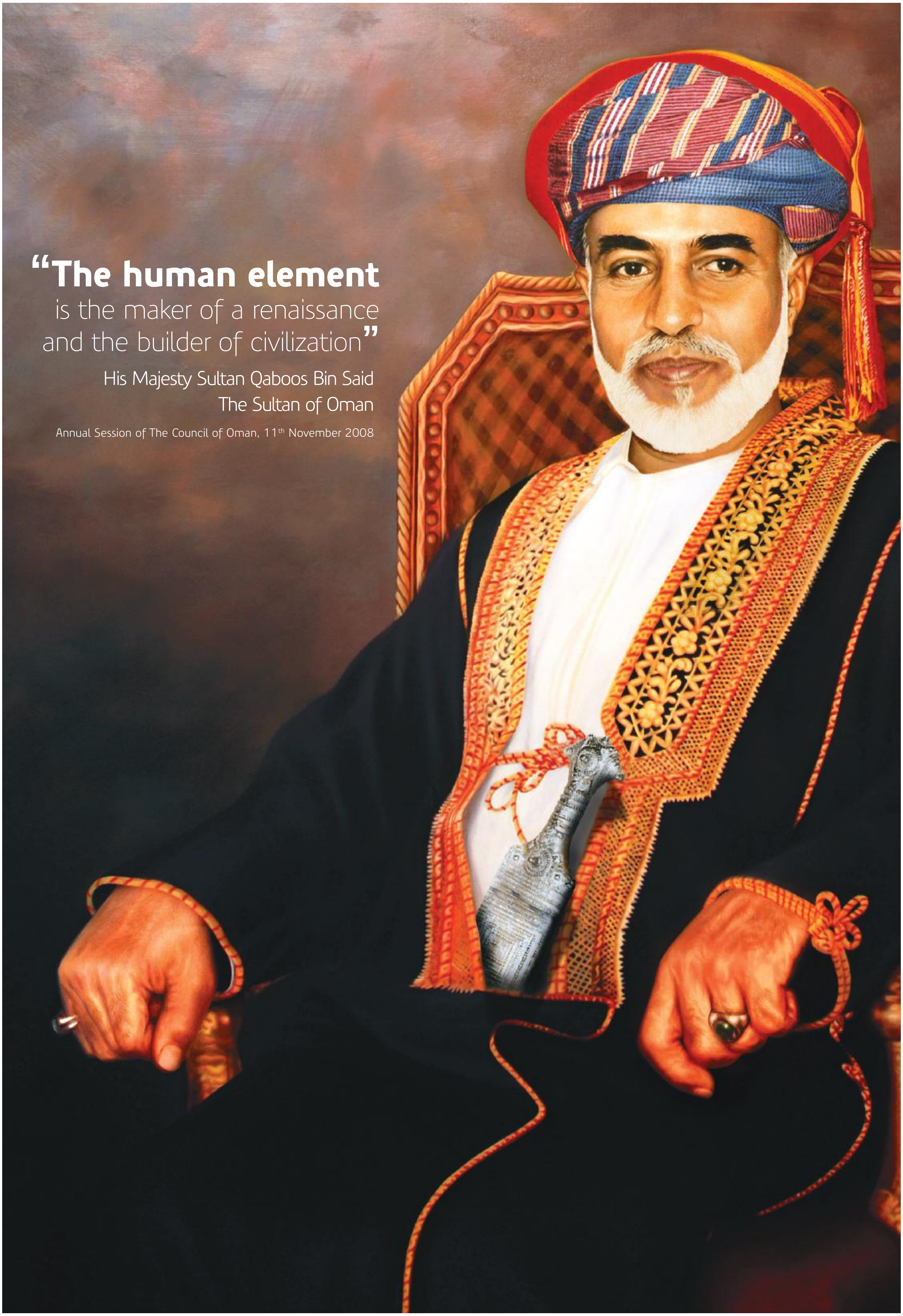
بنك مسقط
bank muscat

2015 ANNUAL REPORT

New Opportunities

Future Success



“The human element
is the maker of a renaissance
and the builder of civilization”

His Majesty Sultan Qaboos Bin Said
The Sultan of Oman

Annual Session of The Council of Oman, 11th November 2008 let's do **more** is the vision that serves as the constant inspiration for all we do. As the leading bank in Oman, we take every opportunity to contribute to the nation's progress and prosperity. This in turn creates more opportunities to create success for all our stakeholders, especially our customers. We celebrate the past year's achievements with gratitude, and look forward to another year of opportunities and success.

Contents

Chairman's Report

Dear Shareholders,

I am glad to share with you the encouraging results achieved by the bank during 2015. Amid the challenging economic and financial situation marked by low oil prices, the key business lines of the bank recorded healthy performance on expected lines.

Oman's Economy

The Sultanate's economic growth in 2015 stood at 3 per cent, mainly due to pressure on revenue amid year-long low oil prices. The economic and fiscal reliance on the oil and gas sector added pressure to public finance. Oman's financial buffers, domestic savings and healthy banking sector served as a source of stable funding for the government. The banking and financial sector maintained healthy credit growth of over 10 per cent while Muscat Securities Market (MSM) reflected the changing outlook for the region owing to low oil prices. Oman's inflation level averaged 2.9 per cent in 2015.

Financial Overview

The bank posted a net profit of RO 175.45 million in 2015 compared to RO 163.23 million reported in 2014, an increase of 7.5 per cent. Net Interest Income from Conventional Banking and Income from Islamic Financing stood at RO 260.51 million for the year of 2015 compared to RO 243.64 million in 2014, an increase of 6.9 per cent.

Non-interest income at RO 147.23 million was higher by 5.6 per cent compared to RO 139.47 million for the year ended 31st December 2014. Operating expenses for the year ended 31st December 2015 at RO 171.06 million was higher by 8.3 per cent as compared to RO 157.89 million in 2014.

Impairment for credit losses for the year of 2015 was RO 71.98 million as against RO 64.33 million in 2014. Recoveries from impairment for credit loss were RO 35.88 million for the year 2015 as against RO 26.06 million in 2014. Share of income from associates for the year 2015 was RO 2.56 million as against RO 1.52 million in 2014.

Net Loans and advances from conventional operation increased by 4.9 per cent to RO 6,695 million as against RO 6,386 million as at 31st December 2014. Customer deposits, including CDs from the conventional operations increased by 6.2 per cent to RO 6,738 million as against RO 6,345 million as at 31st December 2014.

Islamic financing receivables amounted to RO 635 million as of 31st December 2015 compared to RO 400 million in 2014. Islamic Banking customer deposits amounted to RO 625 million as of 31st December 2015 compared to RO 283 million reported on 31st December 2014.

The basic earnings per share were RO 0.077 in 2015 as against RO 0.071 in 2014. The bank's capital adequacy ratio stood at 16.10 per cent as on 31 December 2015 after appropriation for proposed dividend for the year 2015 against the minimum required level of 12.625 per cent as per Basel III regulations issued by the Central Bank of Oman.

The Board of Directors has proposed 30 per cent dividend for the year 2015. Continuing the Bank's strong dividend payment track record, the Board of Directors has proposed 25 per cent cash dividend which is consistent with the cash dividend paid in the last five years. In addition, 5 per cent dividend in the form of bonus shares has been proposed. The Bank has retained sufficient level of profits to further strengthen the capital base and be better positioned for possible future challenging market conditions.

Shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 57.29 million on bank's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 114,591,130 shares of RO 0.100 each amounting to RO 11.46 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders and the regulatory authorities.

Strategic initiatives

- In line with the strategy for the coming period, the bank expanded the Management Team and unveiled a new Organisational Structure focusing on customer-centricity, operational efficiencies and career opportunities for talented young Omanis.

Key developments

- The only IPO on the Muscat Securities Market during 2015 for Phoenix Power Company was led by the bank and was an overwhelming success. The IPO of RO 56.2 million was hugely oversubscribed demonstrating the bank's strong franchise with local and international investors

- The debt finance group raised RO 385 million for Oman Electricity Transmission Company SAOC via an international bond offering. This issuance was the first international bond issuance by a Government owned entity from Oman.

- In step with the bank's strategy to enhance technology-driven digital banking, the bank upgraded its mobile banking application with new services and enhanced its internet banking services to retail and corporate customers. The bank also launched Oman's first electronic branch in the banking sector.

- Marking the 45th year of Oman's Renaissance anniversary, the bank widened the scope of al wathbah Academy training programme to benefit 30 aspiring entrepreneurs from Batinah and Dhofar regions as new centres were opened in Sohar and Salalah to offer 8-month SME training programme leading to accredited international certification.

- The bank was mandated to arrange syndicated loans for new developments in the real estate, contractor accommodation and oil & gas sectors. In addition, it was also mandated as a Lead Arranger for two power & related water projects.

- In one of the largest real estate financial transactions in the Sultanate, the bank signed an agreement with Saraya Bandar Jissah to finance development of Oman`s luxurious integrated tourism complex (ITC) in Muscat.

- Meethaq inked various project financing contracts for providing Shari'a compliant financing with various prestigious companies and developers in Oman, including the national carrier Oman Air for acquiring its second Boeing 787 Dreamliner, Oman Shipping company for VLCCs, Muscat Grand Mall (phase 2) and Oman Sebacic Duqm.

- Meethaq Islamic Banking sustained its leading position in the Islamic banking industry in Oman and witnessed tremendous growth in terms of deposit mobilization, financing receivable in both retail and corporate, branch network, product and services. Meethaq also provided advice to the Ministry of Finance on the debut Sovereign Sukuk issuance of RO 250 million.

Awards and Accolades

The bank won prestigious global, regional and local awards in 2015. The notable accolades included the Best Bank in Oman by Euromoney and Global Finance, Asian Banker's Best Bank in Middle East and Africa for Liquidity Risk Management, and Global Investor's Oman Asset Manager of the Year. The bank also won prestigious awards from Deutsche Bank and JP Morgan Bank for outstanding performance in euro and dollar denominated fund transfer and commercial payments. In recognition of a distinct identity visible through innovative HR strategies, the bank won the GCC Best Employer Brand award by the Employer Branding Institute, CMO Asia.

The Year Ahead

Cautious optimism prevails for Oman's economy in 2016 owing to its stable fundamentals and prudent policies to support fiscal reforms and non-oil sectors. The austerity measures to plug falling oil revenues are expected to help Oman maintain the economic and financial position. The 2016 budget and the 9th Five Year Plan projects provide room for the private sector to participate in infrastructure projects which will continue to give a fillip to the economy as well as generate employment opportunities.

In Conclusion

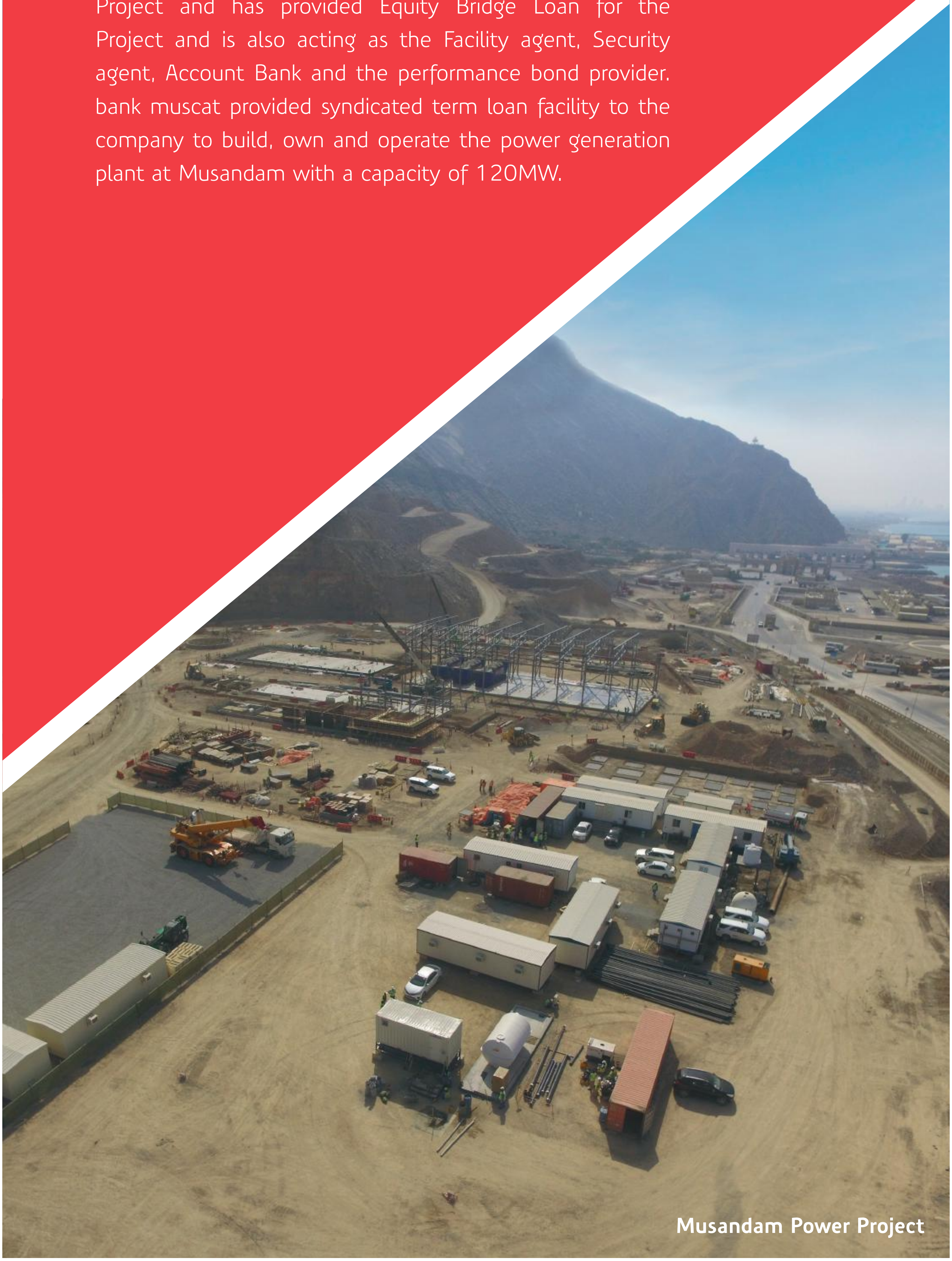
On behalf of the Board of Directors, I take this opportunity to thank the banking community, both in Oman and overseas, the shareholders and clients for the confidence reposed in the bank. I would also like to thank the Management Team and all our employees for their dedication and commitment to press ahead amid the challenging situation to reach higher levels of excellence. Following 33 years of successful growth, the Sultanate's flagship financial institution is poised to further consolidate its leading position, driven by the 'Let's Do More' vision which reflects the strategy for the coming period.

The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Market Authority to strengthen the financial market in the Sultanate. The foresight and market-friendly policies adopted by His Majesty's Government have helped the bank to record encouraging results.

As Oman marches into 46th year of the glorious Renaissance in 2016, we express our deep gratitude and appreciation to our leader, His Majesty Sultan Qaboos Bin Said for his vision and guidance, which has helped the country along its path of success, growth and prosperity.

Khalid bin Mustahail Al Mashani

bank muscat is the only lender to the Musandam Power Project and has provided Equity Bridge Loan for the Project and is also acting as the Facility agent, Security agent, Account Bank and the performance bond provider. bank muscat provided syndicated term loan facility to the company to build, own and operate the power generation plant at Musandam with a capacity of 120MW.



Musandam Power Project

Members of the Board

Sheikh Khalid bin Mustahail Al Mashani
Chairman

Sulaiman bin Mohamed bin Hamed Al Yahyai
Deputy Chairman

Brigadier General Nasser bin Mohammed Salim Al Harthy
Director

Hamoud bin Ibrahim Soomar Al Zadjali
Director

K.K. Abdul Razak
Director

Sheikh Said bin Mohamed bin Ahmed Al Harthy
Director

Sheikh Saud bin Mustahail Al Mashani
Director

Farida Khambata
Director

Khalid bin Nasser bin Humaid Al Shamsi
Director

Building a better
working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

Report of Factual Findings on the corporate governance reporting of bank muscat SAOG and its application of the corporate governance practices in accordance with the CMA's Code of Corporate Governance

TO THE SHAREHOLDERS OF bank muscat SAOG

We have performed the procedures prescribed in the Capital Market Authority's (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of bank muscat SAOG (the Bank) and its application of corporate governance practices in accordance with the CMA's Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA's Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Bank's compliance with the code as issued by the CMA.

We report our findings below:

We found that the Bank's corporate governance report fairly reflects the Bank's application of the provisions of the code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of bank muscat SAOG to be included in its annual report for the year ended 31 December 2015 and does not extend to any financial statements of bank muscat SAOG, taken as a whole.

Ernst & Young LLC

23 February 2016
Muscat

Corporate Governance Statement

Corporate Governance is the system by which business corporations are directed and controlled. The Corporate Governance structure specifies the roles of different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the entity's objectives are set, measured and monitored.

The Board of Directors of **bank muscat** SAOG (**bank muscat** or the Bank) is committed to the highest standards of Corporate Governance. The Bank is committed to raising the bar even further so as to set a leading example of the letter and spirit of the Code of Corporate Governance laid out by the Capital Market Authority (CMA) and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO). This commitment was reflected in the Bank being awarded first place in the CMA Corporate Governance Excellence Awards in the Financial Sector for the year 2011. In addition, the Bank won the overall CMA award which included participation from listed companies across Financial, Industrial and Services sectors. These two prestigious accolades were a follow on from being awarded second prize in the Middle East North Africa (MENA) region for Corporate Governance excellence by the Hawkamah Institute in 2010. Following on from this success, the Bank also took first place in the Hawkamah Corporate Governance awards in 2012 and won a further Hawkamah award in 2013. In 2014, Hawkamah judged **bank muscat** as the top listed Omani Bank, which demonstrated continued excellence in this area.

The CMA Code of Corporate Governance for Public Listed Companies issued by circular no. 4.2015 in July 2015 (applicable from 2016) and the CBO circular BM 932 on Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. **bank muscat** fully complies with the provisions of the old and new code. The CMA Code of Corporate Governance can be found at the following website, www.cma.gov.om. In addition, due to its listing on the London Stock Exchange through its Global Depository Receipts, the Bank is required to comply with section 7.2 of the FSA Handbook on Disclosure and Transparency Rules and has done so in this report.

Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders or more broadly as its relationship to society. That is why, in 2008, a department dedicated to Corporate Social Responsibility was established with the vision of adopting a new approach of addressing society's needs through inspiring new forms of true partnership among all sectors of society to serve the community in the best way. There is a separate sustainability report section in this year's annual report.

Board of Directors

The roles of the Chairman of the Board of Directors (the Board) and Chief Executive Officer (CEO) are separated with a clear division of responsibilities at the head of the Bank between the running of the Board and the executive management responsibility for running **bank muscat**'s business. The Board of Directors is responsible for overseeing how management serves the long-term interests of shareholders and other key stakeholders.

The Bank's Board of Directors principal responsibilities are as follows:

- policy formulation, supervision of major initiatives, overseeing policy implementation, ensuring compliance with laws and regulations, nurturing proper and ethical behavior, transparency and integrity in stakeholders' reporting;
- approval of commercial and financial policies and the budget, so as to achieve its objectives and preserve and enhance the interest of its shareholders and other stakeholders;
- preparation, review and updating of the plans necessary for the accomplishment of the Bank's aims and the performance of its activities, in light of the objectives for which it was incorporated;
- adoption of the Bank's disclosure procedures, and monitoring their application in accordance with the rules and conditions of the Capital Market Authority and the Central Bank of Oman;
- supervision of the performance of the Executive Management, and ensuring that work is properly attended to, so as to achieve the Bank's aims, in the light of the objectives for which it was incorporated;
- appointment of the CEO, the Deputy Chief Executive and the Chief Operating Officer, as well as appointment of the officers answering to either of them pursuant to the organisational structure of the Bank;
- appraisal of the performance of the Executive Management mentioned and appraisal of the work carried out by the committees affiliated to the Board; and
- approval of the financial statements pertaining to the Bank's business and the results of its activities which are submitted to the Board by the Executive Management every three months, so as to disclose its true financial position and performance.

Performance Review

In 2012, the Board employed Ernst and Young to conduct an independent evaluation of its practices and processes. Specifically the evaluation focused on the following areas:

- Compliance with applicable regulations;

- Role of the directors and effectiveness of challenge to executives;
- Substance of agenda and mandate (e.g. papers , minutes and other evidence)
- Board Structure;
- Board Composition;
- Board Processes;
- Board Conduct.

The review was completed over a period of two months and involved detailed interviews with the Chairman, all members of the Board and Executive Management. The final report was presented to the Board and the overall summary position was that the directors of **bank muscat** had established a process of constant improvement and excellence and that many of the Banks practices are already comparable to leading global practices. In line with its commitment to continuously improve and enhance its corporate governance framework, the Bank has selected KPMG to perform the 2016 Board Evaluation exercise

Process of nomination of the directors

The Board, with the Nomination and Compensation Committee reviews the required skills of directors to ensure they meet the "fit and proper" criteria prescribed by the CMA and the CBO. Approvals are obtained from the CMA before the director is approved by the shareholders at a general meeting. Directors approved by the general meeting must meet the CBO's requirements before they are confirmed as members on the Board. Shareholders retain the power to elect any candidate to the Board irrespective of whether the candidate is recommended by the Board or not.

Election process and functioning of the Board

The Board of Directors is elected by the shareholders of the Bank at an Annual/Ordinary General Meeting. The Board is elected for a three year term. The Board reports to the shareholders at the Annual General Meeting (AGM) or specially convened general meetings of the shareholders. The meetings of the shareholders are convened after giving adequate notice and with detailed agenda notes being sent to them. The AGM's are well attended by shareholders and there is healthy discussion and interaction between members of the Board, shareholders and functionaries of the Bank. All members of the Board of Directors attend the AGM. Any absence necessitated by urgent circumstances by any member of the Board, is conveyed to the Chairman and shareholders.

The Board is comprised of nine members, elected by the shareholders at the Bank's AGM on March 20, 2013, for a period of three years. All members of the Board attended the AGM. The current term of the Board of Directors will expire before March 31, 2016 as per the Commercial Companies Law, where an election will take place at the AGM.

Changes in the Board structure, constitution and membership

The constitution of the Board, election process for Board members and shareholders' interests are areas of prime concern for the good governance commitment of the Bank.

No director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is in the Sultanate of Oman, or is a Chairperson of more than two such companies.

Details of Board members are outlined in "Table 2".

Independence of Board members

There are no executives of the Bank who are members of the Board. Six members of the Board are independent in terms of the parameters prescribed by the Code of Corporate Governance for Muscat Securities Market listed companies and its amendments. Furthermore, the Capital Market Authority has announced a revised Code of Corporate Governance for Publicly Listed Companies in July 2015. According to the revised CMA Code of Corporate Governance a director shall be deemed non-independent including but not limited to the following cases:

1. Holding ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies;
2. Representing a juristic person who holds ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies;
3. Had been, during the two years preceding candidacy or nomination to the board, a senior executive of the company, its parent company or any of its subsidiary or associate companies;
4. Being a first degree relative of any of the directors of the company, its parent company or any of its subsidiary or associate companies;
5. Being a first degree relative of any of the senior executives of the company, its parent company or any of its subsidiary or associate companies;
6. Being a director of the parent company or any of the subsidiary or associate companies of the company being nominated for its board membership;
7. Being, during the two years preceding candidacy or nomination to the board, an employee of any of parties contractually engaged with the company (including external auditors, major suppliers or civil society organisations ("CSO") where the latter received a support in excess of 25% of the annual budget of such CSOs);
8. Being, during the two years preceding candidacy or nomination to the board, an employee of the parent company or any of its subsidiary or associate companies;

9. Holding about 20% of the shares of any of the above mentioned parties during the two years preceding candidacy or nomination to the board.

Remuneration to the Board and Top Management

The sitting fees paid to the directors in 2015 amounted to RO 74,125/- in addition to a total remuneration being paid to Directors amounting to RO 125,875/-. The total remuneration and sitting fees paid/accrued to members of the Board of Directors for the year 2015, met the maximum total limit of RO 200,000/- prescribed by the Commercial Companies Law No. (4/1974) as amended by the Royal Decree No. (99/2005). As all members of the Board are Non-Executive Directors; no fixed remuneration or performance linked incentives are applicable.

The total remuneration paid/accrued to the top six executives of the Bank for the year 2015 was Riam Omani 3.370 million. This includes salary, allowances and performance related incentives. This remuneration was approved by the Board of Directors.

Committees of the Board and their functioning

During the year 2015, there were three committees of the Board which provided able and effective support to the full Board in carrying out its responsibilities. The three committees and their primary responsibilities were as follows:

1) Board Risk Management Committee

The Board Risk Committee (BRC) at **bank muscat** oversees the risk management function and provides recommendations to the Board of Directors on the risk-reward strategy, risk appetite and risk policies, regulatory guidance on risk management, capital management and framework for managing all applicable risks. The Board reviews and approves the risk management strategy and defines its risk appetite, which is cascaded down to various business segments. The BRC supervises and ensures that the Bank achieves its business plans in compliance with the risk appetite set by the Board of Directors. Its key responsibilities are as follows:

- Formulates risk policy including credit, market and liquidity, operational risks, and protective services with a view to achieve the strategic objectives of the Bank;
- Ensures that the Bank maintains a strong quality risk portfolio;
- Oversees risk policy implementation to ensure these policies are in compliance with the relevant laws and regulations;
- Fosters transparency and integrity in stakeholder reporting;
- Embrace and spread awareness in improved risk management practices and risk governance in the bank.

The following areas were discussed at the BRMC meetings during 2015 and the appropriate recommendations were presented to the Board of Directors for their approval:

- The BRC received and reviewed the Risk Policy Compliance Report at quarterly intervals. These reports provide a status of compliance with the risk levels set by the Board of Directors. The key issues from the report were discussed in detail and appropriate feedback / guidance was provided on same;
- A detailed presentation on the impact on oil price volatility on the economy, the banking sector and the Bank was made and there were discussions on the risk mitigation strategies and opportunities presented by the emerging environment;
- The BRC received the Internal Capital Adequacy Assessment Process (ICAAP) of the bank. This was followed by a review of capital, based on stress testing and a forward looking ICAAP;
- BRC did a portfolio review of Investments, Country and Bank exposures and reviewed the revised business strategy in light of the changes in regulatory guidelines;
- BRC did a review of overall market risk and liquidity risk management in the Bank which included a review of interest rate risk, FX risk, investment risk and commodity risk along with Value at Risk methodology followed to measure market risk;
- BRC reviewed the corporate banking portfolio of the Bank with in-depth focus on top corporate relationships. BRC reviewed the strengths, weaknesses and the risk mitigants available for each of the key lending relationships;
- A review of the performance of the retail credit portfolio was done by BRC focusing on asset quality, risk cost and yield along with new initiatives taken to grow the portfolio and improve portfolio quality;
- BRC did a review of Meethaq portfolio including asset quality, customer profile and concentration;
- BRC reviewed the asset classification process, status of recovery actions, legal process, and challenges faced during the recovery process based on inputs from the remedial credit department;
- Following the nomination of the bank as a DSIB, BRC members discussed the draft D-SIB guidelines issued by the regulator, its impact on the bank and the status of compliance with the regulatory requirements. The members deliberated on the capital management strategy in light of the above.

In the joint meeting of Board Risk and Audit committee the following topics were covered:

- Risk management framework adapted and followed in the Bank including the 3 lines of defence model followed to manage risk. The committee also reviewed the bank's risk appetite framework;
- Top 10 risks faced by the Bank. Each of the top 10 risks were reviewed in detail including its likelihood, impact and recommendations to mitigate it.

- Presentation on Internal Control Environment was made by Internal Audit department. The coverage included the bank's control environment, major activities in 2015 and reviewed the key issues raised during the year.
- Review of the Protective Service Unit in the Bank was performed, encompassing the following :
  - Physical security;
  - Information Technology security;
  - Business Continuity Management.
- BRC did a review of Information Technology and Operations along with key initiatives planned for 2015-16;
- BRC reviewed the overall risk management process in place at the bank. Based on the business strategy and the operating environment, they provided guidance on the priorities for 2016.

2) Board Audit Committee

The primary responsibilities and functions of the Audit Committee are to provide assistance to the Board of Directors in fulfilling its responsibilities of monitoring/overseeing the financial reporting process, the adequacy and effectiveness of the systems of internal control, the effectiveness of the audit process and the Bank's process of complying with the relevant laws and regulations. The Audit Committee meets frequently to review the work of the Internal Audit Department, challenge the Bank's management and to assess the overall control environment prevailing in the organization. It reviews the reports presented by Internal Audit and other bodies in its deliberations and offers guidance and direction in the area of risk management, including fraud and related controls. Brigadier General Nasser bin Mohamed Al Harthy was appointed Chairman of the Audit Committee on April 4, 2011.

The Audit Committee reviews on an annual basis the Audit Committee Charter, Management Control Policy, Internal Audit Activity Charter and has approved a Code of Ethics policy for all internal auditors within the department. These are key to reinforce the organizational independence of internal audit and to establish their rules of engagement throughout the Bank. The Audit Committee has adopted a risk based approach and accordingly reviews and approves the Annual Audit Plan on that basis. The Audit Plan contains sufficient flexibility to adapt to new and emerging risks, changing circumstances, business strategy, products and services.

The Audit Committee views a robust fraud management framework as a priority and has sponsored a number of initiatives in this area, including the requirement for all staff to complete a fraud awareness programme and successfully complete the associated examination. Additionally, **bank muscat** is one of a few entities in the Sultanate to have approved a Whistle Blower Protection Policy and encourages all employees to report wrongdoing wherever they see it.

In 2015, the Chief Internal Audit Officer and the Audit Committee commissioned Protiviti, global risk services and assurance specialists, to perform an external quality review of the Internal Audit department as is required by International Standard for the Professional practice of Internal Auditing. This review must be performed at least once every five years. In line with the International Professional Practices framework promulgated by the Institute of Internal Auditors, the Internal Audit activity was assessed as being compliant with these standards and rated as an advanced internal audit function. Therefore, the Internal Audit function is permitted to use the words "conducted in accordance with international standards" in its reports. The external quality review, once again, affirms that the internal audit activity conforms to the International Professional Practices Framework of IIA. .

The Audit Committee places enormous emphasis on the professional development of all internal audit staff to ensure that they are able to perform their duties to the highest level possible. Adequate financial and other resources are made available to the function and, in particular, to support the attainment of relevant qualifications and certifications in areas such as Accounting, Internal Audit, Fraud, Risk Management, Information Security, Islamic Finance, Compliance and Anti-Money laundering.

Both the Board Risk Management Committee and the Audit Committee met as per schedule during the year 2015 and have performed the responsibilities delegated to them.

3) Board Nomination and Compensation Committee

The Board Nomination and Compensation Committee is responsible for:

- leading the process for Board and Management appointments, through the identification and nomination of relevant candidates for Board approval; and
- Setting the principles, parameters and governance framework of the Bank's Compensation policy. In 2016, this involved:
- a review and approval of a Revised Performance Management and Compensation Policy, Rewards and Incentive Review as per the Central Bank of Oman's guidelines titled "Staff Compensation in Banks";
- Reviewing the talent management framework and succession planning in the bank;
- An approval of a performance based reward distribution criteria for Management Team members;
- A review of the Management Team optimization project and proposal of a new organizational structure for the bank;
- A Review and amendment of performance management, rewards and incentive policy in line with the (28) rules issued by the Financial Stability Board as introduced by the CBO.

The shareholding structure of the Bank is as follows:

Major Shareholders	%
Royal Court Affairs	23.58
Dubai Financial Group "LLC"	12.33
HSBC A/C Ministry of Defense Pension Fund	6.48
Civil Service Employees Pension Fund	4.92
Muscat Overseas Company "LLC"	4.03
HSBC A/C JPMCB A/C IFC capitalization equity fund LP	3.01
Oman National Investment Development Company SAOC (NIFCO)	2.96
Public Authority for Social Insurance	2.67
HSBC A/C CITIBK A/C International Finance Corporation	2.20
Royal Oman Police Pension Fund	1.89
Others	35.92

Out of 2,291,819,375 fully paid-up shares 823,269,555 shares are held by around 7,153 (MDSRC) Muscat Depository and Securities Registration Company registered shareholders. There is a difference of 3,222 shares with the outstanding capital of **bank muscat** which we understand from MCD is due to fractional shares which will remain with **bank muscat**.

Rights of shareholders

All the Bank's shares shall carry equal rights which are inherent in the ownership thereof, namely the right to receive dividends declared and approved at the general meeting, the preferential right of subscription for new shares, the right to a share in the distribution of the Bank's assets upon liquidation, the right to transfer shares in accordance with the law, the right to inspect the Bank's statement of financial position, statement of comprehensive income and register of shareholders, the right to receive notice of and the right to participate and vote at general meetings in person or by proxy, the right to apply for annulment of any decision by the general meeting or the Board of Directors, which is contrary to the law or the Articles of the Bank or regulations, and the right to institute actions against the directors and auditors of the Bank on behalf of the shareholders or on behalf of the Bank pursuant to the provisions of Article (110) of the Commercial Companies Law No. (4/1974) and its amendments. Issuance of new shares for shareholders as bonus shares does not require the approval of the EGM, whereas private placement requires EGM. The regulatory framework in the Sultanate of Oman does not facilitate a buyback of its own shares by the Bank.

To this end, **bank muscat** gives minority shareholders prime importance in terms of safeguarding their interests and ensuring that their views are reflected in shareholders meetings. The "one share one vote" principle applies to all shareholders so that minority shareholders can nominate members of the Board and can take action against the Board or the management if the actions of the Board or management are in any way prejudicial to their interests.

Related party transactions, dealings and policy

There is a comprehensive policy on related party dealings, and processes and procedures laid down which are followed in the matter of all loans and advances given to directors and their related parties and also any transactions with companies in which directors have a significant/ controlling interest.

Details of loans and advances, if any, given to any Director or his related parties are furnished with full details in the notes to the financial statements given in the annual report as public disclosures. Other transactions with Directors carried in the normal course of business and without any preferential treatment are disclosed to the shareholders along with the agenda notes for the AGM.

Affirmations

1. The Board of Directors and management affirm that the Bank is in strong financial health and is expected to meet current growth and expansion plans.
2. The Board conducts a review of the effectiveness of the Bank's system of internal controls at least once every year and finds the systems effective.
3. There is a well laid down procedure for write-off of loan dues and write off is resorted to only after all other means of retrieval have exhausted.
4. All financial statements are prepared after proper scrutiny of the books of accounts and the Bank follows the International Financial Reporting Standards (IFRS) in the preparation and presentation of its accounts.
5. The Bank has implemented a robust internal check and control environment to ensure accurate and timely financial reporting and financial consolidation. The Bank's financial performance and business performance are reported to the Board of Directors regularly after a detailed review and analysis by the Finance Department. Financial statements are prepared using appropriate accounting policies which are consistently applied. The Bank has established necessary operational procedures and controls to ensure accurate and timely processing of transactions and

accounting. The interim financials are reviewed by the Internal Audit Department before presenting to the Audit Committee and the Board of Directors for final approval, thereafter.

