposits (balance at end of period)	**7,596**	5,595
Deposits received during the period	**2,001**	1,477
Deposits paid during the period	**-**	-
Interest income (during the period)	**46**	326
Interest expense (during the period)	**7**	-

As at 31 March 2017, no loan given to any related party is impaired.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

B21 Derivatives

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

B21.1 Derivative product types

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

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

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

B21.2 Derivatives held or issued for hedging purposes

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

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

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

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

As at *31 March 2017*	**Notional amount RO'000**	**Notional amounts by term to maturity** Within 3 months RO'000	3 - 12 months RO'000	More than 1 year RO'000
Forward foreign exchange purchase contracts	**539,758**	**379,722**	**160,036**	**-**
Interest rate swaps	**5,775**	**5,775**	**-**	**-**
Options	**158,721**	**52,553**	**106,168**	**-**
Forward foreign exchange sales contracts	**539,579**	**380,318**	**159,261**	**-**
Interest rate swaps	**5,775**	**5,775**	**-**	**-**
Options	**158,721**	**52,553**	**106,168**	**-**

As at *31 December 2016*	Notional amount RO'000	Notional amounts by term to maturity Within 3 months RO'000	3 - 12 months RO'000	More than 1 year RO'000
Forward foreign exchange purchase contracts	535,746	407,501	128,245	-
Interest rate swaps	20,790	9,240	-	11,550
Options	41,868	20,502	21,366	-
Forward foreign exchange sales contracts	538,113	409,191	128,922	-
Interest rate swaps	20,790	9,240	-	11,550
Options	41,868	20,502	21,366	-

As at 31 March 2017, the open forward exchange contracts with positive fair value was RO 1,855 thousands (2016: RO 3,185 thousands) and those with negative fair value was RO 932 thousand (2016: RO 2,982 thousand) and are included in other assets (note B7) and other liabilities (note B10) respectively.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

C1 Interest income

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Loans and advances to customers	**23,538**	18,969
Due from banks and other money market placements	**568**	363
Investment securities	**1,498**	1,015
	25,604	20,347

C2 Interest expense

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Customers' deposits	**10,535**	4,943
Subordinated loans	**1,405**	810
Due to banks and other money market borrowings	**3,408**	2,462
Compulsorily convertible bonds	**53**	80
	15,401	8,295

C3 Other operating income

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Fees and commission	**4,013**	2,276
Net gains from foreign exchange dealings	**1,826**	890
Bad debt recovery written off earlier	**8**	4
Dividend income	**520**	1,037
	6,367	4,207

C4 Other operating expenses

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Operating and administration costs	**2,177**	2,102
Occupancy cost	**623**	579
Directors sitting fees *	**155**	151
Shari'a supervisory board remuneration and sitting fees	**7**	13
	2,962	2,845

* include remuneration of RO 130,000 (2016: RO 131,600) related to 2016 paid during the current period.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

C5 Impairment allowance on portfolio basis

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Provided during the period:		
- on loans and advances	**36**	502
- on lending to banks	**2**	40
	38	542

C6 Income tax

a) Recognised in the statement of comprehensive income

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Tax expenses		
- Current tax	**734**	600
- Deferred tax expense	**300**	(14)
- Prior year withholding tax	**9**	-
Total tax expenses	**1,043**	586

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman at the rate of 15% (2016: 12%) on taxable profits.

b) Reconciliation

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Profit before tax for the period	**7,035**	4,749
Income tax as per rate mentioned above	**1,056**	570
Tax impact of:		
- non-deductible expenses/losses	**91**	387
- tax exempt income	**(103)**	(371)
- impact from increase in tax rate	**(10)**	-
- Prior year withholding tax	**9**	-
Income tax expense	**1,043**	586

c) Deferred tax (liability)/ asset

	31 March 2017 RO'000	31 December 2016 RO'000
On profit or loss items	**(260)**	40
On other comprehensive income items	**109**	130
	(151)	170

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

C6 Income tax (continued)

d) Tax assessment

Tax assessments of the Bank for the years 2007 to 2014 have been completed and for the years 2015 and 2016 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance. The Bank is of the opinion that additional taxes, if any, related to the open tax years will not be significant to the financial position of the Bank as at 31 March 2017.