6. There are well designed policies and procedures in place for all Bank operations as is expected of a large Bank with an international presence.
7. For insurable matters, the Bank has taken adequate cover to ensure insurance protection for properties and insurable assets.
8. The Bank complies fully with the CMA Code of Corporate Governance for Public Listed Companies and amendments.
9. The Bank has completed all the necessary preparation for meeting Basel II - Pillar III standards.
10. The Bank meets the Capital Adequacy Standards (Capital Adequacy Ratio-CAR) prescribed by the Basel Committee and the CBO.
11. For 2015, the Board of Directors has proposed 30 per cent dividend, continuing with the Bank's strong dividend payment track record. The Board of Directors have proposed 25 per cent cash dividend for the year 2015 which is consistent with the cash dividend paid in the last five years. In addition, 5 per cent dividend in the form of bonus shares has been proposed. The bank has retained sufficient level of profits to further strengthen the capital base and be better positioned for possible future challenging market conditions. Shareholders will receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 57.29 million on bank's existing share capital. In addition, they will receive bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 114,591,130 shares of RO 0.100 each amounting to RO 11.46 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders and the regulatory authorities.
12. The Bank prepares a Management Discussion and Analysis report which is included as a separate section in the Annual Report.

Dividend Policy

The Board follows a conservative dividend policy so as to provide adequate reserves and provisions to meet any circumstances that may arise due to internal or external contingencies. The policy seeks to reward shareholders yet looks at future growth in terms of capital adequacy through profit retention.

Disclosures, disclosure policy and investor information

1. **bank muscat** attaches the utmost priority to shareholder rights and disclosure of information. All the Banks' news and developments, including the financial statements, are available to any shareholder who seeks this information. Any shareholder seeking any information about the Bank may approach the Bank for same.
2. The latest news and information about the Bank is also available on its website, www.**bank muscat**.com.
3. There is a comprehensive Disclosure Policy, a Disclosure Committee and nominated spokespersons for disclosure of information news and data relating to the Bank to shareholders, stakeholders and the public. All material information is disclosed in a timely and systematic manner to shareholders and stakeholders.
4. Items of investor information are posted simultaneously on the Bank's website www.**bank muscat**.com and all interested are encouraged to access this information at convenience.
5. During the last three years, no fines were imposed on the Bank by the CMA for regulatory fines.
6. During the year 2015, an amount of RO 230,960/- was accrued/paid to the Bank's external auditors against the audit and assurance related work. The Bank uses different external auditors in different jurisdictions it operates. The payments to external auditors are for the bank's operations in Oman, KSA and Kuwait for audit and other assurance related work.
7. The Bank presented to a number of analysts and investors from local, regional and international jurisdictions during the year.

bank muscat's equity share price and price band in the Muscat Securities Market

Kindly see table 3 given at the end of this report for a month-wise listing of share prices of **bank muscat**'s shares on the Muscat Securities Market.

Ernst & Young – Our External Auditors

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 5,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,000 partners and 100,000 professionals. Globally, EY operates in more than 150 countries and employs 212,000 professionals in 728 offices. Please visit ey.com for more information about EY.

Board of Directors and Executive Management profiles

Sheikh Khalid bin Mustahail Al Mashani

Sheikh Khalid bin Mustahail Al Mashani is the Chairman of the Board of Directors of the Bank, the Chairman of the Board's Risk Committee and the Chairman of the Board's Nomination and Compensation Committee since April 2011. He served as Deputy Chairman of the Board of Directors since March 1999 until his appointment as Chairman in April, 2011. Sheikh Khalid bin Mustahail Al Mashani has a BSc. in Economics from the UK and a Master's Degree in International Boundary Studies from the School of Oriental and African Studies, the University of London, U.K.

Mr. Sulaiman bin Mohamed bin Hamed Al Yahyai

Mr. Sulaiman bin Mohamed bin Hamed Al Yahyai is the Deputy Chairman of the Board of Directors since June, 2011, a member of the Board's Risk Committee and a member of the Board's Nomination and Compensation Committee. Mr. Al Yahyai holds a certificate in Assets Management-Lausanne University, Switzerland (2002), MBA-Institute of Financial Management-University of Wales, UK (2000), and a Certificate in Financial Crisis-Harvard University, USA (1999). Mr. Al Yahyai is an Investment Advisor at the Royal Court Affairs, a Chairman-Oman Chlorine Co. "SAOG", a Director-Al Madina Real Estate Co. "SAOC", a Director-Falcon Insurance "SAOC", Chairman of Oman Fixed Income Fund, Chairman of the Integrated Tourism Projects Fund, Chairman of Telecom Oman, Chairman of the National Bank of Oman GCC Fund and a Director in Al Salam Bank (Kingdom of Bahrain).

Brigadier General Nasser bin Mohammed Salim Al Harthy

Brig. General Nasser bin Mohamed Al Harthy, is a Director of the Bank since March 2007, Chairman of the Board's Audit Committee and member of the Board's Nomination & Compensation Committee. Brig. General Nasser is Head of Internal Audit in the Ministry of Defence, he has held various important positions in the Ministry of Defence, including General Manager, Manpower and Administration and General Manager Organization and Plans. Brig. General Nasser holds a Master Degree in Military Science from Egypt and a Master of Business Administration from the UK, where he is a member of the MBAs Association.

Mr. Hamoud bin Ibrahim Soomar Al Zadjali

Mr. Hamoud bin Ibrahim Soomar Al Zadjali is a Director of the Bank since January, 2001 and a member of the Board's Risk Committee. Mr. Al Zadjali is the General Manager of Royal Oman Police Pension Fund "LLC".

Mr. K.K. Abdul Razak

Mr. K.K. Abdul Razak is on the Board of Directors of the Bank since March 1996 and a member of the Board's Audit Committee. Mr. K.K. Abdul Razak is the Group Chief Financial Officer of Muscat Overseas "LLC". He holds a Masters Degree in Economics from the University of Kerala.

Mr. Abdul Razak also sits on the boards of Al Omanyia Financial Services Co. "SAOG", Gulf Investment Services Holding "SAOG", Gulf Baader Capital Markets "SAOC" and Oman Porcelain Co. "SAOC".

Sheikh Said bin Mohammed Al Harthy

Sheikh Said bin Mohamed bin Ahmed Al Harthy is a Director on the Board of Directors of the bank since July 2011, a member of the Board's Audit Committee and member of the Board's Nomination & Compensation Committee. Sheikh Said is the Deputy Director General of Supplies at the Royal Court Affairs. Sheikh Said has a Master's of Business Administration from Victoria University, Melbourne/Australia and Bachelor degree in Business Administration (Management), Minor in Computer Information System (CIS) from California State University Stanislaus, USA.

Sheikh Saud bin Mustahail Al Mashani

Sheikh Saud bin Mustahail Al Mashani is a Director on the Board of Directors of the bank since March 2013 representing Muscat Overseas "LLC" and a member of the Board's Audit Committee. Sheikh Saud is a Director of Marketing and Business Development in Muscat Overseas Group of companies since 2008. Muscat Overseas Group is a diversified group of companies that has interests in financial sector, real estate, trading, travel, insurance, joint venture projects...etc. In 2011, Sheikh Saud joined the Ministry of Foreign Affairs- International Organizations. Sheikh Saud graduated in Business Management from the Staffordshire University (UK) in 2010.

Mrs. Farida Khambata

Mrs. Farida Khambata is a Director on the Board of Directors of the Bank since March 2013 and a member of the Board's Risk Committee. Mrs. Khambata is a global strategist and a member of the Investment Committee of Cartica Management "LLC", an active ownership fund manager investing in emerging markets. Prior to joining Cartica, she was the Regional Vice President of International Finance Corporation (IFC) in charge of all operations in East Asia and the Pacific, South Asia, Latin America and the Caribbean. Mrs. Khambata was a member of the IFC Management Group.

Mrs. Khambata is currently on the board of directors of Dragon Capital Group and Vietnam Enterprise Investment Ltd. in Vietnam, Kotak Mahindra Bank Ltd., and Tata Sons Ltd. in India. Mrs. Khambata holds an MA in Economics from University of Cambridge, a MSc in business management from the London Business School, attended the Advanced Management Program at Wharton and she is a Chartered Financial Analyst.

Mr. Khalid bin Nasser bin Humaid Al Shamsi

Mr. Khalid bin Nasser bin Humaid Al Shamsi is a Director on the Board of Directors of the bank since October, 2015 and a member of the Board's Risk Management Committee. Mr. Khalid al Shamsi experience varies across public and private assets, real estate and alternative investments. He serves on the boards of several publicly listed and private companies. Mr. Khalid Al Shamsi has a BSc (Hons) in Accounting, and International Business and is an INSEAD certified Director in corporate governance (IDP-c)

Top (6) Management Profiles

Mr. Abdul Razak Ali Issa (Chief Executive)

Mr. Abdul Razak Ali Issa is the Chief Executive Officer of the Bank. He currently holds the following directorships representing **bank muscat**:

1) Oman Integrated Tourism Project Fund (Member of the Advisory Board);
2) Oryx Fund (Member of Investors' Committee);
3) World Union of Arab Banks (Member of the Advisory Council);
4) Oman Chamber of Commerce (Banking Committee-Member);
5) CMA Board Member;
6) Asian Bankers Association (Board Member);
7) Oman Bankers Association (Chairman of the Board).

Mr. Abdul Razak holds an MBA from the University of Wales. He has also attended the Management Development Programme at Harvard University.

Personal Awards

- Conferred Honorary Doctorate on Mr. Abdul Razak Ali Issa in 2012 from Hindustan University, Chennai, India;
- The Arab Banking Personality of 2012 by Arab Banking Union;
- Ranked among the 500 most influential Arabs in 'Power 500 - the World's most influential Arabs' by Arabian Business magazine;
- The 'Banking and Finance Personality of the Year' at the 3rd Middle East CEO Awards 2006;
- The Best CEO for 2002 by Business Today magazine.

Mr. Ahmed Al Abri (Chief Operating Officer)

Mr. Ahmed Al Abri is the Chief Operating Officer of **bank muscat**. He is an Investment committee member in the Muscat Fund. He is also a member of Oman Integrated Tourism Projects Fund (OITPF) and Oman Fixed Income Fund. Mr. Al Abri holds an MBA from the University of Lincolnshire & Humberside, U.K. He has also attended the Advanced Management Program at INSEAD and the General Managers' Program from Harvard Business School.

Mr. Ganesan Sridhar (Group General Manager-Corporate Banking and International Operations)

Mr. Ganesan Sridhar is the Group General Manager Corporate Banking & International Operations, responsible for managing the Bank's Corporate Banking business and the International business of the Bank. He has over 38 years of banking experience, of which 24 years have been with **bank muscat** and its predecessor banks. He holds a Master Degree in Financial Management from Bajaj Institute of Management Studies, Bombay University and a Masters Degree in Arts (Political Science). He is a Certified Associate of the Indian Institute of Bankers and has completed the Advanced Management Program at the Harvard Business School in the year 2009. He is currently a Board member in Abraj Energy Services Co SAOC, Oman.

Mr. Waleed K. Al Hashar (Deputy Chief Executive Officer)

Mr. Waleed K. Al Hashar, Deputy Chief Executive Officer at **bank muscat**. He is a member of the Board of Directors of Omran SAOC, the Oman Center for Governance and Sustainability and the College of Banking and Financial Studies.

His experience over the past 25 years spans Banking as well as the Oil and Gas sectors. Before joining **bank muscat**, he held senior positions in a number of firms in these sectors. He holds a postgraduate diploma in General Management from Harvard Business School. He also holds a BSc and Masters in Business Administration from California State University in Sacramento, USA.

Mr. Sulaiman Al Harthy (Deputy Chief Executive Officer - Islamic Banking)

Mr. Al Harthy is the Deputy Chief Executive Officer of Islamic banking "Meethaq Islamic Banking" at **bank muscat** –the pioneer and leading bank in Islamic banking in Oman. He has over 30 years of banking experience, covering retail, corporate and private banking, and now Islamic Banking locally and abroad. He joined **bank muscat** in 2005, and represents the bank as a member on Pak Oman Asset Management company, the Oman Bankers Association, and Tatweer Duqm (The investment arm of SEZAD). Thanks to his contribution, he received the GIFA Award 2014 as a pioneer in the industry, and led Meethaq to receive the "Leader in Islamic Banking" award in 2013 by A'lam Al-Iqtisad & A'mal, "The Best Banking Performance" in 2014 by Al Royal Economic Award, and "The special Award 2013: Outstanding Achievements in Islamic Banking" by Oman Economic Review (OER).He holds a MBA in Finance from the University of Leicester –UK (2002), and a Diploma in Banking Studies from the Oman Institute of Bankers, Oman (1983) and has attended the Advanced Management Program at Harvard Business School. At present, he sits as a Board Member of the Harvard Business Club –GCC Chapter.

Mr. K. Gopakumar (Deputy Chief Operating Officer)

Mr. K. Gopakumar is the Deputy Chief Operating Officer of the bank and is responsible for managing Retail Banking, International Operations and the Service Excellence Centre of the bank. He is a Chartered Accountant, Cost Accountant and Company Secretary from India, a member of the Chartered Institute of Management Accountants, London, Member of the ACI - The Financial Markets Association, London and a Member of the Corporate Treasurers, London. He also holds an MBA from IMD Lausanne, Switzerland.

Shariah Supervisory Board (SSB) profiles.

Prof. Dr. Ali Mohiuddin Ali al-Quradaghi – Chairman of Meethaq Islamic Banking.
Dr. Quradaghi is a leading Shari'a advisor in Islamic Finance worldwide. He chairs or otherwise holds key positions at a number of Sharia boards and councils, including the International Union for Muslim Scholars, the European Council for Fatwa and Research (Ireland), the Islamic Fiqh Academy (Jeddah), the Accounting & Auditing Organization for Islamic Financial Institutions "AAOIFI" (Bahrain) and the Zakat World Organization (Kuwait). He received the Qatar State's Incentive Award in Islamic Comparative Jurisprudence, and the Ajman Award on community service in 2001 by the Ajman emirate –UAE. Since 1985, he holds PhD in Shari'a and Law from the University of Al-Azhar. He authored over 33 books and does frequently appear on Islamic forums. Currently he is at the Board of the Faculty of Shari'a & Law at the University of Qatar as well as the Advisory Academic Committee of the Islamic Centre at the University of Oxford.

Sheikh Esam Mohammed Ishaq – Executive Member
Sheikh Esam is a renowned Shari'a scholar with massive presence in the Islamic finance industry, including Islamic banking, Takaful and investment funds with rich exposure covering the Middle East, South Asia and Europe. He serves as a key member in many Shari'a-related bodies including the High Council for Islamic Affairs (Bahrain), the Shari'a boards of Investment Dar Bank (Bahrain), the EcoIslamic Bank (Kyrgyzstan), Al Hilal Bank (UAE), ArCapita Bank (Bahrain), Al Baraka Islamic Bank (Bahrain), AlMeezan Islamic Bank (Pakistan), Munich Retakaful (Malaysia), Islamic Finance House (UAE), the International Islamic Financial Markets (Bahrain), Capitas Group (USA), Maldives Monetary Authority (Maldives), and the Accounting & Auditing Organization for Islamic Financial Institutions "AAOIFI" (Bahrain). He graduated from McGill University, Montreal (Canada) in 1983 and currently teaches Islamic Jurisprudence.

Dr. Majid bin Mohamed bin Salim Al-Kindi –Member
Dr. Majid Al-Kindi is an icon in the field of Islamic Jurisprudence in Oman, enriching the Shari'a Supervisory Board of Meethaq with a vast experience on Islamic pronouncement, with a focus on the standard practices in Oman. He is the pioneer of Islamic banking and finance among local Shari'a scholars in the Sultanate. In parallel to his assignment at Meethaq, Dr. Majid works as the Secretary-General of the Fatwa Body of the Sultanate. He has been an assistant judge at the Ministry of Justice, and a researcher at the Fatwa Body of the Sultanate. He received a PhD in Islamic Jurisprudence from the International Islamic University –Malaysia (2012) and second PhD in Economics and Islamic Banking from Yarmouk University –Jordan (2014). He is the first Omani author on Islamic finance, i.e. "Financial Transactions and Contemporary Application" and "Securities Markets Under the Shariah Guidelines", and is frequently seen on Islamic Forms.

H.E. Dr. Saeed Mubarak Al-Muharrami –Member
Dr. Saeed Al-Muharrami is an acknowledged economist and expert in Banking and Finance, with the academic appointment as the Dean of the College of Economics and Political Science at Sultan Qaboos University. He was appointed as Fulbright Visiting Scholar at the International Monetary Fund (IMF) in Washington DC, USA (2011-2012). He received B.Sc. in Finance in 1988 from University of Arizona, U.S.A, MBA in 1994 from Oregon State University, U.S.A, and PhD in 2005 from Cardiff University, U.K. He was the Director of Humanities Research Center before becoming the Dean of College of Economics and Political Science. He focuses on banking market structure, competitiveness, efficiency, productivity, performance, Arab commercial, just to name. He is the author of "Arab Banking: Efficiency and Productivity", "Arab GCC Banking: Measurement of Competition" and "Market Structure and Performance of Arab Banking". Besides serving at the Shari'a Board of Meethaq, Dr. Saeed has been recently nominated as member of the State Council by His Majesty.

Sheikh Abdulkader Thomas –Member
Mr. Abdulkader is a renowned Shari'a advisor in Islamic Finance worldwide and frequently seen on Islamic forums. He brings to Meethaq's Shari'a Supervisory Board a rich exposure, covering the Middle East, South Asia & USA. He held key positions at leading financial entities, including the London-based Islamic Investment Banking Unit, the USA-based Al Manzil Islamic Financial Services, Citibank N.A, Gulf Riyad Bank E.C. Alkhabeer Capital (Jeddah), Alkhabeer International (Bahrain), International Advisory Committee –Securities Commission Malaysia –just to name. He holds B.A in Arabic & Islamic Studies and M.A in Law & Diplomacy in Development Economics & International Commerce. He has contributed to the Islamic Finance Qualification, and published the American Journal of Islamic Finance. Since 2002 to date, he is the President & CEO of SHAPETM Financial Corp. (Virginia & Kuwait). Currently, he pursues PhD at Universiti Teknologi (Malaysia), focusing on Shari'a rules governing bankruptcy in modern capital markets.

Table 1:

The total number of meetings of the full Board during the year January 1, 2015 to December 31, 2015 was eight. The maximum interval between any two meetings was in compliance with article (4) of the Code of Corporate Governance, which requires meetings to be held within a maximum time gap of four months. The dates of the meetings of the Board of Directors, the Board Risk Management Committee, Board Audit

Sr. No.	Dates of the Board of Directors Meetings	Dates of the Board Audit Committee Meetings	Dates of the Board Risk Management Committee Meetings	Dates of the Board Nomination and Compensation Committee Meetings
1	January 28, 2015	January 28, 2015	April 26, 2015	January 28, 2015
2	April 26, 2015	April 26, 2015	July 28, 2015	October 21, 2015
3	May 28, 2015	July 28, 2015	September 15, 2015	
4	July 28, 2015	September 15, 2015	October 27, 2015	
5	September 15, 2015	October 27, 2015	December 16, 2015	
6	October 26, 2015	December 07, 2015		
7	October 27, 2015			
8	December 16, 2015			

Table 2:

Details of Board of Directors and meetings held during the year 2015 and attendance of the Directors were as follows:

Name of the director	Board position and membership of committees	Board of directors meetings attended	Committee meetings attended	Basis and capacity of membership	Sitting fees in RO
Sheikh Khalid bin Mustahail Al Mashani	Chairman of the Board, Chairman of the Board Risk Committee and Chairman of the Board Nomination and Compensation Committee.	7	6	Independent Director - Non-executive/ shareholder in personal capacity	9,000
Mr. Sulaiman bin Mohamed Al Yahyai	Deputy Chairman, a member of the Board, a member of the Board Risk Committee and a member of the Board Nomination and Compensation Committee.	5	6	Non – Independent/Non-executive/ shareholder in personal capacity	6,350
Brig. General Nasser bin Mohamed Al Harthy, Proxy for Ministry of Defence Pension Fund	Member of the Board, Chairman of the Audit Committee and a member of the Board Nomination and Compensation Committee.	8	7	Independent - Non-executive/ representative of a juristic person	9,400
Mr. Hamoud bin Ibrahim Soomar Al Zadjali, Proxy for ROP Pension Fund LLC	Member of the Board and a member of the Board Risk Committee.	8	5	Independent - Non-executive/ representative of a juristic person	9,000
Mr. K.K. Abdul Razak	Member of the Board and a member of the Board Audit Committee.	8	5	Independent - Non-executive/ shareholder in personal capacity	9,000
Sheikh Said bin Mohamed Al Harthy	Member of the Board, a member of the Board Audit Committee and a member of the Board Nomination and Compensation Committee.	8	6	Non-Independent -Non-executive/ shareholder in personal capacity	9,000
Sheikh Saud bin Mustahail Al Mashani	Member of the Board and a member of the Board Audit Committee.	5	4	Independent-Non-executive/ representative of a juristic person	6,225
Ms. Farida Khambata	Member of the Board and a member of the Board Risk Committee.	8	5	Independent-Non-executive/non-shareholder	9,000
Dubai Financial Group	Member of the Board and member of the Board Risk Committee	6	4	Non-Independent / Non-executive / representative of a juristic person	7,150
Total amount paid as sitting fees					RO 74,125

The AGM of the shareholders of the Bank approved at its meeting held on 18th March, 2015 an amount of RO 82,600/- as sitting fees for 2015 for the Board, the Audit Committee and the Board Risk Committee meetings. Total amount paid to the members of the Board of Directors and the members of Board's Committee as sitting fees during 2015 was RO 74,125/-. There were no Sitting Fees for the Board Nomination & Compensation Committee meetings;

Table 3

Monthly share prices of **bank muscat**'s shares quoted at the Muscat Securities Market (MSM) and the bands for the banking sector stocks on the MSM.

(This information is available from news agencies and is published information. This is given here as part of the requirements of the Code of Corporate Governance for MSM listed companies. This is not a solicitation in any manner to subscribe to the Bank's shares.)

bank muscat Share Price

BKMB Share Price			
Month	High	Low	Closing
January 2015	0.620	0.544	0.604
February 2015	0.644	0.596	0.600
March 2015	0.604	0.500	0.526
April 2015	0.546	0.516	0.530
May 2015	0.544	0.530	0.542
June 2015	0.560	0.544	0.550
July 2015	0.582	0.550	0.554
August 2015	0.554	0.474	0.504
September 2015	0.572	0.494	0.546
October 2015	0.560	0.534	0.536
November 2015	0.540	0.490	0.498
December 2015	0.498	0.458	0.472

Source: MSM Monthly Bulletins

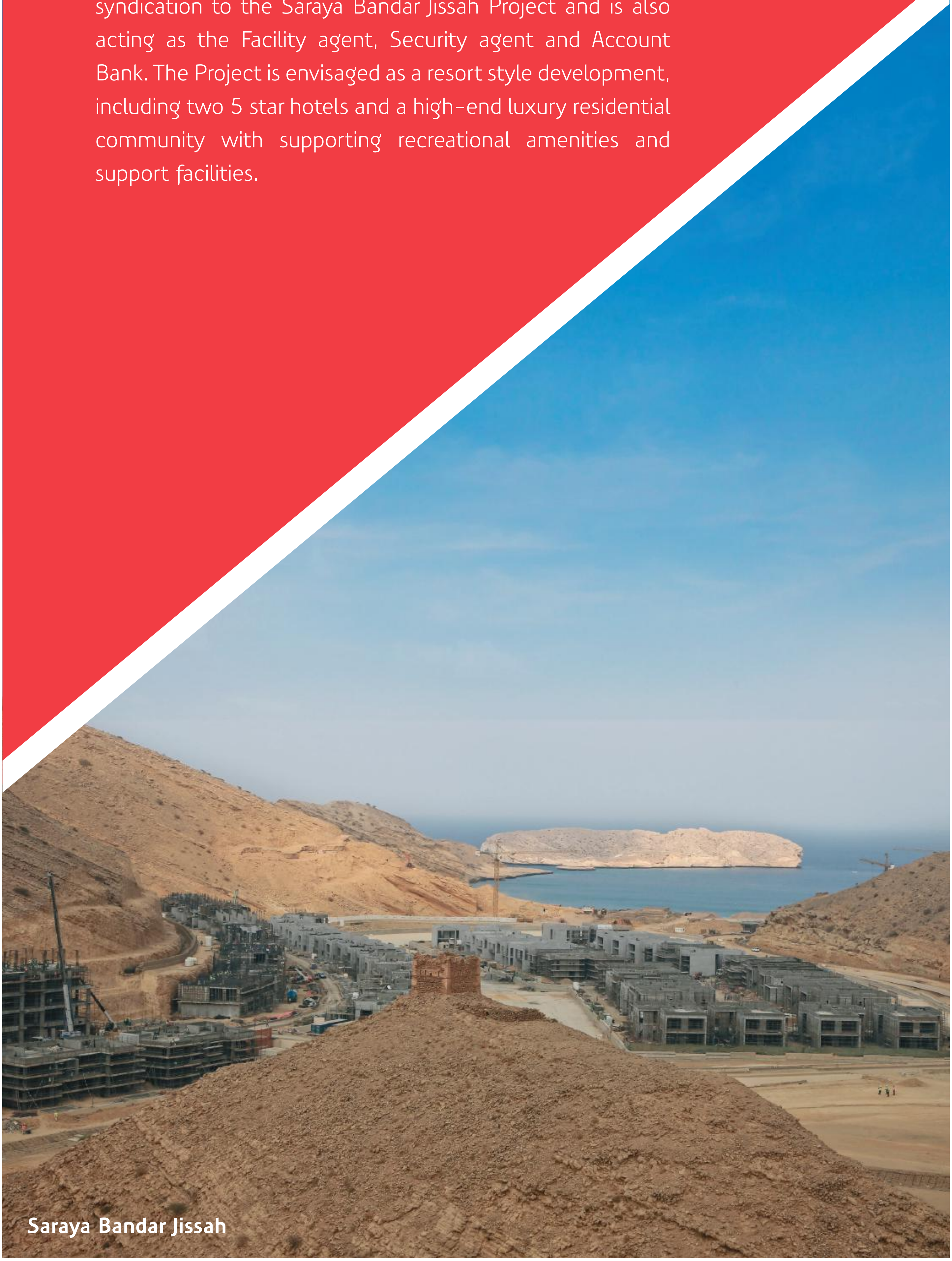
Banking and Investment index movement during 2015			
Month	Closing	Low	High
January 2015	8,021.540	7,463.320	8,135.260
February 2015	8,181.720	8,029.860	8,491.590
March 2015	7,704.640	7,513.230	8,249.600
April 2015	7,733.370	7,675.050	7,902.840
May 2015	7,713.490	7,623.260	7,865.390
June 2015	7,740.250	7,717.960	7,942.590
July 2015	8,021.050	7,729.170	8,169.430
August 2015	7,068.410	6,828.390	8,044.620
September 2015	6,893.840	6,825.710	7,083.520
October 2015	7,298.580	6,893.940	7,350.790
November 2015	6,645.790	6,645.790	7,361.910
December 2015	6,477.270	6,424.030	6,712.620

Source: MSM Monthly Bulletins

The Board acknowledges:

- Its liability for the preparation of the financial statements in accordance with the International Financial Reporting Standards;
- That it reviewed the efficiency and adequacy of internal control systems of the Bank and that it complied with the internal rules and regulations in 2015;
- That there are no material events that affect its ability to continue its operations during the next financial year.

bank muscat is one of the largest lenders to provide syndication to the Saraya Bandar Jissah Project and is also acting as the Facility agent, Security agent and Account Bank. The Project is envisaged as a resort style development, including two 5 star hotels and a high-end luxury residential community with supporting recreational amenities and support facilities.



Saraya Bandar Jissah

Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

Report on factual findings to the Board of Directors of bank muscat SAOG in respect of Basel II – Pillar III and Basel III related Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular No. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III Disclosures and Basel III related Disclosures (the disclosures) of bank muscat SAOG (the bank) set out on pages 2 to 49 as at and for the year ended 31 December 2015. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular number 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular No. BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and BM 1114 dated 17 November 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2015 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank

Ernst & Young LLC

15 February 2016
Muscat

A. Introduction and overview

Risk Management is a process by which **bank muscat** (SAOG) (the Bank) identifies key risks, applies consistent, understandable risk measures and chooses risks to accept and establishes processes to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that the Bank operates within the risk appetite levels set by its Board of Directors (Board) while various business functions pursue their objective of maximizing the risk adjusted returns. In the Bank, risk is defined as the potential for loss or an undesirable outcome in relation to expected earnings, capital adequacy or liquidity, leading to volatility in earnings. The Bank has exposure to the following core risks:

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

Risk management is the overall responsibility of Board of Directors and managed through the Board Risk Committee (BRC). Management Risk Committee (MRC) provides recommendations to the Board of Directors through BRC on the risk-reward strategy, risk appetite, policies and framework for managing various risks. The Board reviews and approves the risk management strategy and defines the risk appetite of the Bank. For the purpose of day-to-day management of risks, the Bank has established an independent Risk Management Department (RMD) which objectively reviews and ensures that the various functions of the Bank operate in compliance with the risk parameters set by the Board of Directors. The Risk Management Department acts independent of the businesses with direct reporting to the Board of Directors.

The risk appetite in various business areas is defined and communicated through an Enterprise-wide risk policy. Enterprise wide risks are managed with the objective of maximising risk adjusted returns through a risk management framework. The Bank's risk policy, approved by the Board of Directors, analyses and sets risk limits/thresholds for Credit, Liquidity, Market, Operational and other risks. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels are reported on a regular basis. This ensures prudent management of risks assumed by the Bank in its normal course of business. The risk policy is updated regularly, based on changes in regulatory guidelines, analysis of the economic trends and the operating environment in the countries where the Bank operates.

The Bank's risk management processes have proven to be effective throughout the year and are supported by a strong risk culture.The Bank's Board of Directors have remained closely involved with key risk management initiatives, ensuring the Bank's risks are effectively managed, appropriate levels of liquidity is maintained and adequate capital is held in line with the evolving requirements.

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

During the year, the Bank has been designated as Domestic Systematically Important Bank (DSIB) in Oman. The Bank has complied with all the requirements as specified by Central Bank of Oman in regard to DSIB. The Bank has in place a Board approved Recovery and Resolution Planning (RRP) document to pre-plan a process of self-propelled recovery in the extreme eventuality.

A.1. Emerging risks

One of the important constituent of the Bank's Enterprise risk management approach is to ensure that emerging risks are appropriately identified and managed within the existing Enterprise risk management framework. These practices ensure that the management is forward-looking in its assessment of risks that the organisation encounters. The risk management activities in the Bank include identification of new or evolving emerging risks which would have an impact on the Bank's operations.

The emerging risks in our assessment are discussed below:

A.1.i. Economic environment

The overall economic environment continues to be highly uncertain and volatile.

Oil prices have declined by around 30% since December 2014 and 65% since June 2014, making it the steepest drop since the 2008 global financial crisis. Sultanate of Oman's economy is highly susceptible to oil price fluctuations, with 80% of its revenues in 2015 anticipated to be from oil and gas activities. Towards the latter half of the year credit rating agency Standard & Poor's downgraded Oman's sovereign debt from A- to BBB+. The rating downgrade of Oman could have an impact on the cost of borrowings of the Bank.

In the medium term, Oman would be able to sustain the low oil prices due to its fiscal prudence over the past years, low debt-to-GDP ratio, access to strategic reserves and the ongoing government programme of rationalising subsidies and privatisation. However, given the high degree of interconnectedness between government spending and the financial sector, a prolonged low oil price could have an impact on the banking sector.

Apart from this there are other global events such as crises in the Euro area, sharp slowdown in major emerging markets led by China, geo political tensions, US rate hikes which continue to impact the economies worldwide. Though the Bank does not have high exposures to these countries but it could be indirectly impacted by these events.

A.1.ii. Regulatory environment

Certain regulatory guidelines will impact the way in which we operate, both in Oman and abroad. The Bank continues to respond to these and other developments and is working to minimize any potential business or economic impact. The following regulatory reforms have potential to increase our operational, compliance, and technology costs.

Basel Committee on Banking Supervision global standards for capital and liquidity reform (Basel III)

The Basel Committee for Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Sultanate.

Implementation of Basel III norms in the Sultanate

Capital Norms

- **1. CAPITAL CONSERVATION BUFFER**
  Implementation of 2.5% CETI capital; phase-in from 2014 to 2019
- **2. COUNTERCYCLICAL BUFFER**
  Implementation shall be in phased manner as & when domestic regulator determines requirement for introduction of the buffer
- **3. DSIB**
  bank is identified as a D-SIB. Accordingly incremental capital to be maintained with a phase-in from 2017 to 2019

Liquidity Norms

- **1. LIQUIDITY COVERAGE RATIO (LCR)**
  Phased implementation from 2015 to be fully compliant by 2019
- **2. NET-STABLE FUNDING RATIO (NSFR)**
  To be finalised in 2017 for implementation thereafter

Through appropriate risk management measures, the Bank is focussing on maintaining optimum capital and liquidity with minimal impact. The LCR and NSFR ratios as of December 2015 are as given below

	Ratio %
LCR	175.00%
NSFR	92.40%

A detailed report on the disclosures is included in Section D: Capital management.

IFRS 9

In July 2014, the International Accounting Standards Board (IAS) issued the final version of IFRS 9: Financial Instruments replacing the existing IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for

a) classification and measurement,
b) impairment
c) hedge accounting.

IFRS 9 would be effective for annual periods beginning on or after 1 January 2018, with early application permitted. There could be challenges in implementation which includes development of systems and processes, understanding the complex interactions between IFRS 9 and regulatory capital requirements and adopting the IFRS 9 Expected Credit Loss (ECL) requirements. The Bank is in the process of identifying the gaps and quantifying the impact of adopting the IFRS 9.

B. Enterprise risk management

'Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives'.

The Bank's enterprise risk management policy provides a framework for identifying, measuring, monitoring and reporting on the significant risks that the organisation face.

B.1. Risk control strategies

The Bank's enterprise-wide risk management approach is supported by a comprehensive set of risk controls. The Bank's risk policy describes each specific risk type and the mechanism for identifying, measuring, monitoring and reporting of risks and roles and responsibilities for managing risk. It sets risk limits for core risks and other risk areas through the risk appetite framework. The risk management matrix lays down the risk ownership within the Bank.

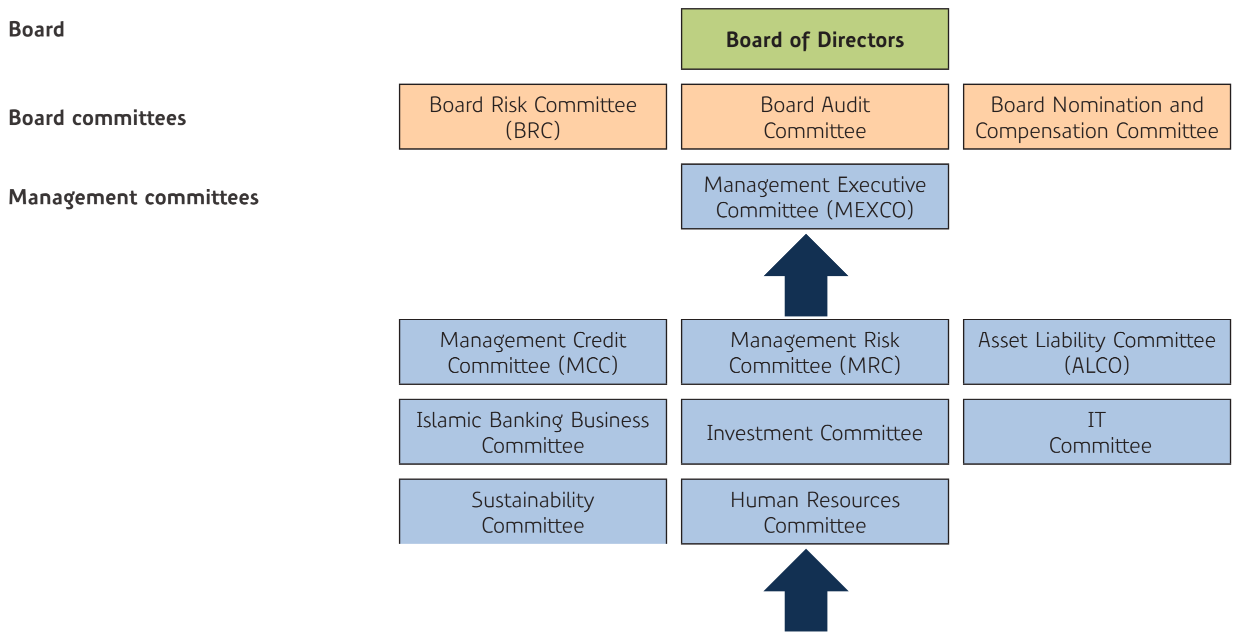
Apart from the Risk policy, various other key policies including Credit policy, Asset Liability Management policy, Treasury policy, Investment policy, Operations policy and Anti Money Laundering policy have been established on a comprehensive basis, duly approved by the Board, enabling prudential risk management. These policies lay down the process for managing risks across business lines.

B.2. Risk governance structure

The approach to managing risk is communicated throughout the organisation and supported by explicit ownership of risks and a clear allocation of responsibilities. The management of risk is guided by a number of committees in the Bank. Also the Bank has adopted industry standard of three lines of defence.

The Board committees, key management committees and three lines of defence model which are part of the risk governance structure are given below:

bank muscat risk governance structure



Defense line	1st level	2nd level	3rd level
Role	**Risk Origination**	**Risk Review**	**Assurance**
Stakeholders	Business	Risk Management Compliance	Internal Audit
Process	Sourcing risks in line with risk appetite	Facilitate risk appetite framework	Assure alignment
	Full and complete disclosure of facts/risks	Measure, monitor and report risks	Major deviations analyzed & non alignment escalated
	Pro-active post approval monitoring	Escalate deviation and concerns for action	Assurance on corrective action

The Chief Risk Officer (CRO) who is supported by heads of Credit risk, Market risk, Operational risk and Protective Services unit facilitates day to day management of risk within the Bank. International branches at Kuwait and Saudi Arabia (KSA) are administered by respective risk heads who report to CRO.

The Bank has a Management Risk Committee (MRC) to facilitate achievement of the Bank's strategic objectives within the Board approved risk appetite, without exposing the Bank to undue risks or risk concentration. CRO is the chairman of the Management Risk Committee.

Risk management is a Bank wide responsibility. The key differences in perspectives (which are also strategically complementary) between Business, Risk Management, Compliance and Internal Audit functions are stated below:

Sourcing business and to remain within the risk appetite statement is the role and responsibility of the Business function.

Risk Management and Compliance functions ensure that the Bank remains in compliance with the overall risk appetite and reports the same to Board on quarterly basis.

The Internal Audit function, independent of processes, provides assurance through independent reviews that the Bank is in compliance with the thresholds set in the risk policy and risk management systems are effective and adequate. It makes an important contribution to ensuring the effectiveness of the internal control system and reports directly to the Board.

Apart from the external review of the risk management process on a continuous basis, the Bank also conducts an internal peer review by an inter-departmental independent evaluation group. The objective of this exercise is to enhance the risk culture within the Bank. The peer feedback is used to evaluate and continuously improve the risk governance architecture of the Bank.

Disclosures pertaining to Islamic Banking window including governance structure are given in annexure.

B.3. Risk appetite

A risk appetite statement formally defines and expresses the willingness and ability of the Bank to take on certain type, amount and tenure of risk in order to pursue its strategic objectives. It is believed at the Bank that a clearly understood and articulated risk appetite statement contributes to creating value by better aligning decision-making and risk. It reflects the capacity of the Bank to sustain losses and continue to meet its obligations. It helps to reinforce a strong risk culture, which in turn is critical to sound risk management and evaluate opportunities for appropriate risk taking and act as a defence against excessive risk-taking. A sound risk culture will provide an environment that is conducive in ensuring that emerging risks that will have material impact on the Bank, and any risk-taking activities beyond the Bank's risk appetite are recognised, escalated, and addressed in a timely manner.

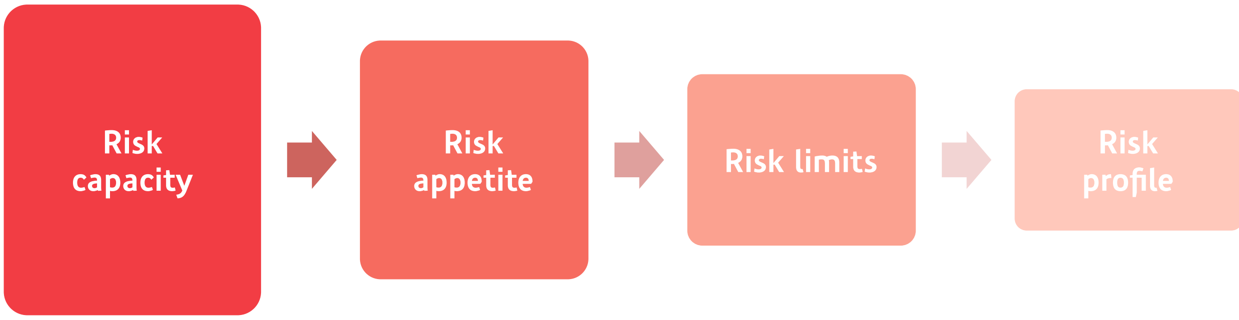
The qualitative aspects represent the structural framework of the risk appetite statement. The quantitative aspects evolve from the qualitative ones and consist of a set of limits or thresholds for certain key ratios which covers credit risk, market risk, operational risk, capitalization, liquidity and other risks of the Bank. The Bank only seeks and accepts exposure to risks that feature the possibility of earning an adequate return. Rather than avoiding risk in general, the Bank aims at optimizing its risk-return profile.
The business model of the Bank is based on fundamental principles ensuring the sustainability, prosperity, growth, and profitability of the Bank as a whole. These principles represent the qualitative aspects of the risk appetite statement. All of the Bank's business activities shall be in line with the following set of principles:

- **Regulatory:** The Bank shall always abide by the regulatory framework, which might be set either by international regulatory institutions or by local supervising authorities.
- **Reputation:** Integrity of its reputation is one of the most important success factors for any financial institution. The Bank shall always endeavour to maintain its reputation and its perception to customers and business partners.
- **Earnings:** The Bank shall maintain its ability of generating profits in order to provide an attractive dividend to its shareholders.
- **Rating:** The Bank shall retain favourable external credit ratings by adherence to strong capital adequacy ratios –Common Equity Tier 1 ratio, Tier 1 ratio, Pillar 1 ratio and Pillar 2 ratio, prudent and sustainable management practices and consistent return on capital.
- **Strategic:** All elements of the Bank's business activities must be in accordance with its self-imposed business model and strategic objectives.
- **Liquidity:** The Bank's business activities shall always support and guarantee a comfortable liquidity position. In particular, the bank shall always meet all its obligations to its depositors and creditors.

The quantitative aspects of the risk appetite framework comprise both statutory constraints and internal constraints. A violation of constraints will trigger an escalation process to the Board Risk Committee (BRC) and Management Risk Committee (MRC) along with the designated assignees to decide on appropriate remedial actions to overcome the same.

The risk appetite statement is reviewed and updated on an annual basis. The results of the periodic assessment are reported to the Board of Directors.

The risk appetite framework consists of four components which are depicted below



The framework defines the above 4 components as:

Risk capacity: The maximum level of risk the Bank can assume given its current level of resources before breaching constraints determined by regulatory capital and liquidity needs, the operational environment (e.g. technical infrastructure, risk management capabilities, expertise) and obligations from a conduct perspective, to stakeholders.
Risk appetite statement: The aggregate level and types of risk that the Bank is willing to accept or to avoid within its risk capacity, in order to achieve its business objectives and plan. It includes threshold expressed relative to earnings, capital, core risks, liquidity and reputation.

Risk limits: Quantitative measures based on forward looking assumptions that cascade the Bank's aggregate risk appetite statement to business lines.

Risk profile: Point in time assessment of the Bank's risk exposures aggregated within and across each relevant risk category.

B.4. Risk culture

The Bank has a strong risk culture which begins at the top, from Board of Directors and moves right down to the lowest level. It is supported by risk and other policies, risk appetite statement, training programs, employee orientation program, e-learning tools and direction from senior management. The Bank is committed to building and maintaining strong risk culture.

B.5. Risk measurement

Measuring risk is one of the important components of the enterprise risk management. The Bank has various tools and techniques for measuring different types of risks. The measurement techniques evaluate both the quantitative and qualitative factors to ensure they are within the threshold set under the risk appetite.

Expected loss

Expected loss is loss which is expected to occur in the normal course of business over a future period. For credit risk, it is calculated using Probability of default (PD), Loss given default (LGD) and Exposure at default (EAD). To cover the expected loss the Bank holds general provision. Please refer to section E.1.viii for more details.

Unexpected loss

Unexpected loss is the estimate of loss above the expected loss over a future period, calculated statistically and measured at a specified level of confidence. To cover the unexpected loss the Bank holds capital. For more information please refer to capital management section.

Value at risk (VaR)

Value-at-Risk is an important tool for measuring risks in the market risk portfolio. It is a statistical measure of potential loss that the portfolio may encounter due to adverse market movements at given confidence level for a given holding period. The Bank measures VaR at 99% confidence level for a ten day holding period.

Stress Value at risk (SVaR)

Stressed Value-at-Risk is a risk measure that measures the maximum possible loss at a given confidence level for given holding period, factoring stressed market conditions.

The VaR and the SVaR measures are used to have better oversight on risks emanating from the market related exposures as well as allocate capital for the Bank's market risk exposures once the bank migrates to the Internal Models Method for market risk.

For more information on VaR and SVaR refer section F.7.Risk measurement

Stress testing

Stress testing examines potential effects resulting from changes in risk drivers corresponding to exceptional but plausible adverse events, and is an important component of our risk management framework. It helps the Bank to examine its capabilities in the stress scenarios. Stress testing results are used to monitor risk profile relative to risk appetite, identifying key risks, available mitigating actions in response to adverse events and assessing the adequacy of our target capital levels.

For further details, refer to Internal Capital Adequacy Assessment Process (ICAAP) and Liquidity sections.

Along with our internal stress testing program, we also participate in regulator-required stress test exercises.

B.6. Compensation policy

In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank has outlined the relevant qualitative and quantitative disclosures in this report.

The Bank is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. The policy is aimed to attract, retain and motivate the best people in the industry as it believes that human capital is fundamental to the bank's success.

Qualitative Disclosures

The Bank has a Board appointed Nomination and Compensation Committee whose primary objectives are –

- setting the principles, parameters and governance framework for the Bank's compensation policy; and
- ensuring the Bank is equipped to meet standards of international best practice.

Material Risk Takers

The Bank has identified the members as material risk takers as their activities are considered to have a potentially material impact on the Bank's risk profile and their compensation is given in the quantitative disclosure below.

Remuneration policy

The scope of the Bank's remuneration policy extends to all employees of the Bank.

Remuneration of employees of control functions like Risk Management, Internal Audit and Compliance is independent of the business performance they oversee and the policy is designed to attract, retain and motivate the best talent in the industry. The remuneration for heads of these functions are directly designed and approved by the Board Nomination and Compensation Committee and suitable action taken.

Performance awards

Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's business plans and objective through continuous and focused performance of the employees. It uses Key Result Areas/ Performance Factors and Competencies to measure and enhance the performance of employees.

The objective of Performance Review process is to assess the employee on his/her performance against assigned key result areas and objectives. It has two key elements as follows:

- **Assessment:** Employees above certain grades & Branch Managers are assessed for their accomplishments against the specific goals set for the assessment period, which are agreed at the beginning of the year.
- **Values Assessment:** Employee is assessed on a rating scale against the Banks corporate values viz. Leadership, Innovation, Partnership, Accountability and Integrity.

At senior management levels, the overall Bank's performance is the overriding criteria while awarding performance awards. The payout is based on consideration of all aspects governing performance including the stage of business, market conditions, time horizon of risks, sustainable returns and the cyclical nature of certain businesses.

The Bank is committed to responsible compensation practices which balance reward based on performance and promoting principled behavior and actions. The compensation is designed to contribute to the Bank's objectives and encourages prudent risk taking and adherence to applicable laws, guidelines and regulations.

Quantitative Disclosures

The Nomination and Compensation committee held two meetings in 2015 and no sitting fees were paid to the members.

The key management comprises of 6 members (2014: 6 members) of the management executive committee. The below table provides details of key management compensation:

	2015 RO 00's	2014 RO 000's
Salaries and other short-term benefits	**3,659**	3,801
Post-employment benefits	**71**	66
TOTAL	**3,730**	3,867

C. Scope of application

The Bank has investments in associate Al Salam Bank, Bahrain in Bahrain and subsidiary - Muscat Capital LLC in Kingdom of Saudi Arabia. The Bank has international branches in Saudi Arabia and Kuwait and representative offices in Dubai and Singapore. Investments in associates are deducted from the capital in arriving at the Tier I and Tier II capital and the financials of subsidiary is consolidated with the Bank's financial statement. The associates referred meet the respective regulatory capital requirements. The disclosures made in this section pertain to the Bank alone.

Details of Bank's foreign branches, associates and subsidiary are as below:

Name of Entity	Country of operation	Percentage interest held by the Bank	Status	Regulator
BankMuscat SAOG	Oman, KSA, Kuwait, UAE and Singapore	100.00	Parent Company with foreign branches and representative offices	Central Bank of Oman, Saudi Arabian Monetary Agency, Central Bank of Kuwait, Central Bank of UAE and Monetary Authority of Singapore respectively.
Muscat Capital LLC	KSA	99.99	Subsidiary	Saudi Capital Market Authority
Al Salam Bank	Bahrain	14.74	Associate	Central Bank of Bahrain

An outline of differences in the basis of consolidation for accounting and regulatory purposes is explained below:

	Basel III	IFRS
Principle	Treatment is dependent on the nature of activity of the entity	Treatment is the same for all entities, not dependent on activity
Subsidiaries conducting banking, securities or financial services, as defined	Consolidated[a]	Consolidated
Other Subsidiaries	Deducted[b]	Consolidated

a. Entire risk-weighted exposures amounts of the subsidiary are consolidated with the Bank's risk-weighted exposures

b. Investment in the entity is deducted from the Bank's consolidated capital and reserve funds and the related assets are removed from the consolidated balance sheet

D. Capital management

D.1.a. Capital structure - As per Basel III regulations

The Central Bank of Oman has issued final guidelines on the implementation of the new capital norms as well as the liquidity norms along with the phase-in arrangements and reporting requirements.

The Bank remains strongly capitalised and is ahead of the transitional phase-in arrangements. The appended tables are part of the disclosures under the new guidelines. While the Bank is in compliance with the Liquidity Coverage Ratio as proposed, the revised guidelines on the Net-Stable Funding Ratio is awaited for implementation. The liquidity ratios are reported to the Bank's ALCO and the Central Bank on monthly basis.

The Bank's regulatory capital as per Basel III regulations is grouped into:

- Common Equity Tier 1 (CET1) capital will includes common shares, share premium resulting from the issue of common shares, retained earnings net of any interim losses and net of any interim and/or final dividend proposed/declared, other disclosed reserves, qualifying minority interest (i.e. CET 1 capital instruments issued by consolidated subsidiaries of the bank held by third parties.) and less regulatory adjustments applied in the calculation of CET 1 Capital.

- Additional Tier 1 capital shall consists of capital instruments issued by the Bank that meet the criteria specified for additional tier 1 capital, and not included in CET 1 capital, share premium resulting from the issue of Additional Tier 1 instruments, qualifying Additional Tier 1 capital instruments issued by consolidated subsidiaries of the bank held by third parties and less regulatory adjustments applied in the calculation of additional Tier 1 Capital.

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

1) Reconciliation between Published Financial Statements and Regulatory scope of consolidation

	As per financial statements	Under regulatory scope of consolidation	Ref.
	As at 31-Dec-15 in RO '000	As at 31-Dec-15 in RO '000	
Assets			
Cash and balances with CBO	2,412,052	2,412,052	
Due from banks	825,520	825,520	
Investments	1,465,044	1,465,041	
- Designated as fair value through profit or loss	51,227	51,227	
Investment in associates (CET1 & T2 adjustment)	47,746	47,746	n
Non-Stategic Investment (CET1 adjustment)	2,113	2,113	m
Loans & Advances/Islamic Financing Receivables- Net, Of which:	**7,496,186**	**7,496,186**	
- Loans and advances to domestic banks		-	
- Loans and advances to non-resident banks		165,971	
- Loans and advances to domestic customers		6,712,403	
- Loans and advances to non-resident for domestic operations			
- Loans and advances to non-resident for operations abroad		73,455	
- Loans and advances to SMEs		195,347	
- Financing from Islamic banking window		646,702	
- Provision against Loans and Advances, Of which:			
- Specific provision and Reserve interest & profit		(192,596)	
- General Provision -Amount eligible for Tier 2		(105,096)	l
Fixed assets	**76,621**	**76,621**	
Other assets:	**168,020**	**168,020**	
Acceptances	75,418	75,418	
Positive value of Derivatives	20,013	20,013	
Deferred Tax Asset (CET1 adjustment)	672	672	g
Accrued Interest & Others	71,917	71,917	
Total Assets	**12,544,529**	**12,544,529**	
Capital & Liabilities			
Paid-up Capital, Of which:			
Amount eligible for CET1			
Paid-up share capital	229,183	229,183	a
Share Premium	464,951	464,951	b
Legal reserve	76,394	76,394	d
General reserve	169,808	169,808	e
Subordinated Loan Reserve	138,600	138,600	f
Retained earnings	238,696	238,696	c
Proposed Cash Dividend	57,296	57,296	
Cumulative loss on Fair Value (CET1 adjustment)		(2,898)	h
Foreign Currency Translation Reserve (CET1 adjustment)	(1,820)	(1,820)	i
Amount eligible for Tier 2			
Cumulative gains on fair value	19,264	22,162	
- Positive MTM after applying %55 haircut		9,973	o
Subordinated liabilities	240,450	240,450	k
Mandatory Convertible Bonds	94,655	62,239	j
Mandatory Convertible Bonds - Non Qualifying		32,416	
Reserves & Surplus			
Revaluation reserve	5,305	5,305	
Cash Flow Hedge reserve	(718)	(718)	p
Total Capital	1,732,064	1,732,064	
Deposits from banks	2,859,563	2,859,563	
Customer deposits	7,363,448	7,363,448	
Certificates of deposits	-	-	
Borrowings in the form of bonds and Notes	191,185	191,185	
Other liabilities	369,699	369,699	
Taxation	28,570	28,570	
Total Capital & Liabilities	**12,544,529**	**12,544,529**	

Table 4			
Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2017)	**Amount**	**AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT**	
Common Equity Tier 1 capital: instruments and reserves			
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	694,134		a+b
Retained earnings	238,696		c
Accumulated other comprehensive income (and other reserves)	384,802		d + e + f
Common Equity Tier 1 capital before regulatory adjustments	**1,317,632**	**-**	
Common Equity Tier 1 capital: regulatory adjustments			
Prudential valuation adjustments	5,436		h + i + p
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	672		g
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	39,887	9,972	m,n
Total regulatory adjustments to Common equity Tier 1	**45,995**	**9,972**	
Common Equity Tier 1 capital (CET1)	**1,271,637**	**(9,972)**	
Additional Tier 1 capital: instruments			
Additional Tier 1 capital before regulatory adjustments	**0**	**0**	
Additional Tier 1 capital: regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 capital	**0**	**0**	
Additional Tier 1 capital (AT1)	**0**	**0**	
Tier 1 capital (T1 = CET1 + AT1)	**1,271,637**	**(9,972)**	
Tier 2 capital: instruments and provisions			
Directly issued qualifying Tier 2 instruments plus related stock surplus	62,239		j
Directly issued capital instruments subject to phase out from Tier 2	82,215	19,635	k-f
Provisions	115,069		l+o
Tier 2 capital before regulatory adjustments	**259,523**	**19,635**	
Tier 2 capital: regulatory adjustments			
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	9,972	(9,972)	m,n
Total regulatory adjustments to Tier 2 capital	**9,972**	**(9,972)**	
Tier 2 capital (T2)	**249,551**	**29,607**	
Total capital (TC = T1 + T2)	**1,521,188**	**19,635**	
Total risk weighted assets	**9,447,263**		
Of which: Credit risk weighted assets	8,347,170		
Of which: Market risk weighted assets	413,352		
Of which: Operational risk weighted assets	686,741		
Capital Ratios			
Common Equity Tier 1 (as a percentage of risk weighted assets)	13.46%		
Tier 1 (as a percentage of risk weighted assets)	13.46%		
Total capital (as a percentage of risk weighted assets)	16.10%		
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted asstes)	5.84%		

3) Disclosure template for main features of regulatory capital instruments

1	Issuer	Covertable bond B -Year 2013	Covertable bond C- Year 2014	US $ Subordinated Debt	OMR Denominated Subordinated Debt	Paid-up share capital
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	MSM code: BMBC CUSIP: EJ6024495	MSM code: BMBC ISIN : OM0000004867		CUSIP: EH8704403	MSM code: BKMB
3	Governing law(s) of the instrument Regulatory treatment	CMA Oman Tier 2Capital	CMA Oman Tier 2Capital	English Law Tier 2 Capital	CMA Oman Tier 2 Capital	CMA Oman CET1 Capital
4	Transitional Basel III rules	Tier2 Capital	Tier2 Capital	Tier2 Capital	Tier2 Capital	CET1 Capital
5	Post-transitional Basel III rules	Tier2 Capital	Tier2 Capital	Tier2 Capital	Tier2 Capital	CET1 Capital
6	Eligible at solo/group/group & solo	Group	Group	Group	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Covertable bond	Covertable bond	Subordinated Debt	Subordinated Debt	Paid-up share capital
8	Amount recognised in regulatory capital*	30.275	31.964	45.815	36.400	229.183
9	Par value of instrument	0.100 baisa	0.100 baisa	NA, debt instrument	NA, debt instrument	0.100 baisa
10	Accounting classification	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option	Liability – fair value option
11	Original date of issuance	21-Mar-13	20-Mar-14	12-Jan-12	Various - Refer Annexure I	Various
12	Perpetual or dated	Dated	Dated	Dated	Dated	Prepetual
13	Original maturity date	20-Mar-16	20-Mar-17	15-Oct-21	Various - Refer Annexure I	Various
14	Issuer call subject to prior supervisory approval	No	No	No	No	No
15	Optional call date, contingent call dates and redemption amount	NA		NA	NA	NA
16	Subsequent call dates, if applicable	NA		NA	NA	NA
	Coupons / dividends					
17	Fixed or floating dividend/coupon	Fixed	Fixed	Floating	Fixed	Floating
18	Coupon rate and any related index	4.5% p.a.	4.5% p.a.	3.75 + Libor	Various - Refer Annexure	NA
19	Existence of a dividend stopper	No	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	
23	Convertible or non-convertible	Convertible	Convertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger (s)	On maturity, the bonds will be converted to ordinary shares of the Bank by using a "conversion price" which will be calculated by applying 20% discount to 3 month average share price of the Bank on the Muscat Securities Market prior to the conversion.	On maturity, the bonds will be converted to ordinary shares of the Bank by using a "conversion price" which will be calculated by applying 20% discount to 3 month average share price of the Bank on the Muscat Securities Market prior to the conversion.	NA	NA	NA
25	If convertible, fully or partially	Fully	Fully	NA	NA	NA
26	If convertible, conversion rate	20% discount to 3 month average share price of the Bank on the Muscat Securities Market prior to the conversion.	20% discount to 3 month average share price of the Bank on the Muscat Securities Market prior to the conversion.	NA	NA	NA
27	If convertible, mandatory or optional conversion	Mandatory	Mandatory	NA	NA	NA
28	If convertible, specify instrument type convertible into	Common Equity Tier 1	Common Equity Tier 1	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	BM equity shares	BM equity shares			
30	Write-down feature	No	No	No	No	No
31	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Sub-Debt	Sub-Debt	Senior Debt	Senior Debt	Sub-Debt
32	If write-down, write-down trigger(s)	NA	NA	NA	NA	NA
33	If write-down, full or partial	NA	NA	NA	NA	NA
34	If write-down, permanent or temporary	NA	NA	NA	NA	NA
35	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA
36	Non-compliant transitioned features	None	None	None	None	None
37	If yes, specify non-compliant features	NA	NA	NA	NA	NA

*Net of reserves and haircut				
Break up of OMR 175 million denominated Subordinated Debt				
	Amt in RO million	Interest rate	Issue Date	Maturity
1	41.00	5.757%	12/18/2011	11/30/2018
2	12.00	5.757%	12/20/2011	11/30/2018
3	23.00	5.757%	12/25/2011	11/30/2018
4	15.80	5.757%	12/28/2011	11/30/2018
5	8.00	5.500%	1/28/2012	11/30/2018
6	0.20	5.500%	12/28/2011	11/30/2018
7	75.00	8.000%	5/5/2009	5/15/2016
	175.00			

D.1.b. Capital structure– As per Basel II regulations

The capital structure as per Basel II regulations issued by Central bank of Oman is provided below for monitoring purposes. The Bank's regulatory capital as per Basel II regulations is grouped into two tiers:

- Tier 1 capital, which includes Common equity, share premium, distributable and non-distributable reserves and retained earnings after deductions for goodwill and fifty percent of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes.
- Tier II capital, which includes qualifying subordinated liabilities (net of reserves), collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale to the extent permitted after deductions for fifty percent of carrying value of investments in associates.

Various limits are applied to elements of the capital base. The qualifying tier II capital is limited to 100% of tier I capital; qualifying subordinated liabilities is limited to 50% of tier I capital; and amount of collective impairment allowances that may be included as part of tier II capital is limited to 1.25 percent of the total risk-weighted assets. The Bank's regulatory capital is as below:

Capital Structure	2015 RO'000	2014 RO'000
Share capital	229,183	218,269
Share Premium	464,951	464,951
Legal reserve	76,394	72,756
General reserve	169,808	169,808
Subordinated Loan reserve	138,600	118,600
Retained Profit *	238,696	187,833
	1,317,632	**1,232,217**
Less:		
Cumulative loss on fair value	(2,898)	(2,132)
Cumulative loss on Cash Flow Hedge	(718)	(576)
Deferred tax Asset	(672)	(714)
Foreign currency translation reserve	(1,820)	(925)
Non-Strategic Investment in Banks (50%)	(1,057)	(1,358)
Investments in unconsolidated banking, financial companies and associates (50%)	**(23,873)**	**(24,209)**
Tier I Capital	1,286,594	1,202,303
Tier II Capital		
Cumulative change in fair value (45%)	9,973	10,697
General Loan loss impairment	105,096	97,984
Subordinated liabilities (net of reserves)	**101,850**	**121,850**
Mandatory convertible Bonds	62,239	62,239
	279,158	292,770
Less:		
Non-Strategic Investment in Banks (50%)	**(1,057)**	**(1,358)**
Investments in unconsolidated banking, financial companies and associates (50%)	**(23,873)**	**(24,209)**
Tier II Capital	**254,228**	**267,203**
Total Capital available	**1,540,822**	**1,469,506**

* Retained profit for the year 2015 is after proposed cash dividend adjustment of RO 57.30 million (2014: RO 54.57 million)

D.2. Capital adequacy

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

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

The Bank's regulator, the Central Bank of Oman (CBO) sets and monitors capital requirements for Bank's in the Sultanate of Oman. CBO requires banks to maintain a minimum ratio of 12.625% of total capital to risk-weighted assets. This includes the capital conservation buffer of 0.625%.

The Bank determines regulatory capital as recommended by the Basel II & III capital accord and in line with the guidelines of Central Bank of Oman. The Bank has adopted Standardised approach for Credit and Market Risk and Basic Indicator approach for Operational Risk.

In preparation for migration to advanced approaches, the Bank has implemented the models for measurement of risk in credit and market risk areas. The Bank has framed models for measurement and management of operational risk. The enhanced process, models and model outputs are used in the decision making process of the Bank to manage risks.

The summary of capital adequacy ratio of the Bank as per Basel II is as below:

	Gross Bal. (Book Value)	Net Balances (Book Value)*	Risk Weighted Assets
	RO'000	RO'000	RO'000
On-balance sheet items	12,655,039	11,428,831	6,883,860
Off -balance sheet items	3,886,911	3,886,911	1,415,042
Derivatives			48,268
Total Credit risk			**8,347,170**
Total Market Risk			413,352
Total Operational Risk			686,741
			9,447,263
Capital Structure			
Tier 1 Capital			1,286,594
Tier 2 Capital			254,228
Total Regulatory Capital			**1,540,822**
Capital Requirement for Credit Risk			1,001,660
Capital Requirement for Market Risk			49,602
Capital Requirement for Operational Risk			82,409
Total Required Capital			**1,133,671**
Tier 1 Ratio			**13.62%**
Total Capital Ratio			**16.31%**
* Net of provisions & reserved interest & eligible collaterals			

The comparative difference between the gross book value of on-balance sheet and off balance sheet items and the financial statements is due to treatment of investment in associates, non-strategic investment in banks, acceptances and commitments in capital adequacy calculation.

Target capital adequacy

Target capital level for the Bank is set in relation to the minimum regulatory requirements set by the Central Bank of Oman or the assessed capital requirement as per Internal Capital Adequacy Assessment Process (ICAAP), whichever is higher. Based on the expected return on capital and future growth prospects together with an intention of optimising the shareholder's return, the Bank sets a target capital level. For 2015, the Bank has a target capital level, as per the Board approved risk appetite statement above the minimum regulatory requirement of 12.625% which is comfortably met. The capital requirement would increase in phases in line with the Central Bank's Basel III implementation guidelines.

D.3. Capital raised

During the year 2015, the Bank operated above the minimum regulatory capital adequacy level of 12.625%. The details of additional capital raised in 2015 areas below:

- The Bank generated internal capital of RO 120.884 million after payment of RO 54.567 million cash dividend approved for the year 2014.

D.4. Capital allocation

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

D.5. Economic capital

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

In order to determine the Bank's capability to withstand stressed conditions and examine the resilience of the Bank's risk-bearing capacity, in addition to the base case; various stress scenarios of high, medium and low impact are examined. Amongst the various sensitivity and scenarios analysis, it assumes

- Prolonged recession and incorporates a deterioration in credit quality, increased Interest rate risk in banking book (IRRBB) and market risk as well as a decrease in retained profits;
- Default of top non-government exposures;
- Liquidity stress testing;
- Decline in value of MSM stocks.

The results of the stress testing shows that the Bank would continue to meet regulatory ratios and adhere to risk policy norms even in periods during stress.

The forward looking assessment of capital adequacy has helped the Bank to plan ahead for capital management. In line with the assessment the Bank raised capital during the year as elaborated in D.3.

Risk exposure

At the macro level, Bank has exposure to the following risks.

- Credit risk
- Market risk
- Liquidity risk
- Operational risk and
- Other residual risks

E. Credit risk

E.1.i. Introduction

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

- Cross border risk
- Counterparty bank risk
- Settlement risk

The function of credit risk management is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Bank's risk exposure.

Credit risk management process of the Bank begins with the risk policy, which clearly defines parameters for each type of risks assumed by the Bank. The Bank has set for itself clear and well defined limits to address different dimensions of credit risk including credit concentration risk, single borrower limit. Compliance, with the various parameters set in the risk policy, is reviewed on a regular basis and exceptions, if any are reported to enable remedial actions.

The Bank addresses credit risk through the following process:

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off, are governed by the Bank's credit manual which is reviewed by Risk Management Department and approved by appropriate approval authorities. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'.

- All corporate lending proposals, where the proposed credit limit for a borrower or related group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.

- All corporate relationships are reviewed at least once a year. Retail portfolio, including credit cards and mortgage portfolio, is reviewed on a portfolio basis at a product level at least once a year.

- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Bank's risk policy. The analysis of large customer at group level is conducted on a regular basis. The lending division performs account updates, monitoring and management of exposures on a continuous basis. Industry and sectoral analysis and bench mark reports are done as a part of credit risk management process.

- Credit exposures are risk rated to provide support for credit decisions. The portfolio is analysed based on risk grades and risk grade migration to focus on management of prevalent credit risk.

- Retail portfolio is rated using a score card.

E.1.ii. Counterparty credit risk (CCR)

E.1.ii.a. Country risk

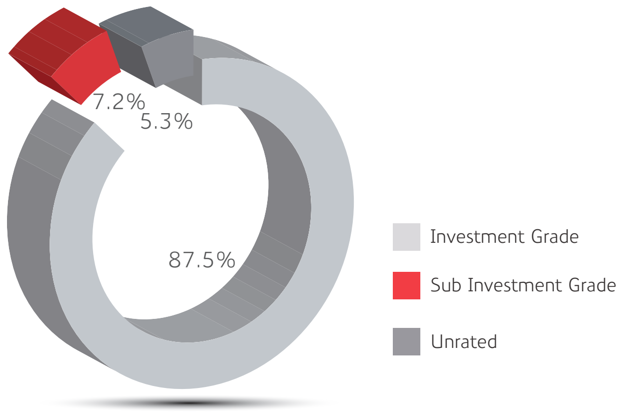
Country risk or Cross-border risk arises from the uncertainty relating to a client or counterparty, including the relevant sovereign, not being able to fulfil its obligations to the Bank, due to political/ geo-political or economic reasons. The Bank assesses the counterparty credit risk or default risk at the country level as well as at the individual bank level.

Cross-border counterparty credit risk in the Bank is managed in the same manner as credit risk. The Bank supplements the external credit rating with an internal due diligence process while setting up exposure limits. The exposure limits are approved by the Board of Directors. The Bank monitors all cross border exposures on a continuous basis and takes pre-emptive corrective action based on evolving market conditions.

The Bank's overseas exposures are governed by the guidelines issued by CBO in this respect.

The rating distribution wise cross border exposure

Country rating distribution	%
Aaa to Aa3 (0,1)	31.2
A1 to A3 (2)	28.1
Baa1 to Baa3 (3)	25.8
Ba1 to Ba3 (4)	9.6
B1 to B3 (5)	3.4
Below B3 (6&7)	1.7
Unrated	0.2
Total	**100.0**



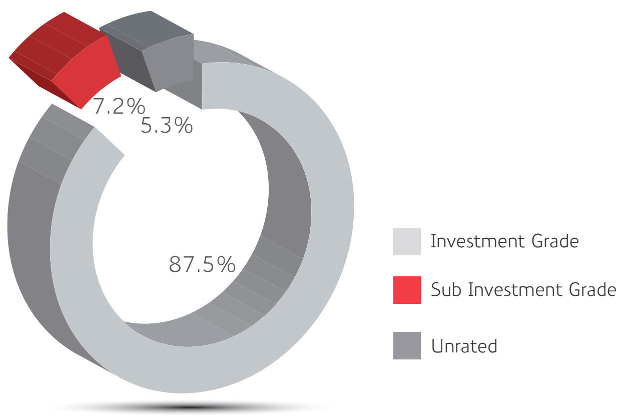
E.1.ii.b. Counterparty bank risk

Counterparty bank risk is the risk arising from the failure of a counterparty bank to honour its commitments to the Bank. Here again the Bank supplements the external credit rating with an internal due diligence process while setting up exposure limits. The exposure limits are approved by the Board of Directors. The Bank monitors all interbank exposures on a continuous basis and takes pre-emptive corrective action based on evolving market and credit conditions.