C7 Basic and diluted earnings per share

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

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Profit for the period	**5,992**	4,163
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	**1,764,949**	1,746,034
Basic earnings per share for the period (**in baizas**)	**3.395**	2.384
Basic earnings per share for the period annualized (**in baizas**)	**13.769**	9.589

In the Annual General Meeting held on 30 March 2017, the shareholders approved the board's recommendation to distribute 10% bonus shares resulting in the issuance of 160,449,934 new shares.

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

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Profit for the period	**5,992**	4,163
Interest on convertible bonds, net of taxation	**45**	71
	6,037	4,234
Weighted average number of shares of RO 0.100 each outstanding after dilution during the period (in thousands)	**1,803,083**	1,806,118
Diluted earnings per share for the period (**in baizas**)	**3.348**	2.344
Diluted earnings per share for the period annualized (**in baizas**)	**13.579**	9.428

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

C7 Basic and diluted earnings per share (continued)

The reconciliation of weighted average number of shares shown under basic earnings and diluted earnings are as follow:

	3 Months ended 31 March 2017 in thousands	3 Months ended 31 March 2016 in thousands
Weighted average number of shares of RO 0.100 each outstanding during the period	**1,764,949**	1,746,034
Dilutive potential ordinary shares to be issued on the conversion of convertible bonds	**38,134**	60,084
Weighted average number of shares of RO 0.100 each outstanding after dilution during the period	**1,803,083**	1,806,118

C8 Net income from Islamic financing and investing activities

C8.a Income earned from Islamic financing and investing activities

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Financing to customers	**1,292**	827
Due from banks and other money market placements	**13**	1
Investment securities	**114**	115
	1,419	943

C8.b Amount paid to depositors / money market borrowings

	3 Months ended 31 March 2017 RO'000	3 Months ended 31 March 2016 RO'000
Profit paid to depositors	**630**	182
Profit paid to banks and other money market borrowings	**37**	62
	667	244
Net income from Islamic financing and investing activities	**752**	699

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

D Financial risk management

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

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

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

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

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

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

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

D1 Credit risk

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

D1.1 Management of credit risk

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

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

D Financial risk management (continued)

D1 Credit risk (continued)

D1.1 Management of credit risk (continued)

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

D Financial risk management (continued)

D2 Liquidity risk

D2.1 Exposure to liquidity risk

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

31 March 2017	Carrying amount RO'000	Gross nominal outflow RO'000	Within 3 months RO'000	3 - 12 months RO'000	Over 1 year RO'000
Non – derivative liabilities					
Due to banks and other money market borrowings	**501,545**	**674,894**	**78,164**	**185,410**	**411,320**
Customers' deposits	**1,682,136**	**1,775,508**	**875,177**	**365,262**	**535,069**
Other liabilities	**36,323**	**36,323**	**36,323**	**-**	**-**
Subordinated loans	**86,119**	**102,550**	**957**	**53,118**	**48,475**
Compulsorily convertible bonds	**4,858**	**4,981**	**2,490**	**54**	**2,437**
Certificate of deposits	**18,684**	**20,051**	**359**	**385**	**19,307**
Total	**2,329,665**	**2,614,307**	**993,470**	**604,229**	**1,016,608**

31 December 2016	Carrying amount RO'000	Gross Nominal Outflow RO'000	Within 3 months RO'000	3 - 12 months RO'000	Over 1 year RO'000
Non – derivative liabilities					
Due to banks and other money market borrowings	575,547	744,036	111,883	215,353	416,800
Customers' deposits	1,531,689	1,633,597	720,399	466,809	446,389
Other liabilities	29,046	29,046	29,046	-	-
Subordinated loans	86,615	104,446	1,896	53,811	48,739
Compulsorily convertible bonds	4,805	4,981	-	2,544	2,437
Certificate of deposits	18,513	20,063	12	732	19,319
Total	2,246,215	2,536,169	863,236	739,249	933,684

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

D Financial risk management (continued)