The Bank further executes Credit Support Annex (CSA) agreements with major counterparty banks to mitigate its exposure risks arising out of non-linear products like derivatives. This agreement enables active exchange of margins based on the current market value of the outstanding trades, thereby helping to reduce credit exposures.

The rating distribution wise exposure to counterparty banks as at the end of December 2015:

Bank Rating Distribution	%
Aaa to Aa3	9.65
A1 to A3	45.17
Baa1 to Baa3	32.69
Ba1 to Ba3	6.26
B1 to B3	0.82
Below B3	0.11
Unrated	5.30
Total	**100.00**



E.1.iii. Settlement risk

Settlement risk is the risk of loss due to the failure of counterparty to honour its obligation to deliver cash, securities or other assets as contractually agreed. The Bank has a comprehensive reconciliation and deal matching process to mitigate non settlement risk by counter parties.

E.1.iv. Loans, advances and Islamic financing receivables

Loans, advances and Islamic financing receivables form approximately 60.8% of the Bank's total assets. The Bank's credit risk in loans, advances and Islamic financing receivables are measured, monitored and managed against various parameters.

E.1.iv.a. Conventional Banking

E.1.iv.a.I. Corporate Banking

Corporate lending accounts for approximately 60.9% of the total loan book of the Bank. While the day-to-day management of corporate credit and the asset quality is the responsibility of the business line management, credit proposals/ renewals above certain threshold are independently reviewed by the Risk Management Department, whose recommendations form an important input to the decision making process. Every relationship is reviewed individually once a year or more frequently, if situation so warrants.

The risk policy ensures that the Bank's lending is targeted and distributed over various economic sectors. To restrict concentration risk in the portfolio the Bank has various limits viz. sectoral, substantial exposure limit, cross border lending etc. in place. All exposures, which include both funded and non-funded, for the year 2015 were within these prescribed limits. Detailed sector analysis is done every year and reports submitted to the Management / Board of Directors on emerging trends to aid the lending decisions.

Using globally renowned risk rating software, the Bank does risk rating of its corporate borrowers based on their financial position as reflected in their latest audited financial statements and other relevant subjective parameters as evaluated by the concerned relationship managers. The risk rating process is centralised in the Risk Management Department to provide objectivity and ensure uniformity of the rating process. In forming an opinion on the corporate proposals/ renewals the borrower's risk rating, collaterals, pricing and other relationship are considered. The risk rating of the borrowers are back tested and calibrated to ensure robustness of the rating model. Portfolio and migration analysis based on risk rating are carried out annually. Downward migrations are escalated for review and necessary mitigating actions.

E.1.iv.a.II. Retail Banking

Retail Banking is guided and administered by the retail lending policy. Personal loans and residential mortgage loans account for 29.76% and 9.3% of the loan book. Personal loans in the Bank are largely granted against confirmed assignment of salaries from employers approved by the Bank. Residential housing loans are granted against mortgage of the underlying properties and confirmed by assignment of salaries from approved employers. The approved employers list is regularly reviewed and updated based on the financial profile of the company and other relevant factors, which includes their profile as stable employers.

The risk management review of retail business is achieved through a product-wise portfolio review. Portfolio review analyses the risk prevalent in the retail loans post approval and disbursement. A combination of robust lending policy, loan application process and retail credit control enables mitigation of risk at the pre-approval stage. The loan application process mitigates credit risk by evaluating the applicant's ability and the intention to repay the loan.

The Bank uses score card for evaluating retail customers and rank ordering them. The retail score card brings in objectivity in decision making and helps to ensure centralized, uniform, more consistent and reliable decision management across the bank. It also helps in enhancing the credit quality of the retail portfolio by better prediction of credit losses, management's ability to react to changes fast and accurately and to measure and forecast impact of policy decisions.

E.1.iv.b. Islamic Banking

Islamic Banking is guided and administered by separate Islamic Banking Policy. Retail Islamic financing receivables including mortgage accounts for 57.9% of the receivable book, while Corporate Islamic financing receivables accounts for 42.1% of the receivables.The Bank follows the same processes and controls for managing credit risk in retail and corporate Islamic financing which it follows for conventional banking.

E.1.v. Collateral management

The Bank employs a range of policies and procedures to mitigate credit risk. The credit risk mitigants include collaterals like

- lien on deposits
- securities
- real estate
- inventories
- assignment of receivables
- guarantees
- cash or acceptable securities for interbank counterparties

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

The Bank executes Credit Support Annex (CSA) with major counterparty banks to mitigate credit risk arising out of change in the value of underlying for the derivative exposures. The Treasury Middle office undertakes daily valuation of all the derivative deals and raises appropriate margin calls.

E.1.vii. Impairment policy

All loans, advances and Islamic financing receivables of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. These loans, advances and Islamic financing receivables are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The Bank adopts a rigorous standard for identification, provisioning and monitoring of the non-performing loans and Islamic financing receivables towards an eventual recovery. Every problem account is reviewed to evaluate compliance to laid down lending norms, arrive at an appropriate grade commensurate with the risk and incorporate the lessons, if any, into Bank's lending guidelines. Primary responsibility for identifying problem accounts and classifying those rests with business lines. Supervisory responsibility to ensure that the accounts are reviewed and classified in line with the Bank's credit policy rests with Risk

Management Department. Line management shall ensure that the downgrading of accounts is gradual and appropriate measures have been initiated at each level of classification. Counterparties which on the basis of the risk rating system demonstrate the likelihood of problems are identified well in advance to effectively manage the credit exposure and optimize the recovery. The motive of this early warning system is to address potential problems while adequate options for action are still available. All possible help is extended to those customers in the watch list, which will enable them to stay in the 'Standard' category. The Bank has a specialist remedial credit unit for Corporate and SME portfolio to manage problem loans, both for conventional and Islamic banking. This unit provides assistance and advice to customers to recover from problem situations and aid recoveries. The Bank has a robust collection system with dedicated resources to follow-up on past due loans, both for conventional and Islamic banking, so that they don't fall under the NPA category. To handle the NPA of the retail loan portfolio, both for conventional and Islamic banking, the Bank have a dedicated recovery unit.

The following table details the criteria used for categorising of exposure in to various categories:

Sl. no.	Category	Retail - Loans & Islamic financing receivable	Commercial - Loans & Islamic financing receivable (*)
1	Standard	Meeting all the payment obligations or remain past due for less than 60 days	Loans & financing receivables having no financial weaknesses and are not classified in any of the other four categories
2	Special Mention	Remain past due for 60 days or more but less than 90 days	
3	Substandard	Remain past due for 90 days or more but less than 180 days	
4	Doubtful	Remain past due for 180 days or more but less than 365 days	
5	Loss	Remain past due for 365 days or over	

(*) Commercial loans & Corporate Islamic financing receivable are classified into various risk categories both on the basis of quantitative and qualitative parameters. The quantitative parameter i.e. payments past due for a specified number of days, are considered only as a threshold. Loans which exhibit early signs of defaults are appropriately classified, notwithstanding the fact that the loans are not past due for the period specified under different categories of risk classification.

The Bank makes provision for bad and doubtful debts promptly when required in line with the conservative provisioning norms it has set for itself. The Bank arrives at the provisioning requirement both under IFRS and regulatory guidelines and maintains provision whichever is higher. The Bank makes adequate provision against non-performing credit exposures.

In addition to the above, the Bank makes a specific provision on restructured loans which are under standard and special mention loan category as per regulatory requirement. The Bank also makes a general loan loss provision on the standard and special mention portfolio equivalent to 2% of retail lending portfolio and 1% of corporate banking portfolio. The Bank has independently calculated general loan loss provision based on internally developed models. The general provisions held in the books are well above the assessed requirements.

The restructured or rescheduled loans are upgraded only after satisfactory performance of one year from the date of the first payment of interest or principal, whichever is earlier, under the rescheduled/ renegotiated terms.

The remedial action in case of classified advances is aimed at recovering maximum salvage value through enforcement of collateral and guarantees. No outstanding facilities may be written off until it has been classified as doubtful or loss and all recovery options exhausted. This is to prevent rapid downgrading and writing off of overdue accounts without the benefit of any appropriate remedial measures. All write-offs above a threshold limit are approved by the Board of Directors.

E.1.viii. Expected loss

The Bank has been taking several steps to bolster the risk management framework. The Bank has invested substantial resources to ensure that it deploys the industry best practices to measure and manage the underlying risks. The Bank has developed various internal models to accurately measure the risk for different types of assets. To quantify the credit risk and monitor the credit quality of the portfolio, the Bank calculates expected loss for its credit portfolio. The section below explains the risk measurement approach adopted by the Bank for credit risk management.

Definitions:

- **Probability of default (PD):** It is the default probability of a borrower over a one-year period.
- **Loss given default (LGD)**: It is the magnitude of loss on a facility and is calculated as (1 – recovery rate).
- **Exposure at default (EAD):** The amount the borrower owes at the time of default in relation to a facility extended to the obligor.
- **Expected losses (EL):** The amount of loss the Bank expects to recognize in its loan portfolio within one year on its non-classified portfolio.

Expected loss is a function of probability of default and loss given default. The Bank uses various statistical models to measure each of these components and arrive at expected loss for its credit portfolio.

The credit portfolio of the Bank is divided into various segments for the purpose of risk assessment and measurement. The Bank maintains various models to predict probability of defaults of such segments. The segmentation is based on the Bank's approach to measure the underlying risks of each segment and maximize the credit portfolio coverage covered by models. The Bank maintains internal models for the below segments:

1. Retail lending
2. Corporate lending
3. Project finance
4. High Net worth individuals
5. Small and Medium enterprises
6. Financial Institutions

Probability of default (PD):
The Bank has various models to arrive at borrower rating which is then used to arrive at a probability of default. The borrower rating is based on both financial as well as non-financial factors of the customer.

The Bank has developed a master scale to map all of its asset classes and have a uniform measure of probability of default. The scale has seven performing grades and three non-performing grades. Each of the performing grades are further divided into three sub grades using modifiers (+/-) to further differentiate between borrowers credit worthiness. Borrower grade means a rating within the borrower rating scale of the Bank's rating system representing an assessment of the risk of default of the exposures, assigned on the basis of a specified and distinct set of internal rating criteria and from which estimates of probabilities of default (PD) are derived.

The PD scale of the bank is as follows:

No of Grades	Rating Grade	Lower bound PD	Upper bound PD	PD Mid point	CBO Regulatory Grade	Moody's rating equivalent
1	1+	0.00%	0.02%	0.01%	Standard	Aaa
2	1	0.02%	0.04%	0.03%	Standard	Aa1/Aa2
3	1-	0.04%	0.07%	0.06%	Standard	Aa3
4	2+	0.07%	0.09%	0.08%	Standard	A1
5	2	0.09%	0.10%	0.09%	Standard	A2
6	2-	0.10%	0.15%	0.13%	Standard	A3
7	3+	0.15%	0.20%	0.18%	Standard	Baa1
8	3	0.20%	0.25%	0.23%	Standard	Baa2
9	3-	0.25%	0.31%	0.28%	Standard	Baa3
10	4+	0.31%	0.44%	0.38%	Standard	Ba1
11	4	0.44%	0.57%	0.51%	Standard	Ba1
12	4-	0.57%	0.74%	0.66%	Standard	Ba1/Ba2
13	5+	0.74%	0.95%	0.85%	Standard	Ba2
14	5	0.95%	1.21%	1.08%	Standard	Ba2
15	5-	1.21%	1.50%	1.36%	Standard	Ba2
16	6+	1.50%	3.45%	2.48%	Standard	Ba3/B1
17	6	3.45%	6.81%	5.13%	Standard	B2
18	6-	6.81%	12.08%	9.45%	Standard	B3
19	7+	12.08%	14.66%	13.37%	Standard	Caa1
20	7	14.66%	19.90%	17.28%	Standard	Caa2
21	7-	19.90%	29.54%	24.72%	Standard	Caa3
22	8	-	-	-	Substandard	Substandard
23	9	-	-	-	Doubtful	Doubtful
24	10	-	-	-	Loss	Loss

Loss given Default (LGD):

The loss given default scale represents the facility grade. Facility grade means a rating within the facility rating scale of the Bank's rating system representing an assessment of the loss given default to which exposures to borrowers are assigned.

The models are based on the Bank's historic default and recovery data.

The LGD master scale of the bank is as follows:

Grade	A	B	C	D	E	F	G	H	I	J	K
Lower bound	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%	45.0%	50.0%
Upper bound	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	35.0%	40.0%	45.0%	50.0%	100.0%
Mid point	2.5%	7.5%	12.5%	17.5%	22.5%	27.5%	%32.5	37.5%	42.5%	47.5%	75.0%

Expected Loss:

Expected loss grade for an exposure is expressed as a product of a probability of default (PD), which describes the likelihood that a borrower will default, and a loss-given-default (LGD) parameter, which describes the loss rate on the exposure in the event of default

bank muscat's EL matrix is based on 21 PD and 11 LGD grades and consists of 231 values (21 x 11).

The master scale provides information about the creditworthiness of borrower and the quality of collateral at the same time. It also allows comparison of deals with different risk profiles and pricing the risk accordingly. For example, a deal rated as 5B (high PD, Low LGD) and a deal rated as 3H (low PD, high LGD) have roughly the same level of expected loss.

	LGD	A	B	C	D	E	F	G	H	I	J	K
PD	Mid values	2.50%	7.50%	12.50%	17.50%	22.50%	27.50%	32.50%	37.50%	42.50%	47.50%	75.00%
1+	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%
1	0.03%	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.02%
1-	0.06%	0.00%	0.00%	0.01%	0.01%	0.01%	0.02%	0.02%	0.02%	0.02%	0.03%	0.04%
2+	0.08%	0.00%	0.01%	0.01%	0.01%	0.02%	0.02%	0.03%	0.03%	0.03%	0.04%	0.06%
2	0.09%	0.00%	0.01%	0.01%	0.02%	0.02%	0.03%	0.03%	0.03%	0.04%	0.04%	0.07%
2-	0.13%	0.00%	0.01%	0.02%	0.02%	0.03%	0.03%	0.04%	0.05%	0.05%	0.06%	0.09%
3+	0.18%	0.00%	0.01%	0.02%	0.03%	0.04%	0.05%	0.06%	0.07%	0.07%	0.08%	0.13%
3	0.23%	0.01%	0.02%	0.03%	0.04%	0.05%	0.06%	0.07%	0.08%	0.10%	0.11%	0.17%
3-	0.28%	0.01%	0.02%	0.04%	0.05%	0.06%	0.08%	0.09%	0.11%	0.12%	0.13%	0.21%
4+	0.38%	0.01%	0.03%	0.05%	0.07%	0.08%	0.10%	0.12%	0.14%	0.16%	0.18%	0.28%
4	0.51%	0.01%	0.04%	0.06%	0.09%	0.11%	0.14%	0.16%	0.19%	0.21%	0.24%	0.38%
4-	0.66%	0.02%	0.05%	0.08%	0.11%	0.15%	0.18%	0.21%	0.25%	0.28%	0.31%	0.49%
5+	0.85%	0.02%	0.06%	0.11%	0.15%	0.19%	0.23%	0.27%	0.32%	0.36%	0.40%	0.63%
5	1.08%	0.03%	0.08%	0.14%	0.19%	0.24%	0.30%	0.35%	0.41%	0.46%	0.51%	0.81%
5-	1.36%	0.03%	0.10%	0.17%	0.24%	0.30%	0.37%	0.44%	0.51%	0.58%	0.64%	1.02%
6+	2.48%	0.06%	0.19%	0.31%	0.43%	0.56%	0.68%	0.80%	0.93%	1.05%	1.18%	1.86%
6	5.13%	0.13%	0.38%	0.64%	0.90%	1.15%	1.41%	1.67%	1.92%	2.18%	2.44%	3.85%
6-	9.45%	0.24%	0.71%	1.18%	1.65%	2.13%	2.60%	3.07%	3.54%	4.01%	4.49%	7.08%
7+	13.37%	0.33%	1.00%	1.67%	2.34%	3.01%	3.68%	4.35%	5.01%	5.68%	6.35%	10.03%
7	17.28%	0.43%	1.30%	2.16%	3.02%	3.89%	4.75%	5.62%	6.48%	7.34%	8.21%	12.96%
7-	24.72%	0.62%	1.85%	3.09%	4.33%	5.56%	6.80%	8.03%	9.27%	10.51%	11.74%	18.54%

The wide range of EL values is useful for internal risk management, but too wide for external reporting. A grouping scale between 1 and 7 is applied to make EL useful for external reporting. While there is no regulatory requirement regarding EL master scale, this approach complies with implicit minimum granularity requirements set by Central Bank for PD grades.

Grade	Min El	Max El
1	0.00%	0.03%
2	0.03%	0.10%
3	0.10%	0.30%
4	0.30%	1.00%
5	1.00%	3.00%
6	3.00%	10.00%
7	10.00%	100.00%

Based on the expected loss scale as defined above, the Bank's loan book distributed across the EL grades is as follows:

EL Grade	% to total Loans & Advances
1	6%
2	20%
3	43%
4	22%
5	5%
6	0%
7	0%
Total Performing	97%
Non-Performing	3%
Total Loans & Advances	100%

1) The Gross Loans& Advances by category is given in the below table:-

Category	Retail	Corporate	Total
	As on 31 Dec 2015		
	RO'000	RO'000	RO'000
Standard	2,900,180	4,012,688	6,912,868
Special Mention	10,965	494,613	505,578
Sub-standard	8,594	17,115	25,709
Doubtful	11,236	10,433	21,669
Loss	47,855	114,243	162,098
Total	**2,978,830**	**4,649,092**	**7,627,922**

2) The gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure are given in the below table:

Types of Credit Exposure	Average Gross Exposure	Total Gross Exposure
	2015	2015
	RO'000	RO'000
Overdrafts & Credit Cards	241,692	275,592
Personal & Housing Loans	2,819,961	2,940,223
Loans against Trust Receipts	248,941	236,151
Corporate & other Loans	3,675,188	3,826,944
Bills purchased / discounted & other advances	290,850	349,012
Total	**7,276,632**	**7,627,922**

3) Geographic distribution of gross exposures, broken down into significant areas by major types of credit exposure is given in the below table:

Types of Credit Exposure	Oman	Other GCC Countries	Others	TOTAL
	RO'000	RO'000	RO'000	RO'000
Overdrafts & Credit Card	264,194	11,398	-	**275,592**
Personal & Housing Loans	2,892,233	47,990	-	**2,940,223**
Loans against Trust Receipts	188,658	47,493	-	**236,151**
Corporate & other Loans	3,429,276	377,506	20,162	**3,826,944**
Bills purchased / discounted & other advances	349,012	-		**349,012**
Total	**7,123,373**	**484,387**	**20,162**	**7,627,922**

4) Industry wise distribution of gross exposures, broken down by major types of credit exposure is given in the below table

Economic Sector	Overdrafts & Credit Card	Loans	Bills / LTR & other advances	Total	Off Balance Sheet Exposure
	RO'000	RO'000	RO'000	RO'000	RO'000
Agriculture and allied activities	2,975	13,380	7,796	**24,151**	13,775
Construction	54,806	151,056	119,414	**325,276**	666,215
Export Trade	301	6,909	3,804	**11,014**	843
Financial Institutions	3,653	396,115	3,714	**403,482**	1,147,649
Government	10,146	-	-	**10,146**	371,155
Import Trade	17,462	287,741	133,793	**438,996**	144,035
Manufacture	14,727	426,415	76,583	**517,725**	87,231
Mining and quarrying	11,677	423,756	27,417	**462,850**	136,895
Personal and Housing Loans	51,028	2,916,168	11,634	**2,978,830**	-
Real Estate	4,104	281,770	31	**285,905**	6,457
Services	42,100	541,977	141,266	**725,343**	440,517
Transport	2,651	717,599	8,240	**728,490**	25,034
Utilities	37,043	417,162	170	**454,375**	33,473
Wholesale and retail trade	21,198	125,872	48,069	**195,139**	71,285
Others	1,721	61,247	3,232	**66,200**	41,848
Total	**275,592**	**6,767,167**	**585,163**	**7,627,922**	**3,186,412**

5) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure are given below in the table:

Time Band	Overdrafts & Credit Cards	Loans	Loan against trust receipts	Bills Purchased / Discounted & others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Upto 1 month	53,016	1,019,901	125,372	41,459	1,239,748
1 - 3 months	11,714	497,674	220,466	81,027	810,881
3 - 6 months	11,714	337,700	102,400	11,125	462,939
6 - 9 months	11,714	199,407	-	-	211,121
9 - 12 months	11,714	210,708	20	3,276	225,718
1 - 3 years	58,573	1,268,607	-	-	1,327,180
3 - 5 years	58,573	1,028,223	18		1,086,815
Over 5 years	58,573	2,204,946	-		2,263,519
Total	**275,592**	**6,767,167**	**448,276**	**136,887**	**7,627,922**

6) An analysis of the loan book by economic sector or counter party type is given below:

Economic Sector	Gross Loans	Of which, NPLs	Non-Specific Prov.	Specific Prov.	Reserve Interest	Provisions during the year	Adv w/off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Agriculture and allied activities	24,151	2,027	-	701	524	453	2
Construction	325,276	33,418	-	23,040	5,002	10,143	106
Export Trade	11,014	-	-	-	-	-	-
Financial Institutions	403,482	-	-	-	-	85	-
Government	10,146	-	-	-	-	-	-
Import Trade	438,996	4,664	-	3,303	442	1,233	-
Manufacture	517,725	27,754	-	16,337	4,570	3,002	-
Mining and quarrying	462,850	904	-	358	183	82	-
Personal and Housing Loans	2,978,830	69,794	-	56,693	6,854	27,156	1,326
Real Estate	285,905	2,490	-	805	133	-	-
Services	725,343	4,729	-	2,589	162	1,769	-
Transport	728,490	19,290	-	17,642	1,308	11,871	-
Utilities	454,375	478	-	387	73	-	-
Wholesale and retail trade	195,189	22,365	-	17,200	2,001	645	12
Others	66,200	21,563	-	17,490	1,673	4,708	-
Non Specific	-	-	118,237	-	-	10,837	-
Total	**7,627,922**	**209,476**	**118,237**	**156,545**	**22,925**	**71,984**	**1,446**

7) An analysis of Gross loans broken down by significant geographic areas is given below:

Countries	Gross Loans	Of which, NPLs	General Prov.	Specific Prov.	Reserve Interest	Provisions during the year	Advances w/off during the year
Oman	7,123,373	143,554	108,799	103,790	20,044	54,480	1,446
Other GCC Countries	484,387	65,922	9,437	52,755	2,881	17,504	-
Others	20,162						-
Total	**7,627,922**	**209,476**	**118,237**	**156,545**	**22,925**	**71,984**	**1,446**

8) Movement of gross loans is given in the below table:

Movement of Gross Loans during the year						
Details	Performing Loans		Non Performing Loans			
	Standard	Specially Mentioned	Sub Standard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Opening Balance	6,476,534	368,126	20,817	42,478	136,854	**7,044,809**
Migration / Changes	(177,788)	119,296	6,395	(14,978)	66,708	**(367)**
New Loans	1,148,208	50,669	2,451	3,072	3,541	**1,207,941**
Recovery of Loans	534,086	32,513	3,939	8,902	43,575	**623,015**
Loans written off	-	-	15	1	1,430	**1,446**
Closing Balance	6,912,868	505,578	25,709	21,669	162,098	**7,627,922**
Provisions held	118,237	3,366	6,998	10,031	136,150	**274,782**
Reserve Interest	-	20	318	575	22,012	**22,925**

Substantial exposure:

The aggregate substantial exposure i.e. credit exposure individually of 10% or more of the total capital of the Bank, on a gross basis without adjusting for the credit risk mitigants to all the connected parties account for 99.68% of the total capital of the Bank and 18.26% of the total loan book.

E.2. Credit risk: disclosures for portfolio subject to the Standardised approach

The Bank uses Moody's ratings to risk weight country and bank exposures. The exposure-wise summary is as below:

Type of exposure	Rated	Unrated
	RO'000	RO'000
Country	2,232,958	4,516
Bank	1,976,394	110,580

E.3. Credit risk mitigation: disclosures for Standardised approach

Main types of applicable collaterals under Standardised approach are:

- Cash on deposit with the Bank
- Certificates of deposits, issued by Central Bank of Oman.
- Sultanate of Oman Government Development Bonds and Certificate of Deposits
- Bank Guarantees
- Equities listed in Muscat Securities Market included in the Main Index
- Equities listed in Muscat Securities Market that are not included in the Main Index but are listed in the exchange

Apart from the above mentioned collateral, guarantees of the government of Sultanate of Oman are considered for credit risk mitigation purpose.

Systems and processes are in place to mitigate any operational risk, which may manifest in the process of obtaining securities to mitigate credit risk. Continuous review and valuation of securities taken are done to ensure their quality. Appropriate haircuts, as provided by the Central Bank of Oman, to mitigate the risks within the securities are applied.

Break-up of total exposure covered by eligible collaterals under the Standardised approach are given below:

	Gross Loans & Advances
	RO '000
Loans fully secured by Cash	155,088
Commercial loans secured by shares	271,098
TOTAL	**426,186**

F. Market risk

Market risk is the potential loss due to changes in market determined variables. It manifests in the following variables-

1. Foreign exchange risk
2. Investment price risk
3. Interest rate risk
4. Commodity price risk

F.1. Market risk management framework

The Bank has a well-established Market risk management process consisting of risk identification, setting of risk threshold, risk monitoring, reporting, escalation and resolution. The process ensures that the risks assumed by various front office desks are within the stipulated risk appetite of the Bank and within the limits set within the Board approved policies.

The broad framework for market risk management at the Bank is governed by the following factors:

1. Sectoral limits for investments
2. Exposure limits to foreign currencies, commodities, markets and instruments
3. Permitted derivatives structures
4. Stop loss limits for both Investments and FX trading portfolio.

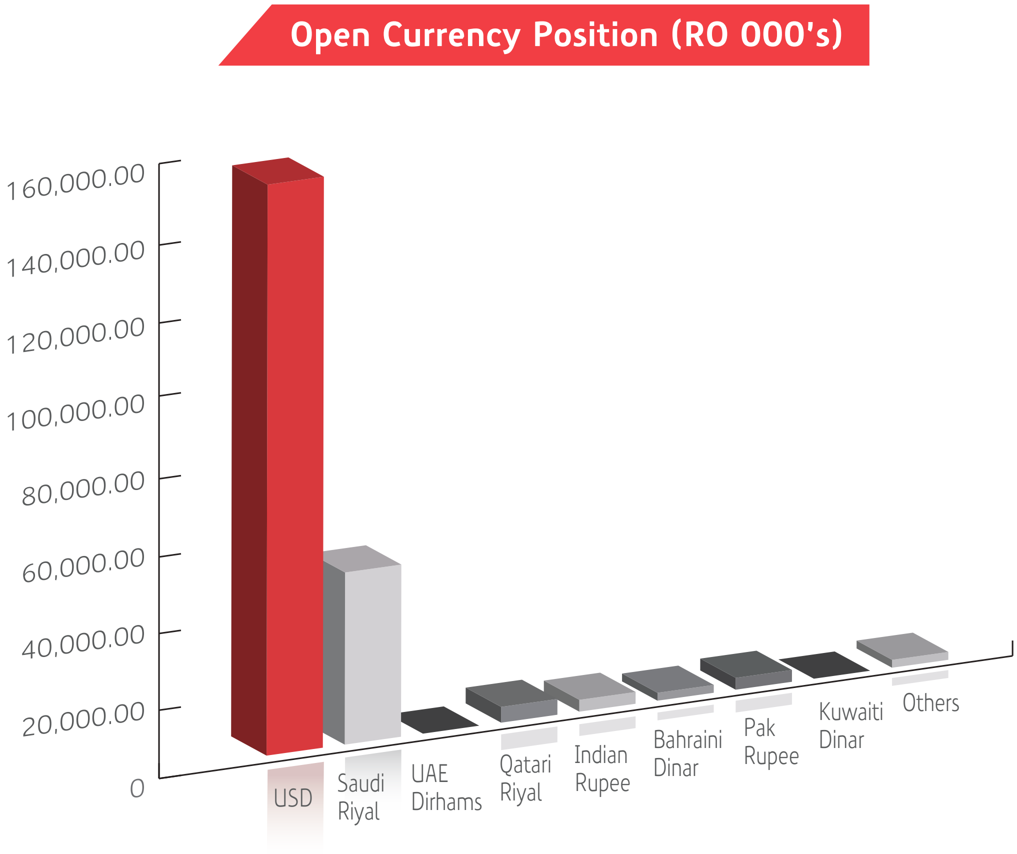
The Bank has an independent Middle-office unit reporting to the Market risk function of the Risk Management Department which monitors Treasury, Investment banking, Asset management & Private Banking, Brokerage and Corporate Advisory divisions of the Bank. The middle office monitors and reports adherence to set risk thresholds and escalates breaches, if any, for timely remedial action.

F.2. Foreign exchange risk

Foreign exchange risk is the potential adverse impact on earnings and market value of currency holdings due to changes in foreign exchange rates. Foreign exchange risk management in the Bank is ensured through regular measurement and monitoring of open foreign exchange positions.

The Bank's foreign exchange exposures predominantly arise from client transactions with a limited amount of exposure due to trading and overseas investments. The Bank's open FX position is predominantly in US Dollar and GCC currencies.

The foreign currency exposure of the Bank as at the end of December 2015



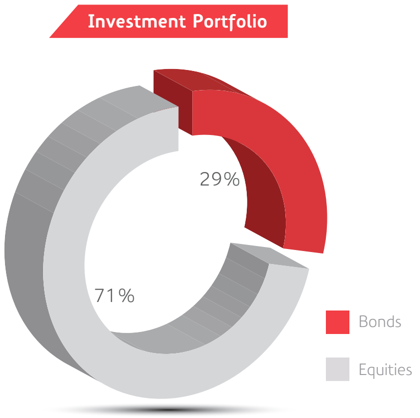
The Bank treats its entire foreign exchange exposure under the Basel II Standardised method for capital allocation. Market risk capital allocated for the Bank's forex position as at the end of 2015 is RO 24.87 million.

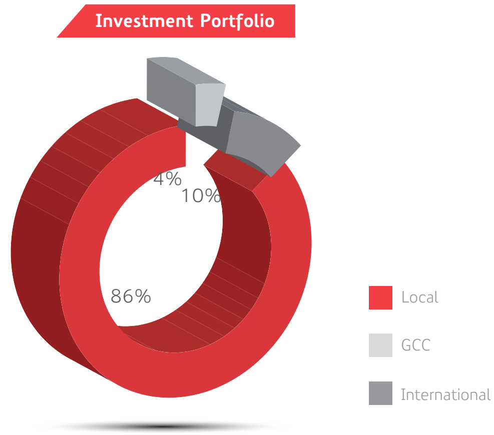
F.3. Investment Price Risk

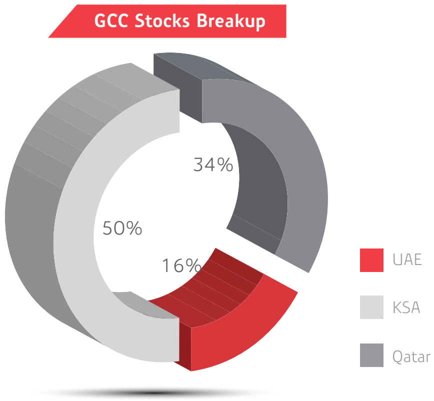
Investment price risk is the risk of decline in the market value of the stock and securities in which the Bank has invested. The Bank's investments are governed by the investment policy and risk policy, approved by the Board of Directors and are subject to rigorous due diligence. The Investment committee monitors the investments portfolio on periodic basis. The middle office enables setting up appropriate risk thresholds for the investments, monitors it and reports the same.

The Bank follows a highly conservative approach in the valuation of its non-traded portfolio and makes provisions appropriately based on internal valuation methodologies. The Bank allocates capital for its investments portfolio based on the Basel II Standardised approach based on the issuer rating.

Given hereunder are the detailed break-up of the Available for Sale portfolio as at the end of December 2015







F.4. Interest rate risk

Interest rate risk is the risk of adverse impact due to change in market interest rates on the Bank's financial position. While the impact on the trading book is by way of change in the value of the investments, the banking book impacts the Net Interest Income (NII) and/or Economic Value of Equity (EVE)

The short-term impact of interest rate risk is measured by studying the impact on the NII of the Bank while the long term impact is measured through the study of the impact on the Economic Value of Equity.

The responsibility for interest rate risk management rests with the Bank's Treasury under the supervision and guidance of the Asset Liability Committee (ALCO).

Interest rate risk arising due to maturity and re-pricing mismatch between assets and liabilities is subject to a separate set of controls and monitoring. The Bank's interest rate risk reports, currency wise as well as the consolidated ones, are regularly reviewed by the ALCO and reported to the Board Risk Committee and the Board of Directors

Interest Rate risk measurement:

The changes in market interest rate have earnings and economic value impacts on the Bank's banking book. Thus, given the complexity and range of balance sheet products, the Bank uses the ALM system to assess the effect of the rate changes on both earning and economic value. The simulation range from simple maturity (fixed rate) and repricing (floating rate) to static simulation, based on current on-and-off-balance sheet position, to highly sophisticated dynamic modeling techniques that incorporate assumptions on behavioral pattern of assets, liabilities and off-balance sheet items. The simulations inter alia covers basis risk, embedded option risk, yield curve risk.

The Bank undertakes interest rate simulation at various interest rate shock levels to determine its impact on Net Interest Income (NII) and Economic Value of equity (EvE). Following risk thresholds are set for the interest rate risk at a shock level of 200 basis points

Net interest income impact (adverse)	Not more than 5%
Economic Value of Equity impact	Not more than 20%

Since the Bank does not run any active interest rate trading book, the Interest Rate Risk in Banking Book (IRRBB) is considered under Pillar II and an economic capital is allocated under the Internal Capital Adequacy and Assessment Process (ICAAP).

The effect of different rate shock under Earnings perspective and Economic value perspective (OMR consolidated) is given below:

	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
Impact on net interest income						
At 31st December 2015	6,372	4,804	4,071	2,409	1,815	2,916
Average for the period	9,998	2,077	5,991	2,116	2,721	2,915
Maximum for the period	22,966	13,463	12,427	8,571	5,895	6,409
Minimum for the period	(7,823)	(6,843)	(2,941)	(3,359)	(1,755)	(52)
Impact on economic value						
At 31st December 2015	91,520	617,638	(119,658)	133,735	(61,244)	64,298
Average for the period	76,756	579,548	(109,617)	128,417	(57,706)	60,763
Maximum for the period	162,019	706,004	(101,055)	139,860	(51,787)	66,888
Minimum for the period	1,870	476,434	(119,658)	119,147	(70,276)	56,089

F.5. Commodity price risk

The Bank offers commodities hedging facility to its clients. The Bank covers all customer trades in commodity and bullion on back-to-back basis and does not run any position in its own books. In view of the high volatility in the commodity prices the Bank sets a variation margin limit over and above the volume limit. This enables the Bank to actively manage customer exposures and make margin calls in the event of adverse price movements.

F.6. Derivatives

The Bank offers interest rate, foreign exchange and commodity derivatives to its customers for hedging purposes. The derivative structures are offered as per the Board approved internal "Client & Product Appropriateness Matrix" based on the customer's underlying exposure. The customer derivative positions are covered back-to-back with interbank counterparties. The market risk unit ensures appropriate limit setting process for customers for dealing in derivative products, monitors and reports exposures on daily basis. The daily valuation of all derivative products is undertaken and customers as well as interbank margin thresholds are monitored by the middle office on daily basis.

The Bank also undertakes interest rate derivative deals to manage its own interest rate exposures by way of Interest Rate Swaps, Forward Rate Agreements etc. Such positions are initiated with the approval of the ALCO. The capital for these positions is accordingly allocated.

The outstanding notional value of the interest rate swap done by the Bank for balance-sheet hedging was USD 1,565 mio.

F.7. Risk measurement

F.7.i. Interest Rate risk in Banking Book (IRRBB)

Under Basel II Pillar 2 (ICAAP), the Bank measures its interest rate risk in banking book. IRRBB is the risk that arises due to the variance in the market interest rates vis-à-vis the rates on the Bank's assets and liabilities. As part of its Internal Capital Adequacy Assessment process, the Bank measures IRRBB by quantifying its impact on the economic value of equity.

The Bank has internally developed a model to identify the appropriate stress level to test its IRRBB based on the historic USD and OMR yield curves since the Bank is majorly exposed to assets and liabilities in these two currencies. The worst case scenario of 235 basis points shock is considered for the interest rate stress test on the banking book. The Bank conservatively uses this stress level to measure the impact on its EvE and maintains economic capital for IRRBB based on the same. The EvE impact for a 235 basis points parallel shift in the yield curve for December 2015 is OMR 276 million which is 15.48% impact.

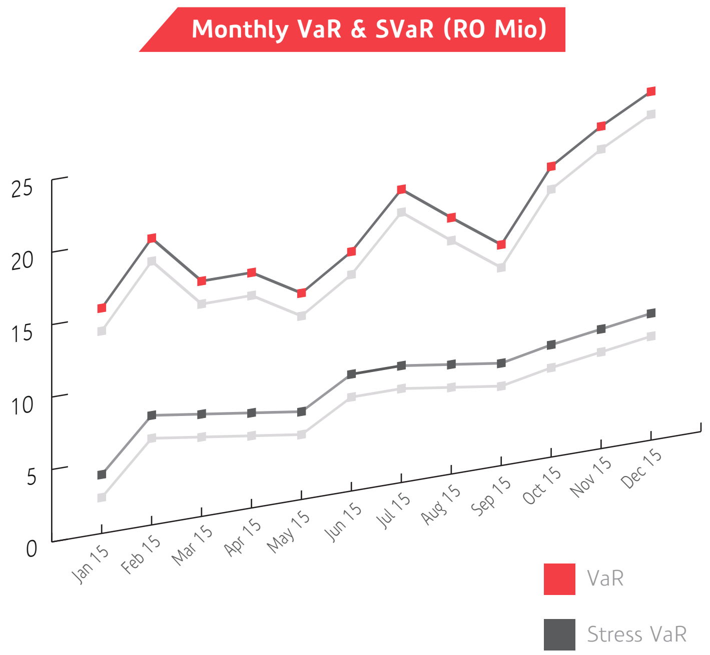
F.7.ii. Measurement of market risk

Value-at-Risk (VaR): As a primary risk measurement tool, the bank uses the VaR approach to derive quantitative risk measures in the Bank's market related portfolio. The Bank has implemented the Monte Carlo simulation based VaR measurement tool. The VaR measure provides an appropriate risk oversight and enables effective monitoring of exposures.

The market risk portfolio considered for VaR measurement includes the following –

1. Equity and bonds investments portfolio
2. Forex and Commodities portfolio
3. Interest rate swaps portfolio
4. Options portfolio of Forex and commodities

The month end VaR and SVaR measured at 99% confidence level for a 10 day holding period is as below:



G. Liquidity risk

G.1. Liquidity risk management

Liquidity risk or funding risk arises when the bank is unable to generate sufficient cash resources in a timely and cost effective manner to meet obligations as they fall due. The inherent business model exposes banks to liquidity risk either due to external or internal factors.

The Bank's treasury manages liquidity on day-to-day basis under the guidance of the ALCO. The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and to ensure that the Bank is fully prepared to meet any unforeseen stress condition. The Bank undertakes profiling based on the actual behavioural patterns of customer deposits to study the structural liquidity position and appropriately arranges for liquidity. The Bank's ALCO monitors the liquidity position on a regular basis.

The Bank won the "Best Bank in Liquidity Risk Management' Award for the Middle-East & Africa region from the "Asian Banker" for the year 2015.

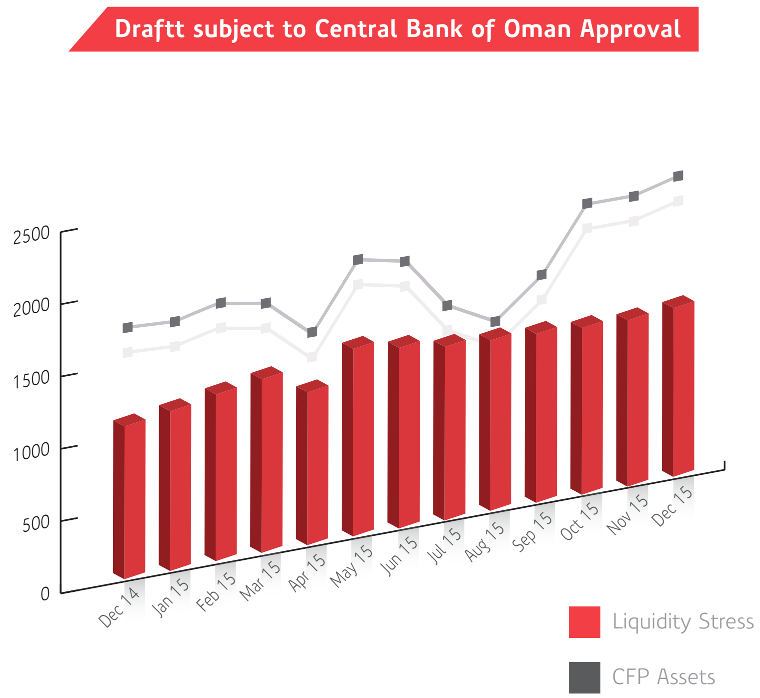
The Bank's statement on maturity of asset and liability is outlined in note 42.3.2 to the financial statements.

G.2. Liquidity Assessment and Management Process (LAMP)

LAMP involves a comprehensive liquidity stress testing under various stress scenarios and this forms an integral part of the Bank's liquidity risk management process. Anticipated on and off-balance sheet cash flows are subjected to a variety of bank specific and systemic stress to evaluate the impact on the Bank's liquidity position. The Bank considers all such scenarios that could cause liquidity strain in the Bank and maintains a Contingency Funding Plan to meet unforeseen but plausible stress conditions

The contingency funding plan as detailed in the Bank's ALCO Policy defines the roles and responsibilities of various departments/ individuals in the event of severe liquidity strain.

The results of the stress tests and the contingency funding over the past few months are as under:



H. Operational risk

H.1. Introduction

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

The Bank at present uses the Basic Indicator Approach (BIA) for calculating its operational risk capital requirements and is currently working to move to Advanced Measurement Approach (AMA).

H.2. Objective

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

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

H.3. Operational risk management

Business units have the primary responsibility of understanding, identifying, measuring and managing the operational risks that are inherent in their respective products, activities, processes and systems. Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. The responsibility of facilitating the process lies with Operational risk unit in accordance with the Operational risk management framework. Internal Audit independently reviews effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks.

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

The Operational risk management framework of the Bank is based on 3 pillars:

1. Internal assessment of operational risks performed by the departments through a Controls and Risk Self-Assessment (CRSA) exercise;
2. Operational loss data collected from actual and potential loss events and Key Risk Indicators (KRI's);
3. Independent assessment of operational risks and controls of various departments conducted by the Internal Audit Department;

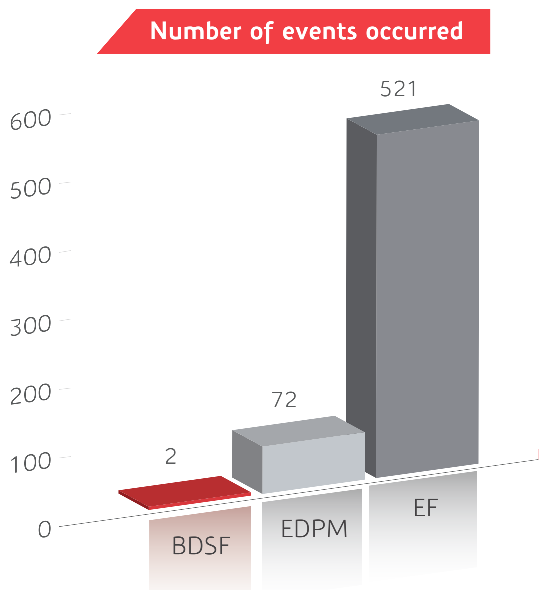
CRSA's are used to identify and assess all material risk within each business unit, along with evaluation of the key controls in place to mitigate those risks, by self-assessment.

KRI's are core component of the Bank's risk and control framework and act as early warning signals by providing the capability to indicate changes in the Bank's risk profile and its impact, before the event actually occurs. KRI's are based on measurable thresholds and the ownership matrix is defined for action plan, if required.
All the business units are required to report their potential operational losses through the Bank's operational risk management software. The operational loss data collected is categorised by business line and risk type and reported to senior management on a periodic basis. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Management, Management risk committee and Board of Directors. The Bank also undertakes analysis of the operational losses to identify the root cause for the losses and take appropriate actions to reduce their incidence.

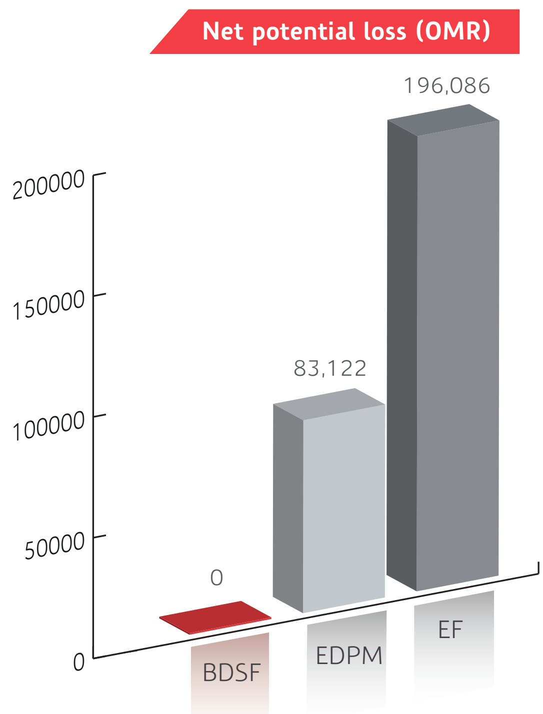
During the year the Bank has undertaken several initiatives to mitigate the operational risk losses including implementation of EMV compliant debit and credit cards, enhanced Fraud management system, biometric identification system compatible with National ID and mandating VBV (verified by visa) and Secure 360 for e-Commerce transactions.

A total of 593 (2014: 395) potential operational loss events occurred and were reported across the Bank during the year, representing a net potential loss of OMR 279,208 (2014: OMR 992,407).

Operational Loss Summary - Risk Event Type



Total number of events = 593

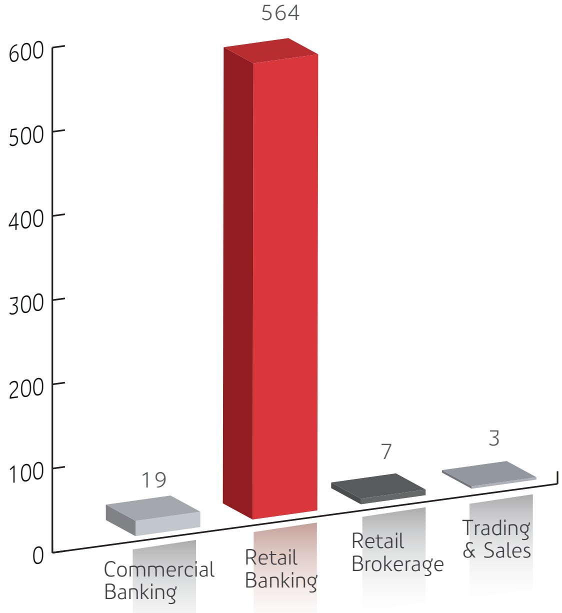


Aggregate net potential loss = OMR 279,208

EDPM: Execution, Delivery and Process Management
BDSF: Business Disruption and System Failures
EF: External Fraud

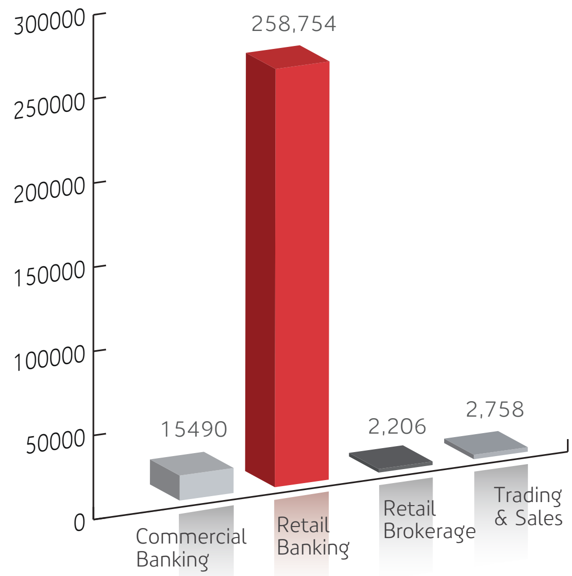
Operational Loss Summary – <u>Business Segment</u>

Number of events occurred



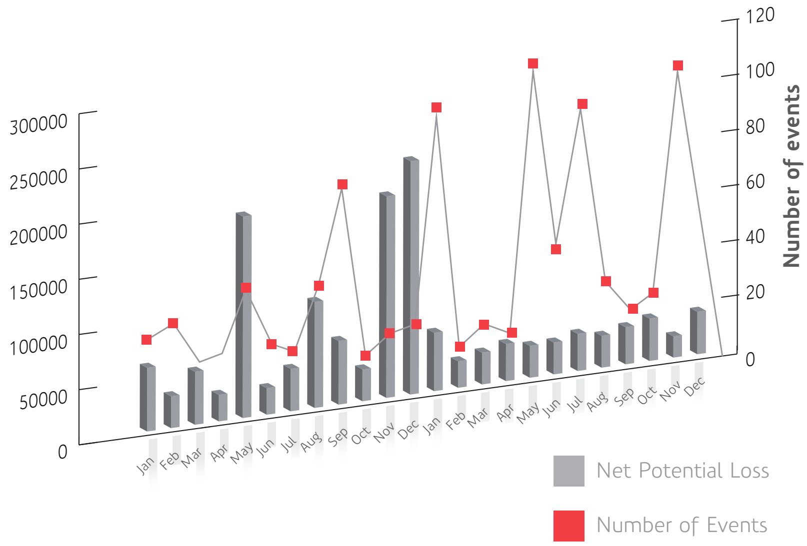
Total number of events = 593

Net potential loss (OMR)



Aggregate net potential loss = 279,208

Draftt subject to Central Bank of Oman Approval



Total number of events Occurred in 2014 = 395	**Aggregate net potential loss Occurred in 2014 = OMR 992,407**
Total number of events Occurred in 2015 = 593	**Aggregate net potential loss Occurred in 2015 = OMR 279,208**

Note:

1. The above graphs are reported as of date of event.

Insurance is used as a tool to hedge against operational risks at the Bank. The Bank has obtained insurance against operational risks which comes in a variety of forms, such as Bankers' Blanket Bond, Electronic & Computer crimes and Professional indemnity. While insurance cannot alter the probability of risks, it allows transfer of the financial impact of risks. Insurance is primarily aimed at protecting the Bank from high-severity low-frequency risks.

H.4. Protective Services Unit (PSU)

The Protective Services Unit is integrated function relating to security and protection of various assets. The objective of PSU is:

- To effectively protect the Bank's assets from physical (manmade and natural) threats, cyber/technological threats by ensuring appropriate security controls are implemented and operational.
- To set up early warning mechanism in the Bank to warn of possible or imminent threat so that appropriate plan can be implemented to mitigate and control the impact of the threats.
- To ensure continuity in business by robust risk management techniques and resuming "business as usual" quickly and seamlessly.

H.4.i. Physical security management

The Bank ensures that adequate and effective security systems are deployed to protect the Bank's assets from physical threats that could cause harm and loss to Bank's assets.

The Bank has set up a framework to govern and manage the physical assets. Key physical security systems include:

- Physical security governance through policies, procedures, guidelines and standards.
- Implement relevant physical protection technology to protect the Bank's assets.
- Implement early warning systems with authorities for our infrastructure, such as Branches and ATM's.

H.4.ii. Information security management

Information risk is defined as the risk of accidental or intentional unauthorized use, modification, disclosure or destruction of information resources, resulting in compromise of confidentiality, integrity or availability of information. Information risk management deals with all aspects of information in its physical and electronic forms and is focused on the creation, use, transmission, storage, disposal and destruction of information.

The Bank has a mature Information risk management function comprising the following important aspects:

- Information security governance through information security policies, procedures, guidelines and standards
- Implementing a robust perimeter network security framework as well as strong internal controls for "need-to-know" limitation of information access
- Information security monitoring through latest solutions and tools – monitoring includes real time as well as at fixed frequency monitoring
- Cyber security incident response plan to have quick and effective management of cyber security incidents
- Information security reviews comprising new and existing technologies, solutions, networks and also the various processes/ operations within each and every department of the Bank.

H.4.iii Health, Safety and Environment (HSE) management

People are one of the most important assets of the Bank and the risk of health and safety to human assets are of paramount importance. The Bank ensures a safe and healthy environment for the staff and inculcates healthy habits and culture. The Bank provides first aid training, encourages safe driving practices, and trains fire evacuation response leaders for effective response.

H.4.iv. Business Continuity Management (BCM)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operateat least at a pre-determined level following an incident, significant unplanned event or major operational disruption.

The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. The Bank has put in place Business Continuity Plans (BCP) to ensure that its business runs effectively in the event of most unforeseen disasters as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards.

The Bank continuously strengthens and enhances its existing plans by implementing a robust business continuity framework to ensure that its systems and procedures are resilient and ready to meet 'emergency preparedness'. The BCM Committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Bank. The BCM Committee continuously reviews and agrees business continuity strategy. It also ensures that planning and maintenance responsibilities are assigned, understood and implemented across the business areas.

The Bank's business recovery centre has the capability to meet any unforeseen disaster and ensure continual operational capability in the event of a major operational disruption. To ensure the functionality of the Business Recovery Centre, all functional departments of the bank successfully tested to check if the BRC is equipped to function as fall back in case of any exigencies at the HO.

G. Other residual risks

Apart from the core risk areas discussed above, the Bank also monitors other risks as discussed below:

1. Cyber security
2. Financial crime risk
3. Financial reporting risk
4. People risk
5. Compliance risk

6. Technology risk
7. Reputation risk
8. Sustainability - Environment and Social Risk
9. Model risk
10. Social media risk

I.1. Cyber security

Cyber security risk is the risk of cyber-attack that could cause failure in or breach of our banking channels, security systems or infrastructure, or those of our third party vendors and other service providers, disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. With the increased sophistication and reach of organised crime, hackers, terrorists, activists, and other external parties the risk has increased.

The Bank continues to invest significant resources to maintain and regularly update its systems and processes that are designed to protect the security of the Bank's computer systems, software, networks and other technology assets. This is to protect against attempts by third parties to obtain unauthorised access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage. The Bank also works with appropriate third party and government agencies with deep knowledge of cyber defence to ensure that the Bank is protected and prepared in an unfortunate eventuality of an attack.

I.2. Financial crime risk

The failure to identify, report and act on matters related to financial crime and money laundering is referred to as financial crime risk. This risk may lead to financial losses, penalties and loss of reputation.

Fraud and money laundering are the two most common crimes seen within the financial services sector. Accordingly the Bank has placed combating financial crime and associated Compliance requirements high on its corporate agenda. This has led to policies, procedures and systems that proactively identify, alert, assess and monitor the risk of such events. The Bank has a dedicated Money Laundering Reporting Officer who is supported by a fully qualified Anti-Money Laundering (AML) team. They utilize systems to monitor transactions on an on-going basis and report suspicious transactions to the competent authority. All the officers of the Bank undergo continuous training on AML and have to take a computer based test on AML. In addition, specific front line staff undergone enhanced training to ensure they are up to date with the latest developments in this area.

The Bank has an Anti-Fraud programme in place and has developed a methodology for undertaking a comprehensive fraud risk assessment. The team utilizes software to assist in identifying, recording and reporting fraud incidents.

To achieve its objective of spreading awareness in the Sultanate, during 2014, the Bank organised a two day event along with Royal Oman Police on the area of financial crime prevention. The Bank also assisted the Financial Intelligence Unit of Central Bank with hosting a one day programme aimed at highlighting the importance of suspicious transaction reporting in Oman.

I.3. Financial reporting risk

Risk of failing to detect any material misstatement or omission within the Bank's external financial reporting is termed as financial reporting risk. The Bank has a robust and established financial reporting process with adequate internal checks and controls to minimise such risks. The Bank's internal audit division independently reviews the internal controls and procedures to mitigate such risks. The key agenda of the Audit committee of the Bank is to ensure best industry practices and high standards of corporate governance with regard to financial reporting.

I.4. People risk

People risk is a risk to which every employer is exposed to. People risk includes lack of appropriate work force, failure to manage performance and rewards, lack of continuing training, failure to comply with labour laws and legislations etc.

HR initiatives of the Bank are integral to the business strategies and provide a competitive edge. In order to mitigate people risk, the Bank has over the years adopted several best practices in areas of HR policies and procedures, performance management and rewards, talent management and succession planning, training and development etc. and continues being an employer of choice. This year, the Bank reinforced its Talent Management and succession planning program. Succession plans are in place for all identified critical roles ensuring a steady pipeline of Omani employees who are groomed for leadership positions within the Bank. The Bank achieved the Omanisation target as stipulated by the regulators for the Management level and reached overall Omanisation of 93.9% across the organization as at 31st December 2015.

bank muscat was the first bank in Oman to pioneer the competency based Assessment Centre approach to identify and groom its talented employees. The Bank has automated the Talent management and succession planning program by implementing a state of the art Oracle Talent Management System, the first of its kind in Oman. The Bank learning centre ensures that employees are adequately trained and provides competency development to suit the career plans of high potential employees. In this year the Learning Centre delivered over 770 programmes. The Bank has also done significant investments to provide e-HR services to staff in Oman as well as in international locations. This initiative has not only brought HR closer to each employee but also gone a long way in improving efficiency of the services provided.

The Bank's conducts employee satisfaction/ engagement survey on periodic basis which helps management seek employee feedback on various topics. Many policy level changes have been effected over the last few years based on the feedback received from such surveys.

I.5. Compliance risk

Compliance risk is the failure to comply with applicable laws and regulations imposed by the various governing authorities and regulators where the Bank operates. Failure to comply with regulations may lead not only to penalties and financial losses but is also detrimental to the reputation and long term prosperity of any organisation.

The Bank's management is primarily responsible for managing the compliance risks that the Bank is exposed to and is supported by the Compliance department in discharging this duty within the various business units. The Bank has a strong Compliance department and its Compliance Officer has a direct reporting line to the Bank's Board of Directors. The Bank is aware of the challenges of operating under multiple regulatory regimes and the increasingly demanding regulatory environment in the financial services industry. It has geared up its process to meet the challenges. Apart from training and developing the workforce on its regulatory obligations, the Compliance department is also involved in the approval process of products and services to ensure the Bank always operates in compliance with the regulatory norms across all of its operations.

I.6. Technology risk

Technology risk is one of the biggest risks faced by banks and financial institutions. Technology effectively permeates the operations of the entire organisation and therefore defies compartmentalization. Technology enables key processes that the Bank uses to develop, deliver, and manage its products, services, and support operations. Technology risks are woven throughout the business and must be addressed holistically.

The Bank's Chief Information Officer manages information technology and operations and enables smooth business growth adapting to the fast changing technological environment. Additionally, the Bank has two management level committees:

- An Information Technology Committee to oversee the strategic direction of information technology within the Bank;
- A BCM Committee that supervises the robustness of the Bank's BCP plans including the IT – Disaster Recovery Systems.

I.7. Reputation risk

Strong corporate reputation is an invaluable asset to any organisation and if ever diminished, it's the most difficult to restore among all the other assets of the organisation. Reputation has a vital impact on the long term prosperity of the organisation. A deteriorating reputation can have a very adverse impact on business growth, earnings, capital raising and day to day management. This risk often exposes the organisation to litigation and financial losses. Exposure to Reputation risk is present throughout the organisation and necessitates the responsibility to exercise an abundance of caution in dealing with customers and the community at large.

The Bank aspires to highest standards in safeguarding its reputation and maintains the highest ethical standards in all its business dealings. The Bank recognizes that the responsibility for reputation risk must permeate across all levels of the Bank and takes steps to continuously reinforce this message across its network. Following are the key components of reputation risk management framework:

- The Bank ensures that its products comply with the relevant regulations in geographies where it operates.
- The Bank has a Disclosure Committee that ensures that all key developments at the Bank that has a bearing on investor confidence are promptly and effectively reported to the regulatory agencies and the public at large and the Bank is in full compliance with all its disclosure obligations. It has framed and adopted for itself a framework in line with the highest standards of corporate governance and strongly focuses on integrity.
- The Bank's Corporate communication department has been entrusted with the responsibility to measure, monitor and continuously improve the Bank's brand image. It is also responsible for continuous monitoring of threats to the reputation of the Bank.
- The Bank has invested in development of people through training to ensure fair dealing with customers and society.
- To encourage ethical practices, the Bank has a Whistleblower Protection policy which covers all areas of dealings with customers, colleagues and others, including suppliers and contractors.
- The Bank has a Corporate Social Responsibility (CSR) department that plays an active role in creating awareness for environment protection within the Bank. It has been involved in several social service projects during the year demonstrating the Bank's commitment to the community it serves.
- The Bank has a Business Continuity plan in place to take care of uncertainties, which is tested and updated to take care of external uncertainties.
- The Bank enforces strong and consistent controls relating to governance, business compliance and legal compliance.

The Bank has developed a framework for measuring reputational risk. The framework incorporates various risks indicators to arrive at the Reputational risk score for the bank. The framework helps the Bank understand its strengths, weaknesses and the evolving trends and enable it to take pro-active measures to manage its Reputation risk.

I.8. Sustainability – Environment and Social Risk

Environmental risk means the risk of causing pollution or destruction of the natural environment (land, water, air, natural habitats, animal and plant species), either through accidental or deliberate actions.

Social risk is the risk of a customer not meeting acceptable standards for employment and business ethics, within his own business or by his actions.

The risks arising from environmental problems or social discontent surrounding a project can be extremely costly in terms of delays and stoppages, negative publicity, threats to operating license, and significant unforeseen expenditures. At the same time, reputational damage can far exceed the immediate cost impacts of a single project.

The Bank is committed and has always been proactive to deliver value to economy, environment and society. To achieve this, a sustainability framework has been designed. The Bank has invested in training of officers in STEP (Sustainability Training and e-learning Program).

The Bank has identified four priority areas for sustainability:

- Enhancing economic performance;
- Developing from within;
- Empowering communities;
- Recognizing our environmental impact;

The Bank has implemented through the below 4 pillars of

- Support : Support social and humanitarian activities, events and charitable causes to continue serving local communities;
- Accountability: Support sustainable development through continuous efforts in order to directly and indirectly benefit society, the economy and the environment. Develop policies to expand positive reach and incorporate sustainability into business practices
- Recognition :Encourage employees to undertake voluntary activities, thereby benefitting society, the environment and the economy;
- Development : Continue to invest in people and promote a healthy work environment to fulfill the commitment of development of our people and work towards fostering a healthy work culture;

The Bank is guided by Equator principle and has implemented Social and Environmental Management System. The Bank is first in the Middle East to adopt "Equator Principles".

I.9. Model risk

Model risk arises from potential weaknesses in a model that is used in the measurement, pricing and management of risk. These weaknesses include incorrect assumptions, incomplete information, inaccurate implementation, inappropriate use, or inappropriate methodologies leading to incorrect decisions by the user.

The Bank's approach to managing model risk is based on the following principles:

- Model development function is independent of model validation function;
- Governance through model review committee with members comprising from different functions;
- Formulation of policies which deal with materiality, validation criteria and approval criteria;
- Regular monitoring of model performance;
- Review and governance of data that is used as model inputs.

I.10. Social media risk

The rise of social media particularly in last few years has brought in new opportunities together with new risks. The Bank fully recognises and appreciates the importance of the internet in shaping public opinion on its products and services, stake holders, customers and employees but at the same time fully recognises the risks.

Social media risk is the risk of failing to monitor and protect the Bank's reputation, brand, products, services and employees across social media space. However, due to the dynamic and unregulated nature of the medium, risks in social media are multiple and will remain in the foreseeable future.

To avert these multiple risks and to correctly manage the Bank's brand presence within social media space, the Bank established the Social Media Centre. It ensures compliance with a set of specific guidelines that govern daily working of the Bank in social media space. Constant monitoring is required to ensure minimal risk to the Bank's reputation. The Social Media Centre activities includes managing social media accounts, promoting and monitoring guidelines on social media usage, work closely with other departments to ensure remarkable customer management, and ensure 24/7 crisis management.

As the sole financiers for the national airline's two Boeing 787 Dreamliners, **bank muscat** and its Islamic Banking window Meethaq are proud of the partnership with Oman Air. This marks yet another milestone in the bank's commitment to supporting Oman's economic growth and development.

Oman Air – Boeing 787 Dreamliner

Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

Report on factual findings to the Board of Directors of bank muscat SAOG (the "Bank") in respect of Basel II – Pillar III and Basel III related Disclosures

We have performed the procedures agreed with you and as prescribed in Title 5 of the Islamic Banking Regulatory Framework, Central Bank of Oman (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III Disclosures and Basel III Disclosures (the disclosures) of bank muscat SAOG – Meethaq (Islamic Window) of the Bank set on page 2 to 13 as at and for the year ended 31 December 2015. The disclosures were prepared by the Islamic Window's management in accordance with the related requirements set out in Title 5 of the Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Title 5 of Islamic Banking Regulatory Framework and Circular number BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Islamic Window's compliance with the related disclosure requirements as set out in Title 5 of Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006 and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the Bank's annual report for the year ended 31 December 2015 and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Ernst & Young LLC

15 February 2016
Muscat

Meethaq Basel II - Pillar III Disclosures

A. Introduction and scope of application

bank muscat (SAOG) (the "Bank") established "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking license granted by the Central Bank of Oman ("the CBO") on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities.

A complete set of financial statements of Meethaq is included in the consolidated financial statements of the Bank. This document presents Basel II, Pillar III disclosure pertaining to Meethaq on a stand alone basis and is an annexure to the main Pillar III document of the Bank.

There is no restriction on the transfer of funds from the Bank towards Meethaq. However, under the Islamic Banking regulatory framework (IBRF), Title 9, section 1.10.2, Meethaq cannot place funds with the Bank.

Meethaq does not hold controlling interest in any other entity.

B. Capital management

B.1 Capital structure

The capital of Meethaq has been assigned by the Bank. As of 31 December, the regulatory capital structure of Meethaq is as follows:

Particulars	2015	2014
	Amount in RO '000	Amount in RO '000
Assigned capital / Share capital	**50,000**	30,000
Retained profits	**19,728**	13,680
Tier 1 Capital	**69,728**	43,680
Less: Investment fair value reserve	**(162)**	(20)
General Loan loss impairment (upto 1.25% of total risk weighted assets)	**10,170**	3,642
Tier II Capital	**10,008**	3,622
Total capital available	**79,736**	47,302
Amount of investment account holders funds	**509,742**	285,569
Profit equalisation reserve	**842**	485
Investment risk reserve	**94**	42
Total equity of investment account holders	**510,678**	286,096

"The Central Bank of Oman has issued final guidelines on the implementation of the new capital norms along with the phase-in arrangements and reporting norms. Meethaq remains strongly capitalised and is ahead of the transitional phase-in arrangements. Meethaq's regulatory capital as per Basel III regulations is grouped into:

- Common Equity Tier 1 (CET1) capital which includes assigned capital and retained earnings,
- Meethaq does not have any additional tier 1 capital,
- Tier 2 capital, which includes loan/financing loss provisions.

There are no amounts in capital adequacy calculation of Meethaq which are subject to a different pre-Basel III treatment. "

B.2 Capital adequacy

Capital adequacy indicates the ability of Meethaq in meeting any contingency without compromising the interest of the investment account holders and to provide financing across the business cycles. Besides being a regulatory requirement, sufficient capital in relation to the risk profile of Meethaq's assets helps promote financial stability and confidence of the stakeholders.

Risk coverage is the primary consideration influencing capital management, however, Meethaq being a business driven window of the Bank, needs to provide comfortable rate of return to the capital provider. Hence, with regards to the capital management, Meethaq strives to remain conscious of the balance between the two.

Risk weights are assigned to assets as per the regulatory guidelines from the CBO. Assets funded by investment accounts are also assigned same risk weights as the assets funded by own equity.

The summary of capital adequacy ratio of Meethaq is as below:

	31 Dec 2015 Risk Weighted Assets	31 Dec 2014 Risk Weighted Assets
	RO'000	RO'000
On-balance sheet items	**469,979**	250,616
Off -balance sheet items	**10,666**	11,179
Total Credit risk	**480,644**	261,795
Total Market Risk	**68,435**	1,076
Total Operational Risk	**31,269**	28,498
Total risk weighted assets	**580,349**	291,369
Capital Structure		
Tier 1 Capital	**69,728**	43,680
Tier 2 Capital	**10,008**	3,642
Total Regulatory Capital	**79,736**	47,322
Capital Requirement for Credit Risk		
- Murabaha contracts	**3,352**	3,098
- Musharaka contracts	**48,437**	24,629
- Others	**5,217**	3,585
Capital Requirement for Credit Risk	**57,006**	31,312
Capital Requirement for Market Risk	**8,212**	129
Capital Requirement for Operational Ris	**3,752**	3,420
Total Required Capital	**68,971**	34,861
Tier 1 Ratio / CET 1 ratio	**12.01%**	14.99%
Total Capital Ratio	**13.74%**	16.23%

C. Disclosures for Investment Account Holders (IAH)

Meethaq accepts funds from investment account holders under Shari'a compliant Mudaraba contracts. These funds are unrestricted in nature i.e. it is the discretion of Meethaq to invest in any Shari'a compliant assets. There are no limits on the investment of Investment Accounts fund in any particular type of asset. Currently, Meethaq offers two types of Investment accounts:

- Savings accounts, and
- Term deposits of various maturities from 1 month to six years.

The products of Meethaq are listed on its website with detailed product information, as well as, the underlying Shari'a basis for such product.

Equity of investment account holders is commingled with Meethaq's funds and utilised completely in the business of Meethaq according to the weights of each type of fund. These weights are declared by Meethaq at the beginning of each month in the form of circulars which are available at its branches. Mudarib expenses are charged to the pool which include all direct expenses incurred by Meethaq, including impairment provisions. Fee based income is not allocated to the joint pool. From the distributable profits earned by the pool assets, after charging Mudarib expenses, allocation is made between shareholder funds and funds of IAH's. From the share of IAH's, Mudarib share is deducted and the distribution is made subject to creation of profit equalisation and investment risk reserves as discussed below.