D3 Market risk

D3.1 Exposure to interest rate risk – non trading portfolios

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 March 2017 was as follows:

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to interest rate RO'000	Total RO'000
31 March 2017						
Assets						
Cash and balances with Central Banks	0.01	-	-	506	99,743	100,249
Due from banks and other money market placements	1.72	125,948	-	-	8,267	134,215
Loans, advances and financing (net)	5.05	687,354	429,501	794,060	4,115	1,915,030
Investment securities	1.97	276,573	39,843	73,636	17,621	407,673
Property, equipment and fixtures		-	-	-	16,351	16,351
Investment properties		-	-	-	2,900	2,900
Other assets		-	-	-	25,114	25,114
Total assets		1,089,875	469,344	868,202	174,111	2,601,532
Liabilities and equity						
Due to banks and other money market borrowings	2.65	350,329	147,455	-	3,761	501,545
Customers' deposits	2.80	225,063	387,994	343,993	725,086	1,682,136
Other liabilities		-	-	-	36,323	36,323
Subordinated loans	6.71	-	50,000	35,000	1,119	86,119
Compulsorily convertible bonds	4.50	2,383	-	2,383	92	4,858
Certificate of deposits	4.00	-	-	18,500	184	18,684
Shareholders' funds		-	-	-	271,867	271,867
Total liabilities and equity		577,775	585,449	399,876	1,038,432	2,601,532
Total interest rate sensitivity gap		512,100	(116,105)	468,326	(864,321)	-
Cumulative interest rate sensitivity gap		512,100	395,995	864,321	-	-

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

D Financial risk management (continued)

D3 Market risk (continued)

D3.1 Exposure to interest rate risk – non trading portfolios (continued)

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to interest rate RO'000	Total RO'000
31 December 2016						
Assets						
Cash and balances with Central Banks	0.01	-	-	505	119,108	119,613
Due from banks and other money market placements	1.10	72,263	9,570	-	16,809	98,642
Loans, advances and financing (net)	4.85	669,141	419,637	819,927	4,370	1,913,075
Investment securities	1.85	221,428	31,250	73,369	25,224	351,271
Property, equipment and fixtures	-	-	-	-	15,724	15,724
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	-	-	-	18,876	18,876
Total assets		962,832	460,457	893,801	203,011	2,520,101
Liabilities and equity						
Due to banks and other money market borrowings	2.25	430,100	141,680	-	3,767	575,547
Customers' deposits	2.11	144,608	436,546	332,250	618,285	1,531,689
Other liabilities	-	-	-	-	29,046	29,046
Subordinated loans	6.71	-	50,000	35,000	1,615	86,615
Compulsorily convertible bonds	4.50	-	2,383	2,383	39	4,805
Certificate of deposits	4.00	-	-	18,500	13	18,513
Shareholders' funds	-	-	-	-	273,886	273,886
Total liabilities and equity		574,708	630,609	388,133	926,651	2,520,101
Total interest rate sensitivity gap		388,124	(170,152)	505,668	(723,640)	-
Cumulative interest rate sensitivity gap		388,124	217,972	723,640	-	-

D4 Currency risk

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

	31 March 2017			31 December 2016		
	Assets FCY' 000	**Liabilities FCY' 000**	**Net (liabilities)/assets FCY' 000**	Assets FCY' 000	Liabilities FCY' 000	Net (liabilities)/assets FCY' 000
US Dollar	**1,970,616**	**2,200,579**	**(229,963)**	1,863,362	2,082,133	(218,771)
Euro	**195,106**	**195,675**	**(569)**	62,627	62,426	201
UAE Dirhams	**65,393**	**136,310**	**(70,917)**	91,064	63,402	27,662
Japanese Yen	**13,518,419**	**13,515,541**	**2,878**	13,122,723	13,114,863	7,860
Pound Sterling	**12,186**	**12,145**	**41**	5,275	5,124	151
Indian Rupee	**10,182**	**86**	**10,096**	10,953	86	10,867
Other currencies (in RO'000)			**387**			3,139

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

D Financial risk management (continued)