Meethaq is committed to provide competitive rate of return to its investment account holders. Meethaq appropriates a certain amount in excess of the profit to be distributed to investment accountholders before taking into consideration the Mudarib share of income. This reserve being called Profit Equalisation Reserve (PER) is used to maintain a certain level of return on investment for equity of investment accountholders. Further, Investment risk reserves (IRR) is also maintained by Meethaq which are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders. No transfers were made during the year from PER to IRR or vice versa.

The rate of return on each type of investment account is disclosed by Meethaq on a monthly basis in the form of circulars which are available at its branches. The investment account holders who invest in term deposits are entitled to withdraw before the maturity. However, in such case the profit is distributed on the basis latest declared rate of relevant maturity.

The website of Meethaq and the branch staff assist investment account holders in choosing the right investment account as per their needs. In addition to direct access to the branch management and call center, Meethaq's website also provides opportunity to raise complaints and concerns faced by the investment account holders, if any.

C.1 Ratios and returns

Certain ratios relevant to Investment account (IA's) holders as of 31 Dec are as follows:

Particulars	2015	2014
PER to IA's	**0.165%**	0.170%
IRR to IA's	**0.018%**	0.015%
ROA (Net income before IA's distribution / total assets of Meethaq – End of year)	**1.68%**	2.56%
ROE (Net income after IA's distribution / shareholder equity of Meethaq– End of year)	**8.7%**	17.1%

Quartelry average profit distribution percentage on IA's during the year (excluding PER, Mudarib share and IRR) is as follows:

Type of accounts	Mar	Jun	Sep	Dec
Saving accounts	0.50%	0.50%	-	-
0-499.999	-	-	0.10%	0.10%
500-4,999.99	-	-	0.50%	0.50%
5,000-14,999.99	-	-	0.75%	0.75%
15,000-29,999.99	-	-	1.00%	1.00%
30,000 & above	-	-	1.25%	1.25%
Saving Bareem				
0-499.999	-	-	0.10%	0.10%
500-4,999.99	-	-	0.50%	0.50%
5,000-14,999.99	-	-	0.75%	0.75%
15,000-29,999.99	-	-	1.00%	1.00%
30,000 & above	-	-	1.25%	1.25%
Govt Plus	-	0.50%	0.50%	0.50%
Term accounts	-	-	-	-
1 Month	0.10%	0.10%	0.10%	0.12%
2 Month	0.15%	0.15%	0.15%	0.17%
3 Months	0.20%	0.20%	0.20%	0.25%
6 Months	0.50%	0.50%	0.50%	0.53%
9 Months	0.60%	0.60%	0.60%	0.65%
12 Months	0.75%	0.75%	0.75%	1.03%
18 Months	1.10%	1.10%	1.10%	1.25%
2 Years	1.25%	1.25%	1.25%	1.43%
3 Years	1.50%	1.50%	1.50%	1.92%
4 Years	2.00%	2.00%	2.00%	2.42%
5 Years	2.25%	2.25%	2.25%	2.67%
6 Years	2.50%	2.50%	2.50%	2.92%

C2. Details of Investment accounts (IA's)

Particulars	2015	2014
	RO'000	RO'000
Assets		
- Murabaha	**18,079**	13,466
- Musharaka	**338,974**	195,326
- Investment	**38,170**	4,105
Total amount of IA's invested as of 31 Dec	**395,223**	212,896
Share of profit of IA's before PER and IRR for the year	**6,847**	3,444
Transfers to:		
PER	**357**	373
IRR	**52**	37
Share of profit of IA's after PER and IRR for the year	**6,438**	3,034
Share of profit of IA's as a percentage of funds invested	**1.63%**	1.43%
PER as % of distributable profit	**5.21%**	10.83%
IRR as % of distributable profit	**0.76%**	1.07%
Total administrative expenses charged to IA's pool for the year	**11,122**	7,306
Mudarib fee percentage for the year	**24.3%**	56.1%

There were no movements in the PER and IRR during the year other than additions as mentioned above. There have been no changes in asset allocation in the current year. No off balance sheet exposure is allocated to the pool.

D. Risk management

Meethaq's risk management is centralized at Bank. It is a process whereby the Bank identifies key risks, applies consistent, understandable risk measures, and chooses which risks to reduce and which to hold and by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that Meethaq operates within the risk appetite levels set by the Bank's Board of Directors while pursuing its objective of maximizing the risk adjusted returns.

Being a window operation, Meethaq's risk management is the overall responsibility of the Bank's Board of Directors. The detailed risk management approach of the Bank, which is also applicable to Meethaq, is explained in the main Pillar III document.

Bank's risk management processes have proven effective for Meethaq throughout the current year. Bank's Board of Directors has remained closely involved with key risk management initiatives, in ensuring the Meethaq's risks are effectively managed and adequate capital is held in line with the requirements.

Detailed risk governance structure of the Bank, which is also applicable to Meethaq is disclosed in the main Pillar III document of the Bank. In addition, a dedicated Shari'a Supervisory Board (SSB) has been established which reports to the Board of Directors of the Bank and ensures Shari'a compliance in the operations of Meethaq. The details of SSB are disclosed in section E.

Specifically, Meethaq has exposure to the following risks.

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Rate of return risk, and
- Displaced commercial risk

D.1 Credit risk

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. Meethaq's credit risk is managed by monitoring credit exposures, continually assessing the creditworthiness of counterparties, and by entering into collateral agreements in the form of mortgages, pledge of assets and personal guarantees. The detailed credit risk management policy of the Bank, which is being followed by Meethaq also, is disclosed in the main Pillar III document of the Bank.

(a) Impairment Policy:

All financing contracts of Meethaq are regularly monitored to ensure compliance with the stipulated repayment terms. These loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. A summary of such criteria is disclosed in the main Pillar III document of the Bank.

Meethaq creates provision for bad and doubtful debts promptly, as and when required in line with the conservative provisioning norms it has set for itself and arrives at the provisioning requirement both under financial reporting framework and CBO guidelines and maintains whichever provision is higher.

In addition to the above, Meethaq also makes a general loan loss provision on the standard portfolio equivalent to 2% of retail lending portfolio and 1% of corporate portfolio.

In addition to the above, the Bank makes a specific provision on restructured loans which are under standard and special mention loan category as per regulatory requirement. The Bank also makes a general loan loss provision on the standard and special mention portfolio equivalent to 2% of retail lending portfolio and 1% of corporate banking portfolio.

The restructured or rescheduled loans are upgraded only after satisfactory performance of one year from the date of the first payment of interest or principal, whichever is earlier, under the rescheduled/ renegotiated terms.

(b) Past due financing and provision

The past due and impaired financing of Meethaq, together with the specific and collective provision is as follows:

	31 Dec 2015	31 Dec 214
	RO '000	RO '000
Past due and impaired financing	**1,464**	665
Specific provision	**823**	515
General provision	**10,170**	7,098
Total provision	**10,993**	7,613

All past due and impaired financing are based in Oman and pertains to retail loans.

(c) Movement in provision

	31 Dec 2015	31 Dec 214
	RO '000	RO '000
Provision at beginning of the period	**7,613**	5,128
Transferred from the Bank	**-**	-
Charge for the period	**3,743**	2,663
Recoveries	**(363)**	(178)
Provision at end of the period	**10,993**	7,613

The penalties imposed on customers, due to late payments, during the year amount to RO 18 thousands and were being taken to charity payable accounts which will be distributed to Charity.

(d) Categorization of financing

The Gross Loans & Advances by category is given in the below table:

Category	Retail	Corporate	Total
	RO'000	RO'000	RO'000
As on 31 Dec 2015			
Standard	371,522	222,144	593,666
Special Mention	829	49,840	50,669
Sub-standard	497	35	532
Doubtful	530	-	530
Loss	402	-	402
Total	**373,780**	**272,019**	**645,799**

(e) Collateral Management:

Meethaq employs a range of policies and procedures to mitigate credit risk. The credit risk mitigants include collaterals like:

- lien on deposits
- securities
- real estate
- inventories
- assignment of receivables

- guarantees

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

(f) Exposure analysis

All the exposures of Meethaq are in Oman.

As of 31 December 2015, Industry wise distribution of gross exposures, broken down by major types of credit exposure is given in the below table

Economic Sector	Murabaha and other receivables	Ijarah Muntahia Bittamleek	Musharaka	Total	Percentage composition	Off Balance Sheet Exposure**
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Manufacturing	-		9,791	9,791	1.5%	7,879
Mining & Quarrying	-		130	130	0.0%	-
Agriculture	-		-	-	0.0%	-
Construction	-		102,740	102,740	15.9%	556
Financial	-		-	-	0.0%	-
Trade	-		11,624	11,624	1.8%	-
Retail	30,666		294,320	324,986	50.3%	23
Government	-		-	-	0.0%	-
Other services	-	48,794	147,734	196,528	30.4%	9,580
Total	30,666	48,794	566,339	645,799	100.0%	18,038
Percentage of total financing	4.75%	7.55%	87.70%	100.00%		

** off balance sheet exposure relates to performance guarantees and forex contracts which are governed under standard business norms.

As of 31 December 2015, the assets were funded by IA's and equity holders in the following ratio:

IA's	61%
Shareholders	39%

Industry wise distribution of gross average exposures during the year, broken down by major types of credit exposure is given in the table below:

Economic Sector	Murabaha and other receivables	Ijarah Muntahia Bittamleek	Musharaka	Total
	RO'000	RO'000	RO'000	RO'000
Manufacturing	20,139		5,952	26,091
Mining & Quarrying	-		130	130
Agriculture	-		-	-
Construction	-		62,623	62,623
Trade	-		3,196	3,196
Retail	17,676		333,148	350,823
Other services	-	48,794	21,511	70,305
Total	**37,815**	**48,794**	**426,560**	**513,169**

Residual contractual maturity breakdown of the gross portfolio as of 31 December 2015, broken down by major types of financing is given below in the table:

Time Band	Murabaha and other receivables	Ijarah Muntahia Bittamleek	Musharaka	Total
	RO'000	RO'000	RO'000	RO'000
Upto 3 month	7,111	911	85,393	93,415
4 - 12 months	415	2,769	29,969	33,153
1 - 5 years	4,420	15,300	158,606	178,326
Over 5 years	18,720	29,814	292,371	340,905
Total	30,666	48,794	566,339	645,799

D.2 Liquidity Risk

"Liquidity risk is the risk that Meethaq will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Asset Liability Committee (ALCO) of the Bank manages the liquidity position of Meethaq. In order to ensure that Meethaq meets its financial obligations as and when they fall due, cash flow positions are closely monitored.

Liquidity ratios of Meethaq (i.e. Liquid assets to total assets and liquid asset to deposits) are regularly monitored. If required, Meethaq, being a window operation of the Bank, obtains funding from the Bank. The average ratio of liquid assets to total assets during the year for Meethaq was 4.4%."

Asset and liability mismatches are outlined in note 19 to the financial statements of Meethaq.

D.3 Market risk

Market risk is the risk of a change in the actual or effective market value and earnings of a portfolio due to the adverse movements in market variables. The market variables inter-alia includes equity prices, bond price, commodity price and Foreign Exchange rates. The objective of Market Risk management is to facilitate business growth but operating at the optimal risk levels.

As of 31 December 2014, Meethaq does not hold trading positions in equity or Sukuk. Also, Meethaq has no position in commodities. Meethaq exposure to market risk as disclosed in market risk weighted assets in section B.2 pertains only to foreign currency exposure. As of 31 December 2014, the foreign currency net open position amounts to 3.9% of capital and reserves. A change of 5% in foreign exchange rates, with all other variables held constant, will have an impact of RO 80 thousands on Meethaq's statement of income.

D.4 Operational Risk

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

Detailed operational risk management philosophy of the Bank is disclosed in the main Pillar III document which applies to Meethaq as well.

D.5 Rate of return risk

Rate of return risk refers to the possible impact on the net income of Meethaq arising from the impact of changes in market rates and relevant benchmark rates on the return on assets and on the returns payable on funding. An increase in benchmark rates may result in IAH's having expectation of a higher rate of return, while the returns on assets may be adjusting more slowly due to longer maturities, thereby affecting the net income of Meethaq.

The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Meethaq is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Meethaq's results do not allow to distribute profits in line with the market rates. To cater against DCR, Meethaq creates Profit Equalisation Reserve as explained in section C and D.6.

An analysis of profit bearing assets (net of provision) and liabilities according to repricing buckets is as follows:

	Effective profit rate	within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
		RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS						
Musharaka, Murabaha and other receivables	5.3%-5.8%	94,303	35,922	193,626	310,878	634,729
Due from banks	1.0%	26,613	769	-	549	27,931
Investments	4%	40,002	16,667	5,006	963	62,638
Total profit bearing assets		160,918	53,358	198,633	312,389	725,298
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS						
Due to banks under Wakala	0.3%	49,275	-	-	-	49,275
Equity of investment accountholders	0.5%-1.90%	25,899	201,455	259,615	23,710	510,678
		75,174	201,455	259,615	23,710	559,953
Net gap		85,745	(148,097)	(60,982)	288,679	-
Cumulative net gap		85,745	(62,353)	(123,335)	165,345	-

An analysis of impact on net income of Meethaq due to changes in market rates is as follows:

	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
At 31 December 2014	(5,272)	2,674	(2,690)	1,705	(1,399)	959
Maximum for the period	(5,272)	995	(2,692)	960	(1,563)	676
Minimum for the period	(2,993)	2,674	(1,456)	1,705	(688)	959
Average for the period	(4,355)	1,748	(2,248)	1,248	(1,194)	849

D.6 Displaced commercial risk

Displaced commercial risk refers to the magnitude of risks that are transferred to the shareholders of Meethaq in order to cushion the Investment Account Holders (IAH) from bearing some or all of the risks to which they are contractually exposed in Mudaraba funding contracts. Meethaq creates and manages both PER and Investment risk reserve to smoothen IAH returns. Further, Meethaq also adjusts its Mudarib share in order to smoothen returns of IAH's.

An analysis of distribution during the year to IAH's by Meethaq is as follows:

	2015		2014	
	Amount RO'000	% of Mudaraba assets	Amount RO'000	% of Mudaraba assets
Total profits available for distribution	12,423	1.915%	11,094	2.718%
Profit sharing				
- Shareholders	3,380	0.521%	3,243	0.795%
- IAH's	9,043	1.394%	7,851	1.924%
Mudarib fee charged to IAH portion	(2,196)	0.339%	(4,407)	1.080%
Profits for IAH's before smoothening	6,847	1.056%	3,444	0.844%
Smoothening:				
- PER	(357)	0.055%	(373)	0.091%
- IRR	(52)	0.008%	(37)	0.009%
Profits paid out to IAH after smoothening	6,438	0.993%	3,034	0.743%

E. General governance and Shari'a governance

Meethaq, being a window operation of the Bank, is managed under the same governance structure as the Bank. The details of which are disclosed in the main Pillar III document of the Bank. In addition, Meethaq's operations are governed and monitored by the Shari'a Supervisory Board (SSB) which comprises of leading Shari'a scholars from the field of Islamic finance. SSB reports to the Board of Directors of the Bank. A report of SSB on the operations of Meethaq during the year is included in the annual report of the Bank.

E.1 Shari'a Supervisory Board (SSB)

The composition of SSB is as follows:

S.No.	Name of the Scholar	Qualification	Position in the board	Nationality
1	Sheikh Dr. Ali Mohiuddin Ali Al Qaradaghi	PhD in Shari'a and Law at the University of Al Azhar in the field of contracts and financial transactions, in 1985.	Chairman	Qatar
2	Sheikh Essam Muhammad Ishaq	Graduate of McGill University, Montreal, Canada	Member	Bahrain
3	Sheikh Majid Bin Mohamed Bin Salim Al Kindi	Pursuing the PhD in Economics and Islamic banking – Yarmouk University – Jordan	Member	Oman
4	Sheikh Saeed Mubarak Al-Muharrami	PhD in Banking & Finance, Cardiff University, U.K.	Member (non voting)	Oman
5	Mr. Abdulkader Thomas	"Bachelor of Arts with Honors - University Of Chicago. Major: Arabic & Islamic Studies"	Member (non voting)	USA

SSB members are paid RO 67 thousands during the year in connection with sitting fee, advisory fee and reimbursement of expenses.

SSB's meetings and attendance by the members during the year were as follows:

Participants	Date of Meeting				
	22-Jan-15	26-Mar-15	24-Jun-15	15-Sep-15	17-Dec-15
Sheikh Dr. Ali Mohiuddin Ali Al Qaradaghi	✔	✔	✔	✔	✔
Sheikh Essam Muhammad Ishaq	✔	✔	✔	✔	✔
Sheikh Majid Bin Mohamed bin Salim Al Kindi	✔	✔	✔	✔	✔
Sheikh Saeed Mubarak Al-Muharrami	-*	✔	✔	✔	✔
Mr. Abdulkader Thomas	-*	✔	✔	✔	✔

*The Meeting in Jan 2015 was held exclusively for the voting members only. So absence of other members is immaterial.

E.2 Shari'a compliance key controls

Shari'a compliance is ensured in day to day business of Meethaq through the following key controls:

- All the products being offered by Meethaq are approved by the SSB;
- All investments made by Meethaq are approved by SSB;
- The Fatawa approving such products are available on the website of Meethaq;
- Meethaq has in place a Shari'a Compliance & Audit Division (SCAD) which facilitates the management in ensuring compliance with Shari'a (as manifested by the guidelines and Fatawa issued by the SSB) and Islamic banking stipulations of the Central Bank on a day to day basis in all its business activities, operations and transactions. This is achieved through review, approval and subsequent audit of the contracts, agreements, policies, procedures, products, process flows, transactions, reports (profit distribution calculations), operations, etc.;
- Templates of agreements used by Meethaq are approved by SSB;
- Islamic banking knowledge and experience is considered to be a compulsory requirement for hiring of staff handling core Meethaq functions;
- Staff has been provided training throughout the year on business, regulatory & Shari'a matters;
- Stakeholders of Meethaq have the opportunity to raise any queries relating to Shari'a matters through various channels including Meethaq's website.

E.3 Other governance matters

Meethaq follows Financial Accounting Standard issued by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) as required by the regulations of the Central Bank of Oman.

During the year, there was no Shari'a non compliant income earned by Meethaq. Any penalties charged to customers for late payments are recorded as Charity payable which will be utilised for Charity purposes. Meethaq is not required to pay Zakah on behalf of IAH's and Shareholders.

E.4 Social service and customer education

A number of initiatives were taken by Meethaq during 2015 to improve awareness and to popularise Islamic banking. Some of the significant activities during the year were:

- Meethaq launched a unique savings and investment awareness programme targeted at school students. The 'Little Investor' programme, endorsed by the Ministry of Education, was aimed at promoting Islamic banking concepts in society, with particular emphasis on children and youth.
- Meethaq launched an initiative called Majlis Meethaq evening, a unique social forum aimed at facilitating interaction with prominent personalities. Majlis Meethaq is a monthly gathering in which a well- known economic, social, religious or cultural persona having influence on Omani society from the Sultanate or abroad is hosted. The interaction between the guest and the audience is aimed at focusing on aspects of the presenter's personal life, success in career and views on issues facing the country and community.
- Meethaq hosted a forum on SME development in the oil and gas sector, with Raoul Restucci, Managing Director of Petroleum Development Oman, as the guest of honour. The event held at the head office of **bank muscat** was attended by dignitaries and key representatives of the leading oil and gas establishments and SME development organisations. Industry experts addressed the forum which spotlighted new opportunities and challenges for SME development in the oil and gas sector in Oman.
- Meethaq launched a new initiative aimed at highlighting the role of Islamic finance in the economic development of Oman. The new Shua'a initiative by Meethaq, centred on an awareness programme on Islamic economics, the programmes to be held under the banner of Shua'a will see the involvement of national cadres, especially scholars, researchers and entrepreneurs, to identify areas in which Islamic economics can benefit the country and the people. Notably all Shua'a programmes will have the participation of Shari'a Supervisory Board members, so that the participants in these events can benefit from their knowledge and experience.
- "Meethaq and Thomson Reuters, the world's leading source of business and financial information, have set up ""Meethaq BusinessPulse', an innovative information portal targeted to promote small and medium enterprise (SME) development in Oman. The primary objective of the 'BusinessPulse' online platform is to provide guidance and help for SMEs to successfully navigate each stage of their business. The portal will provide important information, practical advice and value-added services on how to grow their business and take it to the next level. The portal will connect SMEs to growth opportunities and a complete ecosystem enabling their success.

  The objective of 'BusinessPulse' is envisaged to be achieved through a series of SME foundation articles, success stories videos and industry sector reports that provide in-depth analysis on opportunities for SMEs in Oman."

Meethaq has established a dedicated Corporate Social Responsibility function responsible for arranging and organising social service activities for the benefit of customers, stakeholders and public at large. The CSR function is governed under the "Code of business Ethics and Conduct" for the Bank, this Code covers overall social service initiatives and CSR activitie, Meethaq considers these as an integral part of Islamic banking landscape.

AbdulRazak Ali Issa
Chief Executive

Waleed K. Al Hashar
Deputy Chief Executive Officer

Sulaiman Al Harthy
Deputy Chief Executive Officer
Islamic Banking

Ahmed M Al Abri
Chief Operating Officer

K. Gopakumar
Deputy Chief Operating Officer

Abdul Kader Darwish Al-Balushi
General Manager
Credit Policy and Planning

Abdullah Al Hinai
General Manager
Wholesale Banking

Inkawan D. Jusi
General Manager
Personal Banking

Leen Kumar
Chief Risk Officer

Marco Wolters
General Manager
Enterprise Services

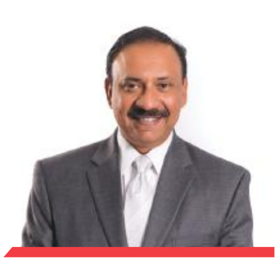
Salim Al Kaabi
General Manager
Credit

Sheikha Al Farsi
General Manager
Strategy and Development

Thomas Gerard Totton
Chief Internal Auditor

T. Ganesh
Chief Financial Officer

Naresh Chandwani
Group Deputy General Manager
Service Excellence Centre



Rajshekar Singh
Group Deputy General Manager
Corporate Banking

Said Ahmed Al-Badai
Group Deputy General Manager
Mass Banking

Said Salim Al Aufi
Group Deputy General Manager
Projects & Infrastructure

Shamsa Al-Seefi
Group Deputy General Manager
Technology

Yousif Abbaker
Chief Legal Advisor & Secretary
to the Board of Directors

Abdul Nasir Al-Raisi
Deputy General Manager
Premier Banking

Abdullah Tamman Al Maashani
Deputy General Manager
Institutional Sales & Product
Development

Abdul Wahid Al-Murshidi
CEO Muscat Capital L.L.C

Ahmed Faqir Al-Bulushi
Deputy General Manager
Human Resources

Ahmed Musallam Al Barami
Deputy General Manager
Chairman's Office

Management Team

Ali Said Ali
Deputy General Manager
Capital Markets Back Office

Damian John O' Riordan
Deputy General Manager
Compliance

Ilham Murtadha Al Hamaid
Deputy General Manager –Large Corporates

Mallikarjuna Korisepati
Deputy General Manager
Treasury & Capital Markets

Manas Das
Deputy General Manager
International Operations

Nilesh Gavankar
Deputy General Manager
Investment Banking

Tariq Atiq Khan
Deputy General Manager
Transaction and Public Sector Banking

Yaseen Hassan Abdul Latif
Deputy General Manager
Support Services

Ahmed Omar Al-Ojaily
Senior Assistant General Manager
Business Solutions and Applications

Amjad Al Lawati
Assistant General Manager
Cards & E-banking

Aliya Ali Al Balushi
Assistant General Manager
Internal Audit

Fatma Khalifa Al Maskiry
Assistant General Manager
SME Credit and Marketing

Muhammad Nadeem
Assistant General Manager
Islamic Banking

Osamah Mahmoud Al Abdullatif
Assistant General Manager
Project Finance

Saleh Mohammed Al Maini
Assistant General Manager
Interior Regions

Talal Abdul Hamid Al Zadjali
Assistant General Manager
Operations

Taya Bait Sabeea
Assistant General Manager
Muscat Region

In 2015, **bank muscat** arranged RO 350 Million for Orpic Oman at the holding company level to meet cash flow requirements of its subsidiaries. **bank muscat** was the Mandated Lead Arranger, Book Runner, Account Bank and the Security Agent for the transaction. Orpic Oman's national refining and petrochemicals company is owned by the Ministry of Finance and Oman Oil Company SAOC.

Orpic

Management Discussion and Analysis

Global Economy

In 2015, the world economy grappled with the fall in oil prices and other commodity prices. According to the World Bank, global growth fell short of expectations in 2015, decelerating to 2.4 per cent from 2.6 per cent in 2014. The low performance mainly reflected a continued growth deceleration in emerging and developing economies amid post-crisis lows in commodity prices, weaker capital flows and subdued global trade. The prospect of rising interest rates in the US and an economic slowdown in China fed uncertainty and a higher risk of economic vulnerability worldwide.

Oman's Economy

The Sultanate's economic growth in 2015 stood at 3 per cent, mainly due to pressure on revenue amid year-long low oil prices. The economic and fiscal reliance on the oil and gas sector added pressure to public finance. Oman's financial buffers, domestic savings and healthy banking sector served as a source of stable funding for the government. Oman's fiscal deficits widened as hydrocarbon-related government revenues dropped by more than 40 per cent.

Financial sector

The banking and financial sector maintained a healthy credit growth of 8.3 per cent at the end of November 2015. The aggregate deposits of Omani banks rose by 4 per cent to RO 18 billion in November 2015 from RO 17.3 billion for the same period in 2014. Muscat Securities Market (MSM) reflected the changing outlook for the region owing to low oil prices. Oman's inflation level averaged 2.9 per cent in 2015.

Opportunities and Threats

In light of the challenging outlook for Oman's economy, the 2016 budget has taken bold decisions reflecting prudent and careful planning. The realistic budget focuses on supporting growth and stimulating the private sector as infrastructure projects continue to give a fillip to the economy.

The banking sector is poised to sustain growth owing to the government's continued focus on economic diversification and infrastructure development across the Sultanate.

Perceived challenges relating to Oman's economy are mainly linked to low oil prices. Since domestic economic growth and oil prices tend to move together, declining oil prices can result in both external and fiscal account deficit.

The government's fiscal prudence over the years resulting in building up reserves is seen providing a cushion to sustain growth in the near-term. Oman's low debt-to-GDP ratio at 4 per cent is also favourable to help raise finance for development projects. The bank reckons that product innovation and improved level of service for both conventional and electronic channels will be the key to making a difference in banking excellence.

Segment-wise performance

The key business lines of the bank recorded healthy performance during 2015. The bank's core business activities are divided into the broad areas of Retail Banking, Corporate Banking, Investment Banking, Treasury, Asset Management, Premier Banking, Financial Institution and International Operations. Key support functions include Information Technology, Operations, Human Resources, Finance and Risk Management.

Retail Banking

bank muscat continued to provide an unrivalled experience to retail customers in 2015 with the right mix of traditional and electronic channels.

The bank's commitment to inculcate a healthy savings habit among the public was well received as RO 9 million was given away as prize money for al Mazyona Savings Scheme with guaranteed prizes to winners in all governorates and exclusive prizes for ladies, children, youth and high saving customers.

The bank launched Oman's first electronic branch in the banking sector. Located in the prime new retail destination - Oman Avenues Mall – the eBranch offers modern facilities like social corner where customers can interact on social media channels, video calling facility to speak face-to-face with Call Centre employees, customer appointment booking and feedback kiosk.

Enhancing the electronic and digital channels, the bank upgraded its feature-rich mobile banking application, introducing unique new services to do more banking from anywhere, anytime. The new easy-to-use mBanking services include fund transfers across the world via the bank's SWIFT network; speed transfer to India, the Philippines and Sri Lanka and mutual fund purchases. Winner of the coveted His Majesty Sultan Qaboos Award for the Best Public eService, mBanking is Oman's preferred mobile banking service with more than 350,000 registered customers.

The bank launched a new internet banking portal for both retail and corporate customers. The new features include direct utility bill payment and salary uploads by corporates.

Widening the reach of traditional channels, the bank opened five new service centres catering to the requirements of expatriate customers. Targeted at customers in high demand areas, the bank also launched

2 new mobile ATM trucks. The bank has the largest network of 153 branches, 432 ATMs and 184 CDMs.

Micro, Small and Medium Enterprises (MSME) are of strategic importance to the economy as they have an impact on employment and economic growth. To support the Omani economy by providing financing to under-served micro and small businesses, the bank launched 4 more najahi sales centres, taking the total number of centres to 8.
The Open Day series to reach customers across the Sultanate generated excellent response, benefitting hundreds of customers who availed the special rate of interest on personal finance.

bank muscat Premier Banking serves all premier customers of the bank through - Private, Priority and Privilege banking - providing personalised service catering to their complex financial needs. With one department serving all premier customers of the bank, the new Premier Banking segmentation reflects the customer-centric vision of the bank. Committed to further enhancing banking services to the premier segment, the bank's strategy focuses on business growth opportunities from the customer perspective with dedicated Relationship managers, exclusive centres and online services.

During the year, **bank muscat** Private continued to provide comprehensive bespoke solutions to preserve, secure and grow wealth of premier customers. With experience and expertise, **bank muscat** Private Banking provides an exceptional breadth and depth of wealth management solutions, including investment, wealth structuring, advisory and banking across multiple jurisdictions around the globe and diverse asset classes.

Providing a differentiated and specialised banking experience, asalah Priority Banking played a unique role in response to client's preferences with a long-lasting presence and profound understanding forming a strong franchise that distinguishes asalah from competitors. asalah's revamped model was an immediate response to the rapidly growing customer segment.

During the year, the bank launched Al Jawhar Privilege Banking aimed at providing a distinct banking experience to its core customer segment. Designed around the unique lifestyle and banking requirements of the largest customer segment, Al Jawhar is the first-of-its-kind Privilege banking service in Oman.

Looking ahead, the bank remains committed to elevate premier banking service to unparalleled heights.

Corporate Banking
The Corporate Banking Department forged long-term and value-based relationships with almost all corporate entities in Oman, offering a wide range of sector-specific products backed by high quality service and relationship management. Continuing with its diversified growth strategy, the bank focused on identifying industry specific opportunities. Maintaining credit quality gained priority with an emphasis on proactive monitoring of credit, market and operational risks.

During the year, the bank rolled out its enhanced Corporate Internet Banking services with state-of-the-art features. The bank is in the process of relocating its corporate branch in Batinah region to a more dynamic and convenient location. The bank is focused on delivering superior customer service levels through new corporate branches combined with technology enabled solutions. A transaction banking desk was set up during the year comprising competent domain experts to service financial and operating needs of customers in the areas of cash management, current accounts and remittances.

In Project & Structured Finance, the bank maintained its leadership position by playing an integral part in several large-scale and key infrastructure projects. The bank's deep sectoral expertise along with innovative structuring capabilities and sound due diligence techniques enabled the team to pursue opportunities that cater to the long-term financing requirements of various projects in the Sultanate. These include projects in key sectors such as oil & gas, petrochemicals, shipping, real estate, aviation, power & water.

The bank was mandated to arrange syndicated loans for new developments in the real estate, contractor accommodation, oil & gas sectors. In addition, the bank was also mandated as Lead Arranger for two power & related water projects.

Small & Medium Enterprises (SME) form the foundation of industrial, trade and services sector in Oman. Taking cognizance of the same, the bank has been providing the required support to the SME sector. The bank's support stems from the strong belief that SMEs help boost the local economy, contribute to the GDP and create employment opportunities. The bank's experience in partnering with SMEs has enabled it to develop non-traditional techniques for assessing credit risk and providing appropriate solutions distinct to their needs.

The bank supports SMEs through innovative financial products as well as non-financial services to grow their businesses. The bank organised al Wathbah Ramadhan Souq and other networking forums to encourage entrepreneurs to build their business. During the year, the bank partnered with the Ministry of Tourism, the Public Authority for SME development 'Riyada' and Malta Enterprises Fund by entering into Memorandums of Understanding aimed at strengthening the SME sector.

As a member of the Global Banking Alliance for Women Market, the SME team undertook a study tour to visit Westpac Bank, Australia and gained insights on best practices in supporting women entrepreneurs.

Investment Banking
The Investment Banking division maintained its market leadership with innovative financing solutions. In 2015, the division achieved closure for an aggregate of RO 2.2 billion of capital raises.

The debt finance group raised US$ 1 billion (OMR 385 million) for Oman Electricity Transmission Company SAOC via an international bond offering. This issuance was the first international bond issuance by a Government-owned entity from Oman. The transaction received industry recognition and awards by GFC Bonds, Loans & Sukuks Awards Middle East for Sovereign/Quasi-Sovereign Financing Deal of the Year 2015 and Investment Grade Bond/Sukuk Deal of the year 2015.

The OETC transaction was the first in a series of long-term debt financing transactions in the electricity transmission and distribution sector and has since been followed by the successful closure of long-term financings for Muscat Electricity Distribution Company SAOC and Mazoon Electricity Distribution Company SAOC. The successful and timely financing led to a significant improvement in the long-term financial flexibility of the Government-owned entities in the sector.

During the year, the debt finance group acted as the sole issue manager for the debut RO 250 million Sukuk issuance by the Government of Oman. This transaction not only marked the first ever issuance of

Shari'a compliant paper by the Government of Oman but also used for the first time in the Omani capital market history a book-building process with a uniform price auction for bond price discovery and this novel pricing process was well received by investors. The transaction was a step towards further developing Oman's capital market.

The only IPO on the Muscat Securities Market during 2015 for Phoenix Power Company was led by the equity group and was an overwhelming success. The IPO of RO 56.2 million was hugely oversubscribed demonstrating the bank's strong franchise with local and international investors. In yet another first, the equity group launched and closed the Izdihar Real Estate Fund, which is the first real estate fund in Oman structured on REIT principles. Izdihar Real Estate Fund has become the only fund of its type to be structured under the CMA's fund regulations in Oman and was well received in the market.

Asset Management

The Asset Management Division remains the biggest wealth manager in Oman and a leading player in the region with total assets under management (AUM) of $1.7 billion.

While returns from the division's flagship mutual funds, the Muscat Fund and Oryx Fund, were negative during the year, both funds outperformed their benchmarks by 2.4% and 7.2% respectively. The funds were able to achieve this outperformance on account of better stock selection. The Money Market Fund with a yield of 1.09 per cent continues to offer an attractive alternative to the call and short-term deposits. The fixed income portfolios also generated positive returns and outperformed the competition.

During the year, the Asset Management Division concluded Series II of its GCC Property Income Fund that invests in properties offering a regular annual yield of 7 to 8 per cent. The Series II closing will invest in a commercial mall and warehouse property. The Fund continues to evaluate a number of assets and has a strong pipeline of deals.

In 2016, the Asset Management Division plans to add new products and widen its client base targeting institutions in Oman, GCC, and international markets.

Treasury & Capital Markets

The Treasury & Capital Markets (T&CM) Division maintained its leadership position despite increased competition in 2015. **bank muscat** is the only bank in the country to offer a full suite of treasury products and services on 24X7 basis. The treasury products and services include hedging for foreign exchange requirements, managing interest rate risks, eliminating commodity price risks from businesses, offering fixed income investment opportunities across the region and globe. The service encompasses East Asian time as well as early New York time zones spanning all international and GCC working days. The T&CM Division was instrumental in managing the Omani Riyal liquidity by active participation in the cash and forward markets which also helped in boosting the net interest income. The division ensured availability of liquidity in both local as well as foreign currency at all times and actively monitored and hedged interest rate risk. By initiating proactive measures bank was able to protect margins though lending spreads squeezed globally.