D5 Capital management

D5.1 Regulatory capital

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

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

	31 March 2017	31 December 2016
	RO'000	RO'000
Tier I capital		
Ordinary share capital	**176,495**	160,450
Share premium	**17,193**	17,193
Legal reserve	**18,905**	18,905
General reserve	**988**	988
Subordinated loan reserve	**50,000**	50,000
Retained earnings*	**9,047**	19,099
Fair value losses	**(910)**	(1,210)
Deferred tax asset	**(151)**	(170)
Total	**271,567**	265,255
Tier 2 capital		
Impairment allowance on portfolio basis	**23,479**	23,441
Fair value gains	**69**	199
Subordinated loan	**35,000**	35,000
Compulsorily convertible bonds	**4,767**	4,767
Total	**63,315**	63,407
Total regulatory capital	**334,882**	328,662
Risk-weighted assets		
Credit and market risks	**2,243,530**	2,224,479
Operational risk	**130,335**	130,335
Total risk-weighted assets	**2,373,865**	2,354,814
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**14.11%**	13.96%
Total tier I capital expressed as a percentage of total risk-weighted assets	**11.44%**	11.26%

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

E Segmental information

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

- Wholesale banking includes loans to and deposits from corporates, small & medium enterprises and trade finance customers.
- Retail banking includes loans to and deposits from retail customers, credit card and fund transfer facilities.
- Government and project finance syndication include loans to and deposits from government and financial institutions, project finance and syndicated loans.
- Investments include proprietary investments, correspondent and investment banking.
- Treasury includes the treasury function of the bank.
- Head office includes the pool of resources considered for transfer pricing and absorbs the cost of impairment loss on portfolio basis and income tax expense.
- Islamic banking includes Islamic financing activities, current accounts, unrestricted investment accounts and other products and services to corporate and individual customers under Sharia principles.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2017 or 2016.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

E1 Segmental information

	Retail banking RO'000	*Wholesale banking RO'000*	*Government institution, FI & PFS* RO'000*	*Investments RO'000*	*Treasury RO'000*	*Head Office RO'000*	*Islamic banking RO'000*	*Total RO'000*
31 March 2017								
Income Statement								
Interest income	8,415	13,962	3,006	282	1,835	(1,896)	-	25,604
Interest expense	(4,664)	(8,684)	(1,959)	(150)	(1,611)	1,667	-	(15,401)
Net interest income	3,751	5,278	1,047	132	224	(229)	-	10,203
Net income from Islamic financing and investing activities	-	-	-	-	-	-	752	752
Other operating income	863	1,883	171	75	1,751	(784)	342	4,301
Operating income	4,614	7,161	1,218	207	1,975	(1,013)	1,094	15,256
Operating expenses	(4,572)	(2,282)	(392)	(94)	(475)	(96)	(716)	(8,627)
	42	4,879	826	113	1,500	(1,109)	378	6,629
Impairment on available-for-sale investment securities	-	-	-	1,987	-	-	-	1,987
Impairment allowance on portfolio basis	-	-	-	-	-	262	(300)	(38)
Impairment allowance on specific basis	(907)	(523)	-	-	-	-	(113)	(1,543)
Segment profit / (loss) for the period	(865)	4,356	826	2,100	1,500	(847)	(35)	7,035
Income tax expense	-	-	-	-	-	(1,043)	-	(1,043)
Profit / (loss) for the period	(865)	4,356	826	2,100	1,500	(1,890)	(35)	5,992
31 March 2017								
Balance sheet								
Assets								
Cash and balances with Central Bank	-	-	-	-	-	90,718	9,531	100,249
Due from banks and other money market placements	-	-	29,754	-	100,166	-	4,295	134,215
Loans and advances (net)	549,727	1,000,627	241,658	-	-	-	123,018	1,915,030
Investment securities	-	-	-	19,171	378,364	-	10,138	407,673
Property, equipment and fixture	-	-	-	-	-	15,121	1,230	16,351
Investment properties	-	-	-	-	-	2,900	-	2,900
Other assets	-	-	-	-	-	23,413	1,701	25,114
	549,727	1,000,627	271,412	19,171	478,530	132,152	149,913	2,601,532
Liabilities								
Due to banks and other money market borrowings	-	-	-	-	495,766	-	5,779	501,545
Customers' deposits	434,918	343,569	743,295	12,443	22,916	-	124,995	1,682,136
Other liabilities	-	-	-	-	-	35,305	1,018	36,323
Subordinated loans	-	-	-	-	-	86,119	-	86,119
Compulsorily convertible bonds	-	-	-	-	-	4,858	-	4,858
Certificate of deposits	-	-	-	-	18,684	-	-	18,684
Shareholder's equity	-	-	-	-	-	253,736	18,131	271,867
	434,918	343,569	743,295	12,443	537,366	380,018	149,923	2,601,532