During 2015, the T&CM Division added several new clients spread across the GCC and Asia to its portfolio. To enhance productivity, reduce cost and improve service turnaround time, the bank successfully implemented a state-of-the-art new treasury software. The bank believes, this, along with a continued focus on sharing information and offering quality service to customers will create a sustainable competitive edge for its client-focused business for the years ahead.

International Operations

The International Operations of the bank is aimed at providing regional coverage to customers through the network of branches, representative offices and associates/subsidiaries.

The year 2015 was challenging for the GCC economies due to low oil prices and credit growth was modest in the markets we operate in, ~9% and ~6.5% year-on-year in Saudi Arabia and Kuwait respectively. Margins came under pressure during the year, both on account of competition for fewer assets as well as higher cost of funding.

Riyadh (Saudi Arabia) Branch

The Riyadh Branch added new customers and its loan portfolio grew in line with the market. It also posted modest growth in operating income and operating profits. However, the branch had to make additional provisions (to increase coverage of existing NPLs and against some new NPLs) and as a result the branch reported net loss for the year.

Kuwait Branch

Kuwait Branch recorded strong loan growth and increase in customer base. A few accounts have shown signs of stress, but these have been successfully restructured. The branch posted modest operating and net profits for the year. While operating profits were up from 2014 levels, higher general provisions (on account of business growth) resulted in net profits being around the same levels as 2014.

Muscat Capital

Muscat Capital continued to grow its business, especially its Assets Under Management in the Wealth/ Asset Management business, launching new funds, including real estate and IPO funds. Its market share in the brokerage business also improved. As a result, Muscat Capital, grew its net profits significantly from previous years, though in absolute terms they continue to be modest.

Al Salam Bank, Bahrain

Pursuant to the acquisition of BMI Bank by Al Salam Bank in 2014, the bank is a 14.7% shareholder in ASBB. The investment in Al Salam Bank is accounted for as an associate and the bank is locked into the ASBB investment till March 2017. ASBB is listed on Bahrain bourse and Dubai Financial Market.

During the year, the integration of the 2 institutions was substantially implemented. The combined entity has benefited through a larger capital base, improved ratios and operating synergies.

ASBB reported modest profits for the year 2015. However, like many other GCC stocks, its share price has declined significantly following the decline in oil prices.

Mangal Keshav Securities Ltd (MKSL)

The bank completed its exit from MKSL in August 2015 through the last tranche of share buyback (the first two tranches were done in 2014). Losses associated with this exit were accounted for in 2013.

Singapore and Dubai Representative Offices

These offices, located in regional financial hubs, continue to operate as marketing offices and assist the bank in maintaining relationships with banking counterparties.

Risk Management

The bank reckons risk management as an area of core competence and has made steady investments to enhance risk management capabilities.

The bank's risk management, benchmarked to industry best practices, is in line with its nomination as the sole Domestic Systemically Important Bank (DSIB) in Oman. As a designated DSIB, the bank has framed and adopted the Recovery and Resolution Planning.

During the year, the bank formed a separate Management Risk Committee with oversight over enterprise-wide risks. The bank also carried out an external validation of the Internal Capital Adequacy Assessment Process (ICAAP). The risk rating models used in decision making were validated internally to make sure that their performance was in line with expectations.

In line with prevailing economic situation and geared for meeting unforeseen eventualities, the bank conducted stress tests under different stress scenarios and adopted measures to meet emerging challenges. To reinforce the risk culture in the bank, which is critical to sound risk management, the risk appetite framed by the Board were cascaded down to business units at a granular level and compliance to the appetite measured, reported and suitable corrective action, where warranted, were taken.

Information Technology, Operations & Infrastructure

The year 2015 was rewarding for the Information Technology Division. Aligning with the bank's vision to provide world class services through the latest technology and innovation, the IT Division endeavoured to implement emerging IT infrastructure, applications and tools in the organisation to further enhance timely, accurate, optimised and higher quality services to customers.

The IT Division worked on more than 100 projects of which 41 were fully delivered. The bank redefined the payment landscape towards a cashless environment by launching a feature-rich Internet banking portal and upgrading the existing mobile banking application enabling customers to do more banking from anywhere, anytime.

The implementation of iMAL core banking resulted in cutting edge Islamic banking channel services, including ATM/CDM, debit card, mobile banking and internet banking for Meethaq customers.

The bank migrated to Murex treasury system, which offers an end-to-end suite for treasury front-middle-back office, accounting & reporting enabling traders to capture contracts with live market rates to extend best practice customer service. The upgrade of Trade Finance application (TI+) has enabled the bank to benefit from the latest technology while also reducing operational cost.

The implementation of 3PAR Storage server for IT storage infrastructure has empowered the bank to deliver performance with true enterprise class features. Deployment of high end information security infrastructure and monitoring tools ensures the bank's information security defence capability by providing a high degree of protection. The bank also successfully completed the disaster recovery drill and business continuity exercise conforming to the bank's highest BCP standards.

Finance

Finance department plays a key role in planning and decision making process by supporting the Management Executive Committee (Mexco) and the Board of Directors. In the year 2015, the department focused on providing strategic support in achieving the business targets as planned and aligning the organisation to the challenging macro business conditions in terms of forward planning, strengthen liquidity position, improve profitability and operate with a strong capital base.

The department played a key role in ensuring an optimum level of cost to income ratio by managing the bank's overall cost base with only a reasonable increase and also paving platform for further cost efficiency measures in the years to come. The objective is to manage the cost base with possible level of flexibility to scale down during challenging business environment.

Commenced work on IFRS 9 impact assessment during the year 2015 in order to be ready for adoption of the standard well in time. The department also played a key role in complying with Basel III requirements in terms of capital and funding including the DSIB related requirements.

The department plays key role in important committees like Mexco, Asset Liability Committee, Management Risk Committee and IT Committee.

Human Resources Management

The bank recognises that its employees are the mainstay to meeting strategic objectives. The bank is focused on continuously enhancing the capabilities of its human resources and 2015 witnessed some significant developments towards this endeavour.

In all, 523 employees were recruited across all business functions achieving an Omanisation level of 93.90% as at 31 December 2015. Over 10131 learning opportunities were provided by the Learning Centre through 774 courses and 16222 training man-days were covered during 2015.

The bank adopted a new framework for Talent Management and Succession Planning in line with international best practices. This included implementation of upgraded Oracle HRMS systems in the areas of Talent Management, Succession Planning, Learning Management, Performance Management, Human Capital Analytics and the launch of Knowledge Management. A total of 213 roles were identified as Critical roles and their succession plans developed. The bank also identified 396 employees as Talent and put in place their Individual Development Plans (IDP).

The bank arranged the "Strategy for Growth and Long Term Value Creation" programme for the Board of Directors facilitated by INSEAD.

The bank also facilitated Al Wathbah SME Academy programme for employees and clients, aimed at enhancing the role of SMEs in the national economy. Eight Relationship Managers in SME and Retail Enterprise completed the programme.

A total of 13 Relationship Managers successfully completed the Omega Performance Credit Certification and a 2nd batch of 18 Relationship Managers from Corporate Banking, Credit Administration, Retail Enterprises and Risk Management have commenced the programme.

Twenty-five Relationship Managers and Sales Managers from Priority Banking and the branches successfully completed the Professional

Relationship Managers programme facilitated by Mercuri International (UK).

The bank completed a leadership assessment and development programme for 75 Senior Executives in collaboration with Korn Ferry Inc, USA.

The bank continues to remain a preferred destination for college students seeking internship programmes. This year, a total of 742 students were offered internship opportunities in the bank as part of its Corporate Social Responsibility initiatives.

Three Management Team members attended the General Management Programme (GMP) at Harvard Business School (HBS), USA and two more are scheduled to participate early 2016.

A total of 145 Managers from departments and branches successfully completed the Tatweer Programme in 2015. Two more batches totalling 30 employees commenced in 2015.

Fifty employees were granted Educational Assistance (EAS) to pursue education at local universities and colleges in Oman and three graduated in 2015.
Six employees were selected for programmes in overseas universities under the Scholarship Scheme totalling 50 employees of whom eight graduated in 2015.

The Employee Engagement programme – CONNECT reached all regions with employees participating in various sports, arts and minds initiatives.

Meethaq Islamic Banking

Meethaq Islamic Banking achieved robust growth and sustained its leading position in the Islamic banking industry in Oman in terms of financing receivables, branch network, products and services, IT infrastructure development and human resources.

Five exclusive branches were opened during the year, taking the Meethaq branch network to 17. The widest reach in the market helps Meethaq to further strengthen relations with customers. As part of efforts to enhance service, Meethaq launched exclusive Call Centre operations.

In order to offer innovative products and customer-centric service, Meethaq commissioned the new iMal core banking system during the year. Offering premier services, Meethaq launched "Hafawa" Priority Banking with nine dedicated centers across the country.

Meethaq took a major stride in supporting the Sultanate's economic development as Oman's first and only Sharia-based aircraft finance was extended to the national carrier Oman Air for acquiring its second Boeing 787 Dreamliner. Meethaq led major project finance transactions with Oman Shipping Company for very large crude carriers (VLCCs) and Oman Sebacic company in Duqm. Meethaq also signed memorandum of understandings (MoUs) with various real estate projects to extend Shari'a compliant home finance.

Awards and Recognition

- The strategic developments and achievements earned high commendations as the bank received prestigious foreign, regional and local awards.

- In recognition of banking excellence reflecting consistency of performance and innovative strategies, the bank won the 'Best Bank in Oman' awards by Global Finance, Euromoney and the Banker Middle East.

- Endorsing corporate leadership, the bank topped listed Omani companies ranked in the Forbes Top 500 Companies in the Arab World 2015.

- In recognition of the key role in the development of the local equity and debt markets and an impressive impact on the national economy, the bank won the 'Best Investment Bank in Oman' award by Global Finance.
- Consistency in performance and strategic investment decisions in the middle of challenging market conditions earned **bank muscat** Asset Management the Oman Asset Manager of the Year award by Emea Finance and Global Investor.

- In recognition of superior risk management practices, the bank was chosen, the first in the region, for the Best Bank in Middle East and Africa for Liquidity Risk Management award by the Asian Banker.

- The bank's uncompromising passion for excellence as the standard bearer of corporate Oman was endorsed by the OER Top 20 award for the Best Performing Listed Company in Oman.

- The bank won prestigious awards from Deutsche Bank and JP Morgan Bank for outstanding performance in euro and dollar denominated fund transfer and commercial payments.

- In recognition of a distinct identity visible through innovative HR strategies, the bank won the GCC Best Employer Brand award by the Employer Branding Institute, CMO Asia.

- The bank's unique support to social development initiatives was honoured during the presentation of His Majesty Sultan Qaboos award for voluntary work.

The Year Ahead

With the government announcing 2016 budget expenditures and revenues at RO 11.9 billion and RO 8.6 billion respectively, leading to a deficit of RO 3.3 billion, the outlook for Oman's economy is challenging. The development expenditure forms 11.34% of total spending against 11.7% in 2015. The deficit is 38.4 per cent of total revenues. According to the International Monetary Fund (IMF), the outlook for global economic growth raises concern as growth in global trade has slowed considerably and a decline in raw material prices is posing problems for economies reliant on commodities, especially oil producing countries.

AbdulRazak Ali Issa
Chief Executive

Committed to contributing towards sustainable development and delivering long-term benefits to the community, **bank muscat** CSR programmes are focused on key areas, including youth, sports and education.

Green Sports

Corporate Sustainability & CSR Vision

As the bank progresses in the path of sustainable development, new opportunities are explored such as partnership with the Information Technology Authority's SAS Programme. In a thrust to SME development, the bank provided a platform for fledgling SAS companies in the field of Information Communication Technology (ICT) to showcase their services in a successful exhibition held at the bank's Head Office. In a bid to encourage education and career development, nine visually impaired students of Sohar University received Braille Sense 2 laptops specifically designed for their needs and requirements.

Since its inception, the Corporate Social Responsibility Department has taken major strides in nurturing a socially responsible culture in the bank, bringing benefits to different segments of society and touching the lives of hundreds of people. In line with the corporate ethos, the bank employees are engaged in creating opportunities to help the community through activities such as blood donation and charity food festival.

Jesr Al Mustaqbal

The Jesr Al Mustaqbal education sponsorship programme was launched in 2012 to nurture the future generations of Oman. The programme focuses on providing youth from families under the social welfare programme with an opportunity to continue their higher education, in line with the directive of His Majesty Sultan Qaboos to provide relevant educational and training scholarship programmes to empower all sections of society.

Since its inception, the programme has supported close to 180 students to develop skills and better their future. The first phase of the programme included vocational training with job prospects. Aimed at supporting the country's youth, the scholarship programme in partnership with the Ministry of Higher Education now covers bachelor's degree.

Tadhamun

Tadhamun was launched in 2012, in partnership with the Ministry of Social Development, to support families on social welfare. As part of the initiative, the bank distributes basic electronic home appliances such as refrigerators, air-conditioning units and washing machines to low-income families. In three years of Tadhamun programme, the bank has supported over 300 families across the Sultanate, including support for two home renovations.

Green Sports

The Green Sports initiative was launched by the bank in 2012 to lay the foundation at the grass-root level for a sustainable sports infrastructure across Oman. In 2015, the bank widened the scope of Green Sports initiative beyond the greening of football fields. Football teams seeking Green Sports support can choose from four options to either green their football fields with natural or synthetic turf, or avail support to affix flood lights or water desalination equipment to facilitate greening of fields in areas facing problems of water salinity. The move is aimed at providing wider representation to teams to build sustainable sports infrastructure in all parts of the Sultanate. Due to the programme's overwhelming success, the bank also increased the number of beneficiaries to 15 teams annually. To date, Green Sports has benefited 49 teams over the course of four years.

Al Wathbah SME Academy

The bank launched Al Wathbah SME Academy in 2014 to meet the growing requirement for SMEs to sustain operations. In partnership with AMIDEAST, the programme leading to accredited international accreditation, provides entrepreneurs with an opportunity to refine skills and increase knowledge in the successful operation of SME business. In view of the success of the programme, new centres of the academy were opened in Sohar in Al Batinah region and Salalah in Dhofar region. The bank plans to further expand the programme to Duqm in Al Wusta region.

Financial Review 2015

The Bank posted a net profit of RO 175.45 million in 2015 compared to RO 163.23 million reported in 2014, an increase of 7.5 per cent.

Net Interest Income from conventional banking and Income from Islamic financing stood at RO 260.5 million for the year of 2015 compared to RO 243.6 million in 2014, an increase of 6.9 per cent. This was primarily attributable to growth in assets during the year. Other operating income was RO 147.2 million in 2015 as against RO 139.5 million in 2014, higher by 5.6%.

Operating expenses for the year ended 31st December 2015 at RO 171.1 million was higher by 8.3 per cent as compared to RO 157.9 million for the same period in 2014. The cost to income ratio for the year increased from 41.2% in 2014 to 41.9% in 2015.

Impairment for credit losses for 2015 was RO 72 million as against RO 64.3 million for the same period in 2014. During the year 2015, the Bank recovered RO 35.9 million from impairment for credit losses compared to RO 26.1 million in 2014. The Bank holds a non-specific loan loss provision of RO 105.1 million as at 31 December 2015 as per the regulatory requirements.

Share of profit from associates for the year of 2015 was RO 2.56 million against RO 1.52 million for the same period in 2014.

Net Loans and advances from conventional operations increased by 4.9 per cent to RO 6,695 million as against RO 6,386 million as at 31st December 2014. Customer deposits, including CDs, from conventional operations increased by 6.2 per cent to RO 6,738 million as against RO 6,345 million as at 31st December 2014.

Islamic financing receivables amounted to RO 635 million of 31st December 2015 compared to RO 400 million in the same period of 2014. Islamic Banking customer deposits amounted to RO 625 million as of 31st December 2015 compared to RO 283 million reported in 31st December 2014.

The return on average assets reduced to 1.72% in 2015 from 1.79% in 2014. The return on average equity reduced to 13.68% in 2015 as compared to 13.89% in 2014.

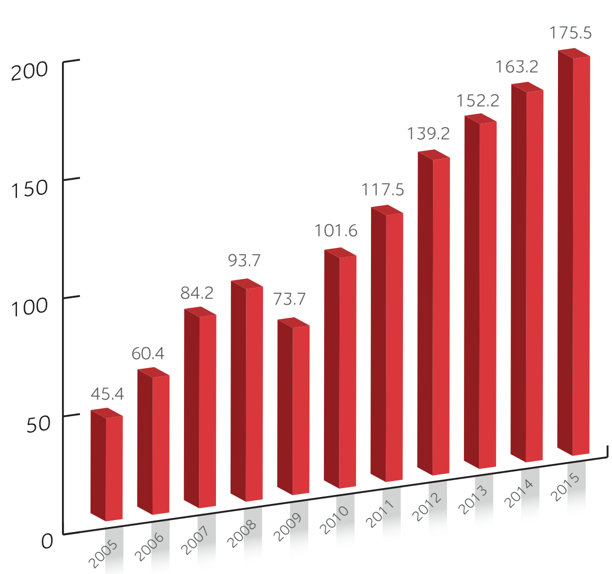
The basic earnings per share were RO 0.077 in 2015 against RO 0.071 in 2014. The banks' capital adequacy ratio stood at 16.10% as on 31 December 2015 after appropriation for proposed cash dividend for the year 2015 against the minimum required level of 12.625 per cent as per Basel III regulations issued by the Central Bank of Oman.

Net Interest Income and Net Income from Islamic financing:

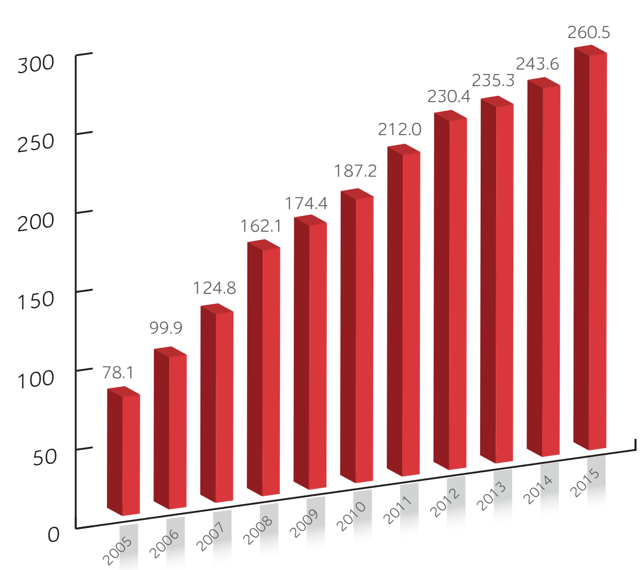
Total net interest income and net income from Islamic financing increased by RO 16.9 million, or 6.9%, to RO 260.5 million. The increase was mainly attributed to increase in asset growth during the year 2015. Net loans and Islamic financing receivables increased from RO 6,786 million in 2014 to RO 7,330 million in 2015, i.e. RO 544 million or 8.0%. The net interest / profit margins marginally reduced from 2.8% in 2014 to 2.7% in 2015.

Total assets increased by RO 2,816 million or 28.9% to RO 12,545 million. The increase in assets was mainly due to increase in cash and balances with central banks, loans and advances, Islamic financing receivables and investments.
The return on average assets was at 1.72% in 2015 as compared to 1.79% in 2014. The lower return on average assets was due to higher level of growth in assets compared to the growth in the profit for the year 2015

Net Profit
(In Rial Omani Millions)

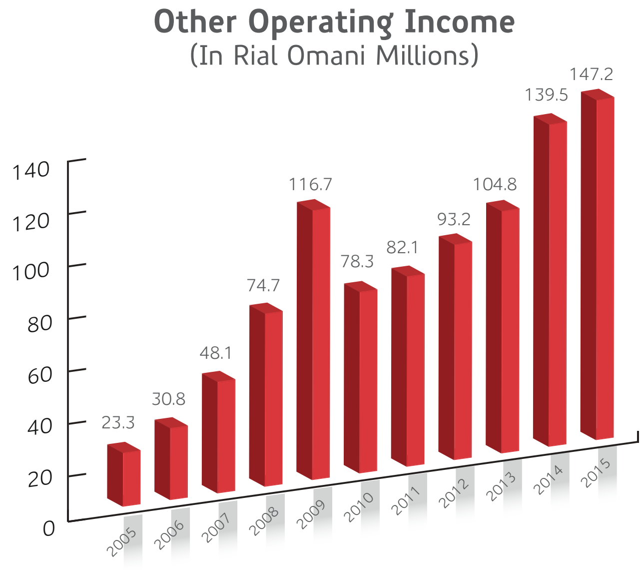


Net Interest Income
(In Rial Omani Millions)



Other Operating income

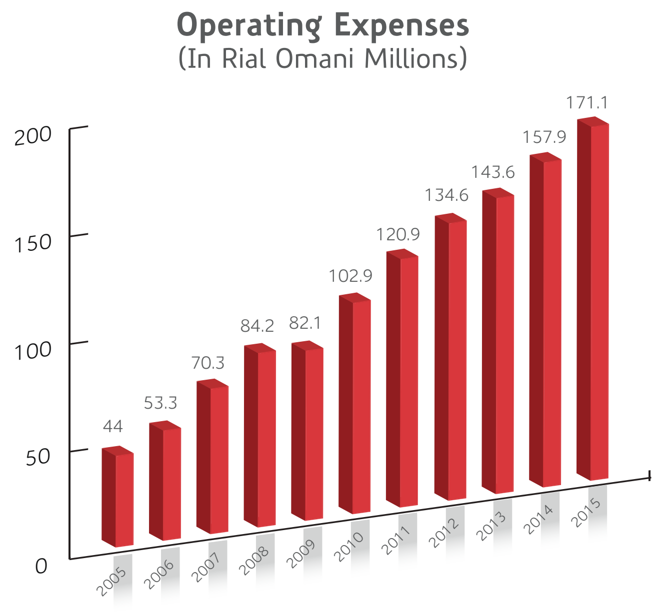
Other Operating income increased by RO 7.8 million, or 5.6%, to RO 147.2 million. Other Operating income in 2015 increased mainly due to increase in commission and fees by RO 8.9 million and in foreign exchange income of RO 8.1 million. Profit on sale of non-trading investments however, reduced by RO 10.7 million during the year. Non-interest income contributed 36.1% of the total income of the Bank in 2015 marginally lower than the 36.4% contribution in 2014. Strengthening the non interest income and increasing its proportionate contribution to the total income is one of the key focus areas of the bank.



Operating Expenses

Operating expenses increased by RO 13.2 million or 8.3% to RO 171.06 million in 2015. The increase in operating expense is attributable to increase in manpower cost by RO 8 million and the rest due to increase in operating expenses related to business expansion. Staff strength as at 31 December 2015 was 3,712 as against the staff strength of 3,607 as at 31 December 2014.

The Bank's cost to income ratio was 41.9% in 2015 against 41.2% in 2014.



Provisions for Possible Credit Losses

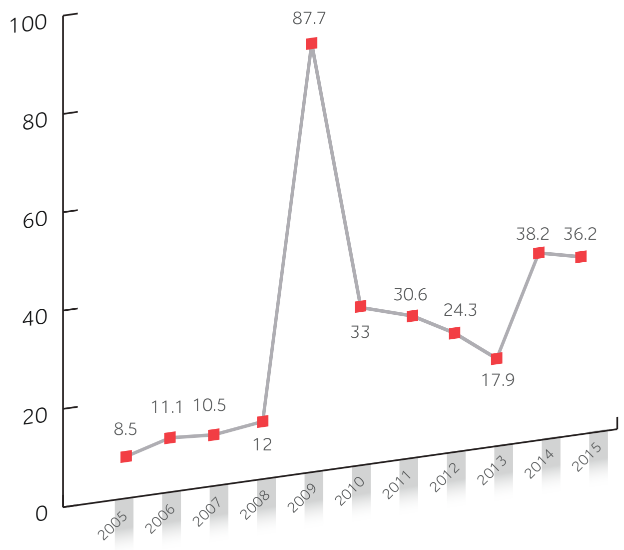
During the year, the Bank made a provision for credit losses of RO 72 million as against RO 64.3 million in 2014.

During the year 2014, the Bank recovered RO 35.9 million from impairment for credit losses compared to RO 26.1 million in 2014. Due to higher recoveries, the net provision charged to the income statement decreased during the year to RO 36.1 million in 2015 compared to RO 38.3 million in the previous year.

The Bank holds a non-specific loan loss provision of RO 105.1 million as at 31 December 2015 as per the requirements of Central Bank of Oman.

As at 31 December 2015, the total amount of provisions including reserved interest was RO 297.8 million. This represented 3.9% of gross lending to customers. The total provisions and reserved interest as at 31 December 2014 represented 3.7% of gross lending. The uncovered portion of the impaired loans and advances consists of operative accounts, which are adequately provided, and other accounts for which securities are held by the Bank and valued on a conservative basis. The provisions held are adequate as per the requirement of IAS 39

Annual provision for credit losses (Net)
(In Rial Omani Millions)



Shareholders' Funds

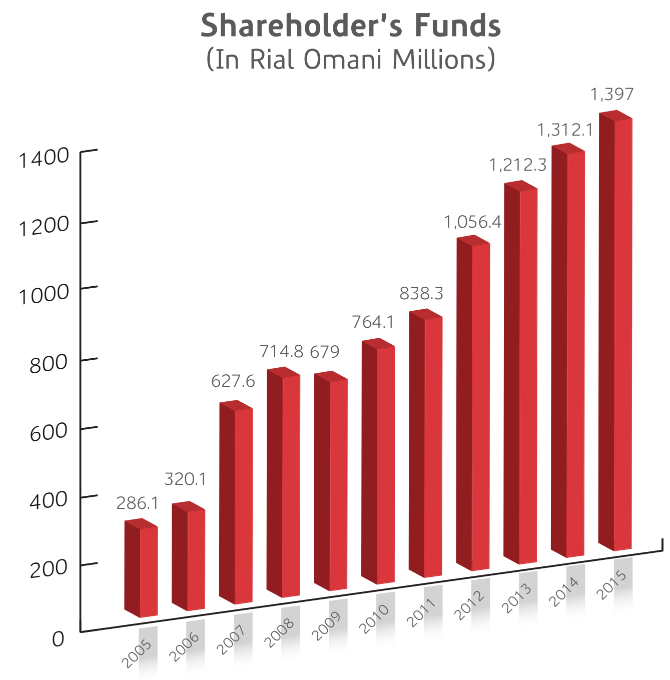
The issued share capital increased from RO 218,268,818 divided into 2,182,688,188 shares to RO 229,182,259 divided into 2,291,822,597 shares with a nominal value of 100 baisa each. The increase in the issued share capital was on account of issuance of bonus shares in the proportion of one share for every 20 shares aggregating to 109,134,409 shares of RO 0.100 each in 2015.

During the year shareholders' funds increased by RO 84.9 million, or 6.5%, to RO 1,397 million. This was due to increase in the total comprehensive income by RO 172.2 million (which included profit for the year 2015 of RO 175.5 million netted off by other comprehensive expenses of RO 3.3 million). During the year bank paid out a cash dividends of RO 54.57 million and also issued mandatorily convertible bonds of RO 32.74 million (incl. issue expenses).

The return on average shareholders' funds was at 13.68% in 2015 as compared to 13.89% in 2014.

The Board of Directors has proposed 30 per cent dividend for the year 2015. Continuing the Bank's strong dividend payment track record, the Board of Directors has proposed 25 per cent cash dividend which is consistent with the cash dividend paid in the last five years. In addition, 5 per cent dividend in the form of bonus shares has been also proposed. The Bank has retained sufficient level of profits to further strengthen the capital base and be better positioned for possible future challenging market conditions.
Shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 57.29 million on bank's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 114,591,130 shares of RO 0.100 each amounting to RO 11.46 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders and the regulatory authorities.

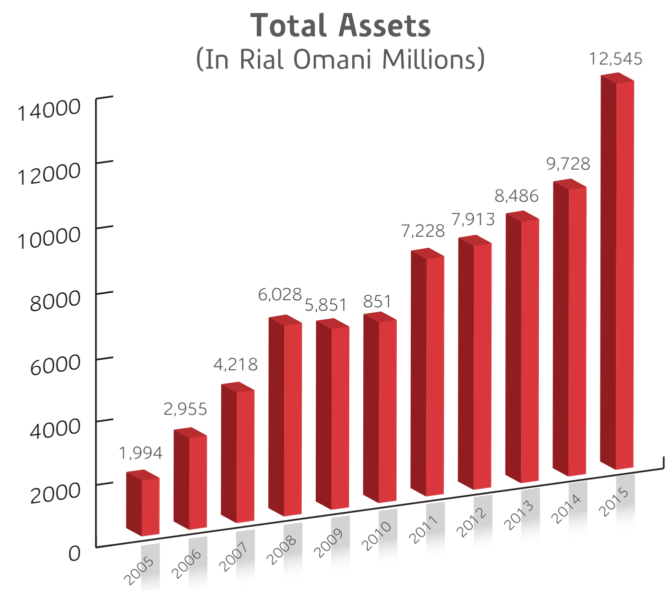
After the above dividend payout of RO 57.29 million as dividend in the form of cash, the Bank would retain RO 118.2 million or 67.3% of the net profit generated in the year 2015.



Assets

Total assets increased by RO 2,816 million or 28.9% to RO 12,544 million. The increase in assets was mainly due to increase in cash and balances with central banks, loans and advances and investments.

The Bank's net loans and advances portfolio grew by RO 544 million or 8.0% to RO 7,330 million as at 31 December 2015 compared to RO 6,786 million as at 31 December 2014. Gross Corporate/other loans at RO 4,649 million increased by 8.1% and gross personal/housing loans at RO 2,979 million increased by 8.6% during the year 2015. The Bank's non-performing advances were at 2.75% of gross loans and advances as of 31 December 2015 as compared to 2.84% in the previous year. The non-performing advances increased from RO 200.1 million in 2014 to RO 209.5 million in 2015.

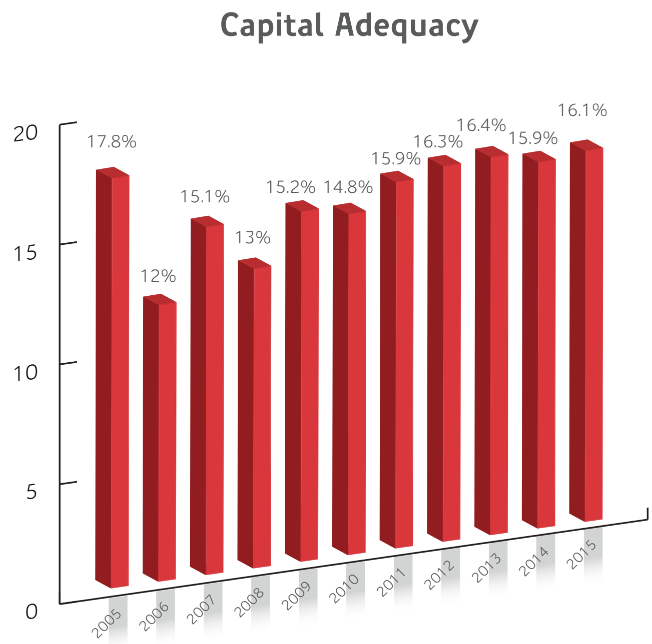


Capital Adequacy

The Bank's capital adequacy ratio, calculated according to guidelines of Basel III set by the Bank for International Settlements (BIS) was 16.10% as at 31 December 2015, compared to 15.92% as at 31 December 2014 against the minimum required level of 12.625 per cent as per Basel III regulations issued by the Central Bank of Oman.

Tier 1 capital increased by RO 79.6 million in 2015 due to increase in share capital on account of bonus shares, profits earned during the year and appropriations and was netted off by an increase in deductions on account of cumulative mark to market losses on investments / hedges and in non-strategic and associate investments.

However, Tier 2 capital of the bank decreased by RO 14.8 million during the year mainly due to a reduction in subordinated liabilities (net of reserves) and in cumulative positive mark to market changes in fair value, as offset by an increase in general loan loss impairment.



Liquidity Management

Liquidity policy is aimed at ensuring that the Bank can meet its financial obligations when they fall due. Sufficient volumes of high quality liquid instruments are held to meet bank deposit maturities and undrawn facilities, and to satisfy customer demands for deposit withdrawal.

The source and maturity of assets and liabilities are diversified to avoid any undue concentration of funding requirements at any one time or from any one source. A significant portion of deposits is made up of retail current and savings accounts, which although repayable on demand or at short notice, have traditionally, formed a stable deposit base. Where possible, the Bank prefers to grow its balance sheet by increasing core retail deposits.

Cash and balances with Central Banks, treasury bills, government securities and placements with banks accounted for 20.12% of total assets and 27.65% of total deposits at 31 December 2015, compared with 22.16% and 34.1% respectively at 31 December 2014.

Interest Rate Risk Management

The Asset and Liability Management Committee (ALCO) manages the Bank's interest rate risk exposure. The major interest rate risk to the Bank originates from the short term funding sources and the medium to long-term loans particularly on the fixed rate retail portfolio. The Bank manages this risk by broadening the maturity of its funding sources and by the use of medium term funding products.
The Bank focuses on long-term funding base and reduces its interest rate gaps. Since derivative products are not available in the local currency the Bank has limited options to use local currency hedging instruments.

Credit Rating

It is the Bank's philosophy to provide transparent and meaningful disclosures in its financial statements. The rating agencies and industry analysts appreciate the Bank's disclosures in its financial statements. The Bank values the comments and concerns of the rating agencies, and it is one of the Bank's objectives to maintain and enhance the credit ratings assigned by them.