* FI stands for Financial Institutions & PFS stands for Project Finance Syndication

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2017 (continued)

E1 Segmental information (continued)

	Retail banking RO'000	*Wholesale banking RO'000*	*Government institution, FI & PFS* RO'000*	*Investments RO'000*	*Treasury RO'000*	*Head Office RO'000*	*Islamic banking RO'000*	*Total RO'000*
31 March 2016								
Income Statement								
Interest income	8,357	10,077	2,302	357	1,060	(1,806)	-	20,347
Interest expense	(2,868)	(5,113)	(1,181)	(106)	(828)	1,801	-	(8,295)
Net interest income	5,489	4,964	1,121	251	232	(5)	-	12,052
Net income from Islamic financing and investing activities	-	-	-	-	-	-	699	699
Other operating income	710	1,774	253	(1,331)	837	(605)	160	1,798
Operating income	6,199	6,738	1,374	(1,080)	1,069	(610)	859	14,549
Operating expenses	(4,276)	(2,364)	(371)	(126)	(494)	(107)	(612)	(8,350)
	1,923	4,374	1,003	(1,206)	575	(717)	247	6,199
Impairment on available-for-sale investment securities	-	-	-	609	-	-	-	609
Impairment allowance on portfolio basis	-	-	-	-	-	(429)	(113)	(542)
Impairment allowance on specific basis	(970)	(547)	-	-	-	-	-	(1,517)
Segment profit / (loss) for the period	953	3,827	1,003	(597)	575	(1,146)	134	4,749
Income tax expense	-	-	-	-	-	(586)	-	(586)
Profit / (loss) for the period	953	3,827	1,003	(597)	575	(1,732)	134	4,163
31 December 2016								
Balance sheet								
Assets								
Cash and balances with Central Bank	-	-	-	-	-	102,503	17,110	119,613
Due from banks and other money market placements	-	-	29,506	-	54,917	-	14,219	98,642
Loans and advances (net)	543,394	1,013,371	260,494	-	-	-	95,816	1,913,075
Investment securities	-	-	-	19,171	322,077	-	10,023	351,271
Property, equipment and fixture	-	-	-	-	-	14,430	1,294	15,724
Investment properties	-	-	-	-	-	2,900	-	2,900
Other assets	-	-	-	-	-	17,751	1,125	18,876
	543,394	1,013,371	290,000	19,171	376,994	137,584	139,587	2,520,101
Liabilities								
Due to banks and other money market borrowings	-	-	-	-	553,546	-	22,001	575,547
Customers' deposits	332,074	365,828	676,029	15,087	44,262	-	98,409	1,531,689
Other liabilities	-	-	-	-	-	27,856	1,190	29,046
Subordinated loans	-	-	-	-	-	86,615	-	86,615
Compulsorily convertible bonds	-	-	-	-	-	4,805	-	4,805
Certificate of deposits	-	-	-	-	18,513	-	-	18,513
Shareholder's equity	-	-	-	-	-	255,719	18,167	273,886
	332,074	365,828	676,029	15,087	616,321	374,995	139,767	2,520,101

* FI stands for Financial Institutions & PFS stands for Project Finance Syndication

E2 Comparative figures

Certain corresponding figures for 2016 have been reclassified in order to conform with the presentation for the current period. Such reclassifications do not affect previously reported net profit or shareholders' equity.