Four leading international rating agencies, Standard and Poor's, Moody's, Fitch and Capital Intelligence rated the Bank during the year. The recent rating of the Bank are as follows:

Rating Agency	Long Term	Short Term	Outlook
Standard & Poor's	BBB+	A-2	Negative
Moody's	A1	P-1	Negative
Fitch Ratings	BBB+	F2	Stable
Capital Intelligence	A	A1	Stable

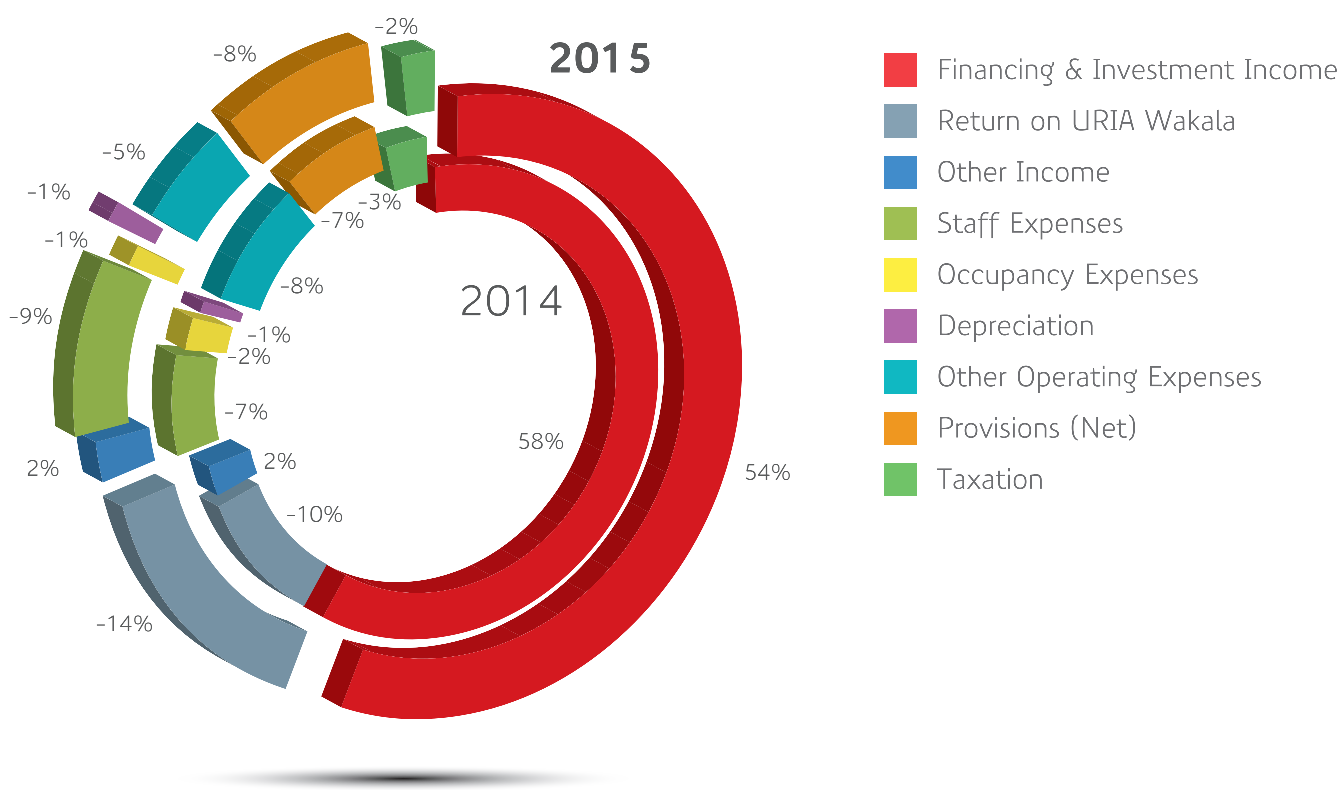
FINANCIAL REVIEW 2015

The Islamic window operations of bank muscat "Meethaq" focused primarily on financial stability, expansion of branch network, strengthening of internal controls and strategic planning for the upcoming years. The volume and variety of operations significantly expanded for Meethaq compared to last year. Meethaq achieved net income of RO 6.0 million for the year ended 31 December 2015 (against net income of RO 7.5 million for the year 2014, registering a decline of 19%). Some highlights of the year are as follows:

- Five new state-of-the-art branches were added to the network bringing to the total of exclusive Islamic branches to 16.
- As of year-end, demand accounts amounted to RO 115.4 million (2014: RO 22.2 million, growth of 420%), saving accounts amounted to RO 61.0 million (2014: RO 33.5 million, growth of 82.1%) and term deposits amounted to RO 408.5 million (2014: RO 227.6 million, growth of 79.5%).
- Gross financing book reached RO 646 million (2014: RO 408 million, growth of 58%) with Corporate portfolio at RO 272 million (2014: RO 105 million, growth of 159%) and retail at RO 374 million (2014: RO 303 million, growth of 23%);
- The average return on equity was 10.6% compared to 21.4% of 2014;
- Total assets of Meethaq increased from RO 426.6 million in 2014 to RO 767.2 million in 2015 with return on total average assets of 1.0% (2014: 2.1%);
- Meethaq's capital adequacy ratio at year end was 13.74% (2014: 16.23%) against a regulatory requirement of 12.625% reflecting the attention of Meethaq's management on the financial stability in line with growth.

A more detailed analysis of Meethaq's performance is as follows:

Income Statement Composition



Net operating income

For the year ended 31 December 2015, the income from Islamic finance and investment was RO 26.3 million compared to RO 21.0 million for 2014 showing an increase of 25.2%. This increase was largely due to increase in earning assets. The average gross financing and investment assets increased from RO 349 million to RO 557 million (growth of 59.6%). While the profit margins have declined from 4.4% in 2014 to 3.7% in 2015.

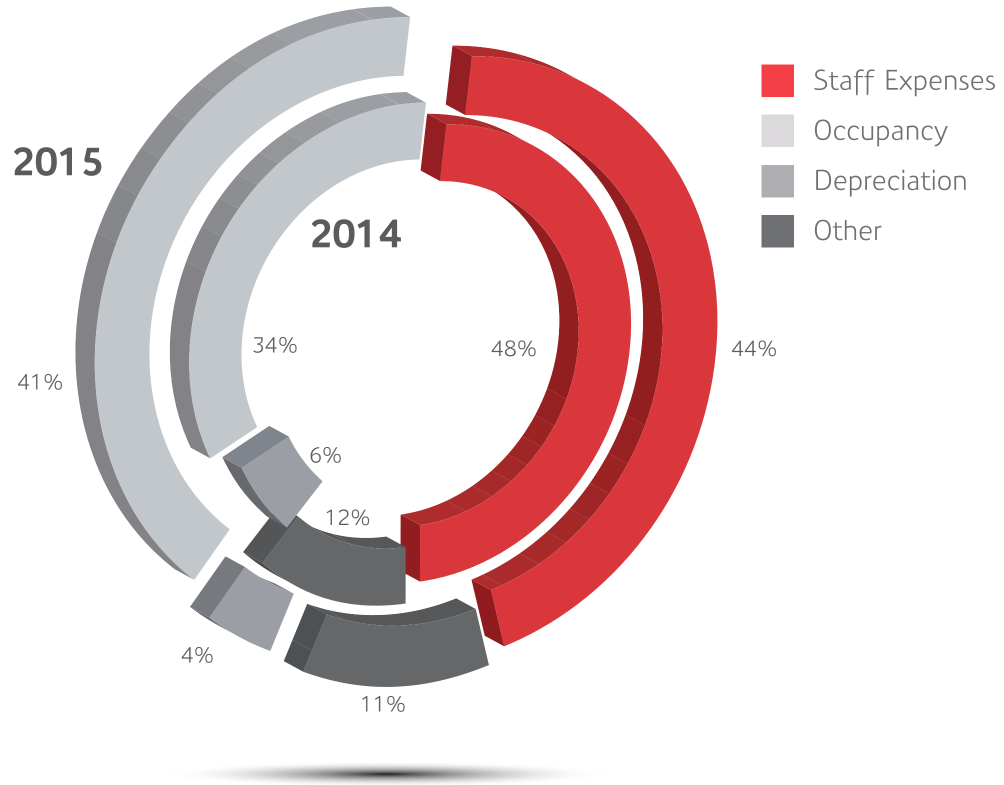
Meethaq charged a Mudarib fee of 24.3% (2014: 56.1%) and accumulated profit equalisation reserve of RO 0.886 million (2014: RO 0.485 million) and investment risk reserve of RO 0.101 million (2014: RO 0.042 million).

Other income increased by 31.6% from RO 0.741 million in 2014 to RO 0.975 million for the year ended 31 December 2015. Net operating income increased by 11% from RO 18.1 million in 2014 to RO 20.1 million for the year ended 31 December 2015.

Operating expenses

Operating expenses for the year ended 31 December 2015 amounted to RO 9.2 million compared to RO 6.9 million in 2014, higher by 33.3%. The cost to income ratio of Meethaq was at 45.7% in 2015 compared to 38.1% in 2014.

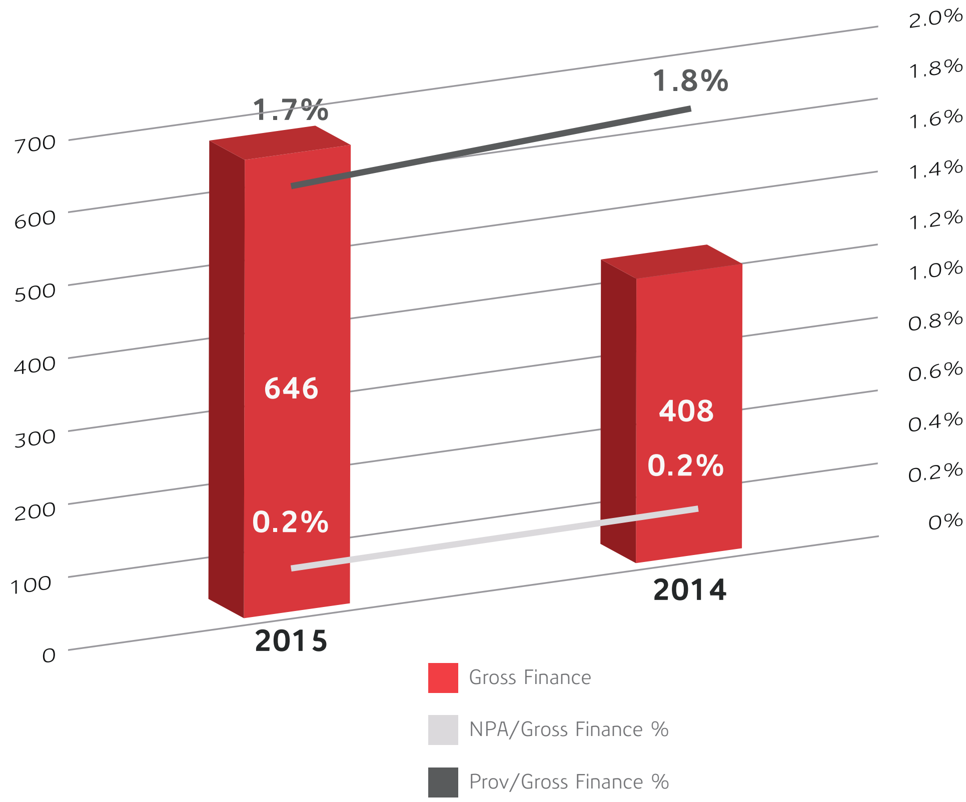
Operating expenses of Meethaq include costs directly attributable to Meethaq as well as allocation of costs of shared service being provided by the Bank. As at 31 December 2015, the dedicated staff working for Meethaq was 222 (2014: 165). The composition of operating expenses, based on type, is as below:



Provisions for impairment

As at 31 December 2015, the non performing financing amounted to RO 1.5 million (2014: RO 0.665 million) representing 0.22% (2014: 0.16%) of the gross financing.

During the year, Meethaq created loan loss provision of RO 3.7 million (2014: RO 2.7 million), comprising of collective provision of RO 3.1 million (2014: RO 2.15 million) and specific provision of RO 0.6 million (RO 0.3 million), bringing the total provision held at RO 11 million (2014: RO 7.6 million). The reserved profit against non performing financing amounted to RO 0.069 million (2014: RO 0.019 million). The provision and reserved profit represented 1.7% (2014: 1.8%) of gross financing and the NPA coverage ratio was 57% (2014: 77%). The provision for impairment was created as per the requirements of Central bank regulations, financial accounting standards issued by Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI) and International Financial Reporting Standards, where applicable.



Assets

As at 31 December 2015, total asset of Meethaq were RO 767.2 million (2014: RO 426.6 million). Net financing of RO 634.7 million (2014: RO 400.3 million) comprised 82.7% (2014: 93.8%) of the total assets.

Investment in Shari'a compliant securities was RO 62.6 million (2014: RO 7.9 million). Cash and balance with central bank was RO 35.8 million (2014: RO 10.3 million) representing 4.7% (2014: 2.4%) of total assets and 7.0% (2014: 3.6%) of total equity of investment account holders.

Capital Adequacy

As at 31 December 2015, Meethaq's capital adequacy ratio, calculated according to guidelines of the Central Bank of Oman was 13.74% (2014: 16.23%), with a tier 1 capital ratio of 12.01% (2014: 14.99%). The regulations of Central Bank of Oman stipulate that local Islamic windows maintain a capital adequacy ratio of 12.625%.

Tier 1 capital increased from RO 43.7 million in 2014 to RO 69.7 million, on account of capital injection of RO 20 million and profit for the year. The total assigned capital to Meethaq amounts to RO 50 million as at 31 December 2015.

Ten Years' Summary

Balance Sheet (RO)

Amounts in RO 000's

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Assets										
Cash and balances with Central Bank	**2,412,052**	836,944	582,310	663,366	825,863	726,055	608,099	452,761	487,912	116,217
Due From banks	**991,491**	1,038,826	866,981	726,050	869,101	550,349	1,015,691	1,077,557	587,802	524,741
Loans and advances	**6,695,486**	6,385,625	5,863,533	5,600,952	4,819,432	4,007,926	3,838,211	3,727,700	2,686,863	1,834,678
Islamic financing receivable	**634,729**	400,290	279,313	-	-	-	-	-	-	-
Investment securities	**1,518,384**	740,770	562,040	605,373	342,853	267,027	144,366	378,646	118,397	268,616
Investment in Associates	**47,746**	47,449	36,547	45,941	49,595	54,917	67,172	92,903	99,701	32,549
Tangible fixed assets	**76,621**	71,864	66,651	69,263	71,792	74,788	26,276	21,948	19,090	11,438
Other assets	**168,020**	206,550	229,075	202,724	249,365	170,066	150,921	276,721	217,960	166,619
Total Assets	**12,544,529**	9,728,318	8,486,450	7,913,669	7,228,001	5,851,128	5,850,736	6,028,236	4,217,725	2,954,858
Liabilities and Shareholders' Fund										
Liabilities										
Deposits from banks	**2,859,563**	888,819	668,857	750,754	730,927	759,886	1,395,747	1,412,576	663,236	363,207
Customers' deposits	**6,738,315**	6,299,350	5,552,913	5,324,016	4,749,489	3,526,953	3,068,425	3,173,032	2,322,089	1,817,107
Islamic customer's deposits	**625,133**	282,759	92,957	-	-	-	-	-	-	-
Certificates of deposit	**-**	46,000	47,000	53,600	101,000	154,600	139,200	61,675	14,270	30,745
Unsecured bonds	**-**	-	29,803	54,803	54,803	54,803	54,803	54,803	54,803	54,803
Euro medium term notes	**191,185**	189,979	188,102	-	5,775	15,400	15,400	111,650	111,650	105,875
Mandatory convertible bonds	**94,655**	62,239	46,432	16,157	32,314	32,314	32,314	-	-	-
Other liabilities	**369,699**	377,811	369,323	371,279	344,177	327,450	245,767	360,138	295,120	209,485
Taxation	**28,570**	28,844	31,902	26,896	36,715	32,142	31,578	26,112	20,487	15,051
Subordinated liabilities	**240,450**	240,450	246,867	259,700	334,533	183,500	188,500	113,500	108,500	38,500
	11,147,570	8,416,251	7,274,156	6,857,205	6,389,733	5,087,048	5,171,734	5,313,486	3,590,155	2,634,773
Shareholders' Funds										
Share capital	**229,183**	218,269	215,226	203,851	154,838	134,641	107,713	107,713	107,713	83,233
Share premium	**464,951**	464,951	451,837	388,137	301,505	301,505	301,505	301,505	301,505	79,490
General reserve	**169,808**	169,808	163,392	150,558	67,725	61,308	56,308	56,308	56,308	56,308
Non distributable reserves	**220,299**	196,501	165,613	132,212	162,041	128,938	88,262	64,062	42,429	28,960
Cash flow hedge reserve	**(718)**	(576)	384	(2,398)	-	-	-	-	-	-
Cumulative changes in fair value	**19,264**	21,639	16,440	8,112	1,245	9,340	4,823	69,276	10,258	1,052
Foreign currency translation reserve	**(1,820)**	(925)	(3,589)	(2,544)	(2,106)	(503)	(884)	(9,471)	-	-
Retained profit	**295,992**	242,400	202,774	178,345	152,786	128,585	121,063	125,357	109,357	71,042
	1,396,959	1,312,067	1,212,077	1,056,273	838,034	763,814	678,790	714,750	627,570	320,085
Non -controlling interest in equity	**-**	-	217	191	234	266	212	-	-	-
Total Equity	**1,396,959**	1,312,067	1,212,294	1,056,464	838,268	764,080	679,002	714,750	627,570	320,085
Total Liabilities and Shareholders' Funds	**12,544,529**	9,728,318	8,486,450	7,913,669	7,228,001	5,851,128	5,850,736	6,028,236	4,217,725	2,954,858
Contingent liabilities and commitments	**3,186,412**	2,497,661	2,108,576	1,804,455	1,340,866	1,241,515	961,387	1,048,978	1,015,838	592,927
Operating cost to income	**41.95%**	41.21%	42.24%	41.59%	41.08%	38.76%	28.22%	35.57%	40.67%	40.82%
Return on average assets	**1.72%**	1.79%	1.86%	1.84%	1.8%	1.74%	1.24%	1.83%	2.35%	2.44%
Return on average shareholders funds	**13.68%**	13.89%	14.49%	15.69%	15.37%	14.71%	10.92%	14.80%	25.83%	21.95%
Basic Earnings Per Share (RO)**	**0.077**	0.071	0.072	0.073	0.065	0.066	0.068	0.087	0.090	0.066
Share price (RO)**	**0.472**	0.582	0.636	0.572	0.766	0.962	0.825	0.797	1.920	1.148
BIS Capital adequacy ratio*	**16.10%**	15.92%	16.42%	16.32%	15.93%	14.78%	15.20%	13.02%	15.14%	11.97%

*2013 onwards capital adequacy ratio is worked out as per Basel III guidelines.
**Reflects the impact of stock split of 10:1 from 2006 onwards.

Income Statement (RO)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
					Amounts in RO 000's					
Interest income	**332,514**	324,576	319,524	320,468	286,958	275,195	279,530	263,463	218,272	159,234
Interest expense	**(90,661)**	(97,660)	(96,878)	(90,063)	(74,839)	(88,000)	(105,164)	(101,356)	(93,450)	(59,361)
Net interest income	**241,853**	226,916	222,646	230,405	212,119	187,195	174,366	162,107	124,822	99,873
Income from Islamic financing	**25,842**	20,381	14,435	-	-	-	-	-	-	-
Distribution to depositors	**(7,184)**	(3,659)	(1,759)	-	-	-	-	-	-	-
Net income from Islamic financing	**18,658**	16,722	12,676	-	-	-	-	-	-	-
Net interest income and income from Islamic financing	**260,511**	243,638	235,322	230,405	212,119	187,195	174,366	162,107	124,822	99,873
Other operating income	**147,225**	139,472	104,834	93,247	82,125	78,301	116,679	74,694	48,107	30,780
OPERATING INCOME	**407,736**	383,110	340,156	323,652	294,244	265,496	291,045	236,801	172,929	130,653
OPERATING EXPENSES										
Other operating expenses	**(159,871)**	(146,686)	(132,687)	(123,401)	(109,734)	(94,149)	(75,503)	(78,487)	(66,240)	(49,964)
Depreciation and amortisation / impairment	**(11,185)**	(11,204)	(10,997)	(11,207)	(11,156)	(8,754)	(6,622)	(5,737)	(4,086)	(3,366)
	(171,056)	(157,890)	(143,684)	(134,608)	(120,890)	(102,903)	(82,125)	(84,224)	(70,326)	(53,330)
Recoveries (provision) for due from banks	**(600)**	(856)	(344)	(600)	(650)	1,305	-	(4,813)	-	-
Recoveries (provision) for collateral pending sale and acquired assets		-	-	-	366	-	-	13	107	198
Impairment for investments	**(5,018)**	(1,342)	(1,857)	(3,884)	(2,731)	(520)	(2,515)	(10,346)	-	(583)
Impairment for credit losses (net)	**(36,105)**	(38,267)	(17,934)	(24,387)	(30,601)	(32,941)	(87,653)	(12,022)	(10,502)	(11,126)
Impairment for associates	**-**	-	(2,748)	-	-	-	(20,315)	(13,750)	-	-
Share of results from associates	**2,561**	1,515	1,304	(3,418)	(3,529)	(12,637)	(10,455)	(3,248)	5,499	4,145
Share of trading loss in an associate	**-**	-	-	-	-	-	-	-	-	-
Net gain on disposal of a foreign branch	**-**	-	-	-	-	-	-	-	-	-
PROFIT BEFORE TAXATION	**197,518**	186,270	174,893	156,755	136,209	117,800	87,982	108,411	97,707	69,957
Tax expense	**(22,067)**	(23,043)	(22,701)	(17,549)	(18,663)	(16,205)	(14,264)	(14,680)	(13,450)	(9,525)
PROFIT FOR THE YEAR	**175,451**	163,227	152,192	139,206	117,546	101,595	73,718	93,731	84,257	60,432

Balance Sheet (USD)

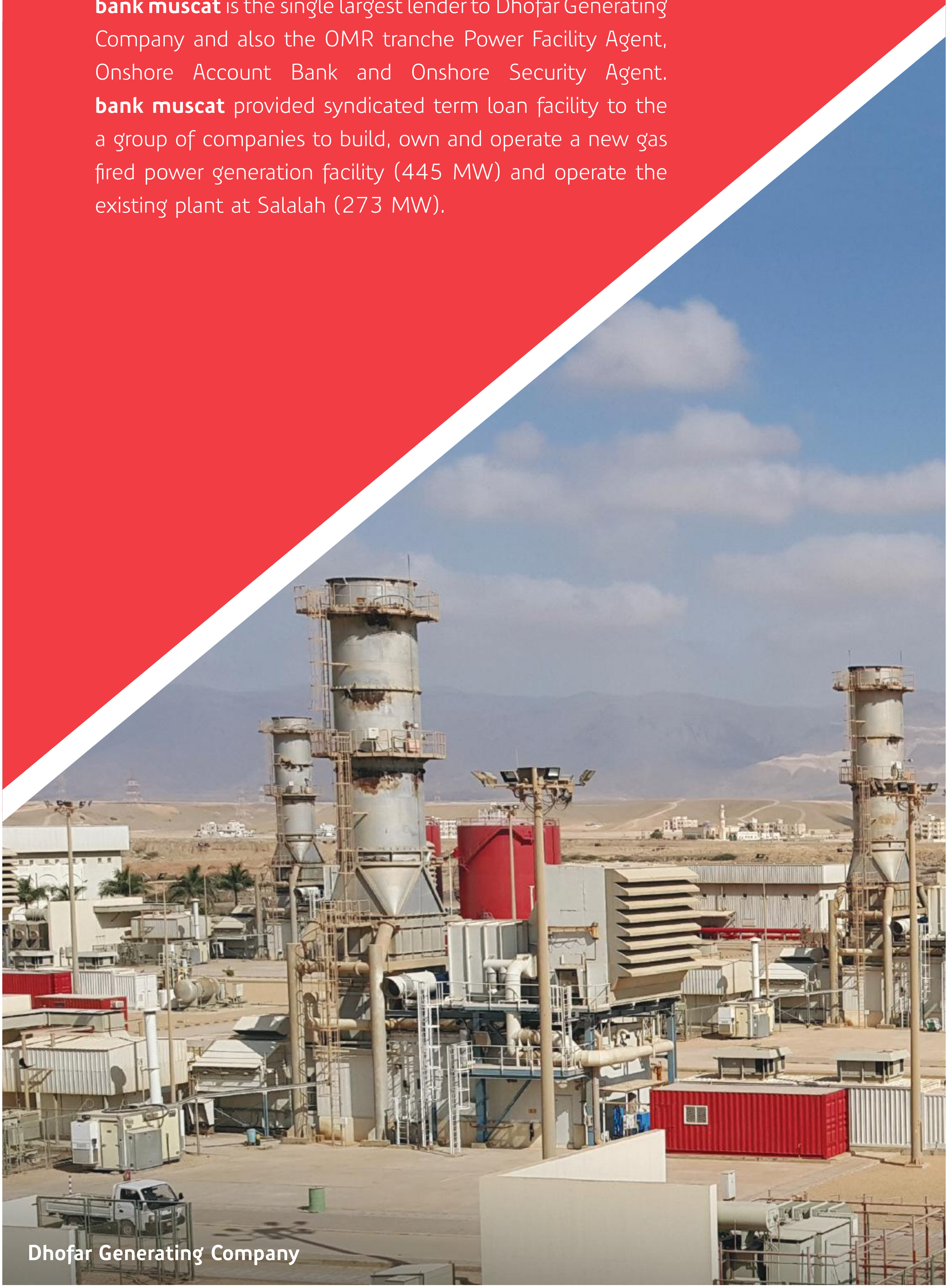
										Amounts in USD 000's
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Assets										
Cash and balances with Central Bank	**6,265,070**	2,173,881	1,512,494	1,723,029	2,145,099	1,885,857	1,579,478	1,176,003	1,267,304	301,862
Due from banks	**2,575,300**	2,698,249	2,251,898	1,885,844	2,257,405	1,429,478	2,638,158	2,798,850	1,526,758	1,362,964
Loans and advances	**17,390,872**	16,586,039	15,229,957	14,547,928	12,518,005	10,410,197	9,969,379	9,682,337	6,978,865	4,765,397
Islamic financing receivable	**1,648,648**	1,039,714	725,489	-	-	-	-	-	-	-
Investment Securities	**3,943,854**	1,924,078	1,459,843	1,572,397	890,528	693,576	374,976	983,496	307,524	697,704
Investment in Associates	**124,016**	123,244	94,925	119,327	128,818	142,641	174,473	241,306	258,964	84,544
Tangible fixed assets	**199,016**	186,660	173,119	179,904	186,473	194,255	68,249	57,008	49,584	29,709
Other assets	**436,416**	536,494	595,000	526,554	647,701	441,730	392,003	718,756	566,131	432,776
Total Assets	**32,583,192**	25,268,359	22,042,725	20,554,983	18,774,029	15,197,734	15,196,716	15,657,756	10,955,130	7,674,956
Liabilities and Shareholders' Fund										
Liabilities										
Deposits from banks	**7,427,436**	2,308,621	1,737,291	1,950,010	1,898,512	1,973,730	3,625,317	3,669,028	1,722,691	943,395
Customers' deposits	**17,502,118**	16,361,948	14,423,150	13,828,612	12,336,335	9,160,917	7,969,935	8,241,641	6,031,400	4,719,758
Islamic customer's deposits	**1,623,722**	734,439	241,448	-	-	-	-	-	-	-
Certificates of deposit	**-**	119,481	122,078	139,221	262,338	401,558	361,557	160,195	37,065	79,857
Unsecured bonds	**-**	-	77,410	142,345	142,345	142,345	142,345	142,345	142,345	142,345
Euro Medium term notes	**496,584**	493,452	488,575	-	15,000	40,000	40,000	290,000	290,000	275,000
Mandatory convertible bonds	**245,857**	161,660	120,602	41,966	83,933	83,933	83,933	-	-	-
Other liabilities	**960,257**	981,327	959,279	964,361	893,966	850,518	638,356	935,423	766,545	544,117
Taxation	**74,208**	74,919	82,862	69,860	95,364	83,486	82,021	67,823	53,213	39,094
Subordinated liabilities	**624,545**	624,545	641,213	674,545	868,916	476,623	489,610	294,805	281,818	100,000
	28,954,727	21,860,392	18,893,908	17,810,920	16,596,709	13,213,110	13,433,074	13,801,260	9,325,077	6,843,566
Shareholders' Funds										
Share capital	**595,281**	566,933	559,029	529,483	402,177	349,717	279,774	279,774	279,774	216,190
Share premium	**1,207,665**	1,207,665	1,173,603	1,008,147	783,130	783,130	783,130	783,130	783,130	206,469
General reserve	**441,060**	441,060	424,395	391,060	175,909	159,242	146,255	146,255	146,255	146,255
Non-distributable reserves	**572,205**	510,393	430,164	343,409	420,886	334,904	229,252	166,395	110,206	75,219
Cash flow hedge reserve	**(1,865)**	(1,496)	997	(6,229)	-	-	-	-	-	-
Cumulative changes in fair value	**50,036**	56,205	42,701	21,070	3,234	24,260	12,527	179,939	26,644	2,732
Foreign currency translation reserve	**(4,727)**	(2,403)	(9,322)	(6,608)	(5,470)	(1,307)	(2,296)	(24,600)	-	-
Retained profit	**768,810**	629,610	526,686	463,235	396,847	333,987	314,450	325,603	284,044	184,525
	3,628,465	3,407,967	3,148,253	2,743,567	2,176,713	1,983,933	1,763,092	1,856,496	1,630,053	831,390
Non-controlling interest in equity	**-**	-	564	496	607	691	550	-	-	-
Total Equity	**3,628,465**	3,407,967	3,148,817	2,744,063	2,177,320	1,984,624	1,763,642	1,856,496	1,630,053	831,390
Total Liabilities and Shareholders' Funds	**32,583,192**	25,268,359	22,042,725	20,554,983	18,774,029	15,197,734	15,196,716	15,657,756	10,955,130	7,674,956
Contingent liabilities and commitments	**8,276,395**	6,487,431	5,476,821	4,686,896	3,482,769	3,224,714	2,497,109	2,724,618	2,638,540	1,540,071
Operating cost to income	**41.95%**	41.21%	42.24%	41.59%	41.08%	38.76%	28.22%	35.57%	40.67%	40.82%
Return on average assets	**1.72%**	1.79%	1.86%	1.84%	1.80%	1.74%	1.24%	1.83%	2.35%	2.44%
Return on average shareholders' funds	**13.68%**	13.89%	14.49%	15.69%	15.37%	14.71%	10.92%	14.80%	25.83%	21.95%
Basic Earnings Per Share ($)**	**0.20**	0.19	0.19	0.19	0.17	0.17	0.18	0.23	0.23	0.17
Share price ($)**	**1.23**	1.51	1.65	1.49	1.99	2.50	2.14	2.07	4.99	2.98
BIS capital adequacy ratio*	**16.10%**	15.92%	16.42%	16.32%	15.93%	14.78%	15.20%	13.02%	15.14%	11.97%

*2013 onwards capital adequacy ratio is worked out as per Basel III guidelines.
**Reflects the impact of stock split of 10:1 from 2006 onwards.

Income Statement (USD)

										Amounts in USD 000's
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Interest income	**863,673**	843,055	829,932	832,384	745,345	714,792	726,052	684,319	566,940	413,595
Interest expense	**(235,483)**	(253,662)	(251,632)	(233,930)	(194,387)	(228,571)	(273,153)	(263,263)	(242,727)	(154,184)
Net interest income	**628,190**	589,393	578,300	598,454	550,958	486,221	452,899	421,056	324,213	259,410
Income from Islamic financing	**67,122**	52,938	37,494	-	-	-	-	-	-	-
Distribution to depositors	**(18,660)**	(9,504)	(4,569)	-	-	-	-	-	-	-
Net income from Islamic financing	**48,462**	43,434	32,925	-	-	-	-	-	-	-
Net interest income and income from Islamic financing	**676,652**	632,827	611,225	598,454	550,958	486,221	452,899	421,056	324,213	259,411
Other operating income	**382,403**	362,265	272,296	242,199	213,312	203,380	303,062	194,011	124,953	79,948
OPERATING INCOME	**1,059,055**	995,092	883,521	840,653	764,270	689,601	755,961	615,067	449,166	339,358
OPERATING EXPENSES										
Other operating expenses	**(415,249)**	(381,003)	(344,641)	(320,522)	(285,023)	(244,543)	(196,112)	(203,862)	(172,052)	(129,777)
Depreciation and amortisation / impairment	**(29,052)**	(29,101)	(28,564)	(29,109)	(28,977)	(22,738)	(17,200)	(14,900)	(10,613)	(8,743)
	(444,301)	(410,104)	(373,205)	(349,631)	(314,000)	(267,281)	(213,312)	(218,762)	(182,665)	(138,520)
Recoveries (provision) for due from banks	**(1,558)**	(2,223)	(894)	(1,558)	(1,688)	3,389	-	(12,501)	-	-
Recoveries (provision) for collateral pending sale and acquired assets	**-**	-	-	-	951	-	-	34	278	515
Impairment for investments	**(13,034)**	(3,486)	(4,823)	(10,088)	(7,094)	(1,350)	(6,532)	(26,873)	-	(1,514)
Impairment for credit losses (net)	**(93,780)**	(99,395)	(46,582)	(63,342)	(79,483)	(85,561)	(227,670)	(31,226)	(27,277)	(28,899)
Impairment for associates	**-**	-	(7,138)	-	-	-	(52,766)	(35,714)	-	-
Share of results from associates	**6,652**	3,935	3,387	(8,878)	(9,166)	(32,823)	(27,156)	(8,436)	14,283	10,766
Share of trading loss in an associate	**-**	-	-	-	-	-	-	-	-	-
Net gain on disposal of a foreign branch	**-**	-	-	-	-	-	-	-	-	-
PROFIT BEFORE TAXATION	**513,034**	483,819	454,266	407,156	353,790	305,975	228,525	281,589	253,785	181,706
Tax expense	**(57,317)**	(59,852)	(58,964)	(45,582)	(48,475)	(42,091)	(37,049)	(38,130)	(34,935)	(24,740)
PROFIT FOR THE YEAR	**455,717**	423,967	395,302	361,574	305,315	263,884	191,476	243,459	218,850	156,966

bank muscat is the single largest lender to Dhofar Generating Company and also the OMR tranche Power Facility Agent, Onshore Account Bank and Onshore Security Agent. **bank muscat** provided syndicated term loan facility to the a group of companies to build, own and operate a new gas fired power generation facility (445 MW) and operate the existing plant at Salalah (273 MW).



Dhofar Generating Company

Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF bank muscat SAOG

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of bank muscat SAOG (the "Bank" or the "Parent Company") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Bank's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and relevant requirements of the Commercial Companies Laws of 1974, as amended, and the Capital Market Authority and for such internal control as Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion, the consolidated financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended and the Capital Market Authority.

Ernst & Young LLC
Sanjay

26 February 2016
Muscat

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

2014 US$ 000's	2015 US$ 000's		Notes	2015 RO 000's	2014 RO 000's
		ASSETS			
2,173,881	**6,265,070**	Cash and balances with Central Banks	5	**2,412,052**	836,944
2,698,249	**2,575,300**	Due from banks	6	**991,491**	1,038,826
16,586,039	**17,390,872**	Loans and advances	7	**6,695,486**	6,385,625
1,039,714	**1,648,648**	Islamic financing receivables	7	**634,729**	400,290
536,495	**436,416**	Other assets	8	**168,020**	206,550
		Investment securities:			
832,659	**1,155,774**	- Available-for-sale	9	**444,973**	320,574
1,091,418	**2,655,023**	- Held to maturity	9	**1,022,184**	420,196
-	**133,057**	- Fair value through profit or loss	9	**51,227**	-
123,244	**124,016**	Investment in an associate	11	**47,746**	47,449
186,660	**199,016**	Property and equipment	12	**76,621**	71,864
25,268,359	**32,583,192**			**12,544,529**	9,728,318
		LIABILITIES AND EQUITY			
		LIABILITIES			
2,308,621	**7,427,436**	Deposits from banks	14	**2,859,563**	888,819
16,361,948	**17,502,118**	Customers' deposits	15	**6,738,315**	6,299,350
734,439	**1,623,722**	Islamic customers' deposit	16	**625,133**	282,759
119,481	**-**	Certificates of deposit	17	**-**	46,000
493,452	**496,584**	Euro medium term notes	18	**191,185**	189,979
161,660	**245,857**	Mandatory convertible bonds	19	**94,655**	62,239
981,327	**960,257**	Other liabilities	20	**369,699**	377,811
74,919	**74,208**	Taxation	21	**28,570**	28,844
624,545	**624,545**	Subordinated liabilities	22	**240,450**	240,450
21,860,392	**28,954,727**			**11,147,570**	8,416,251
		EQUITY			
		Equity attributable to equity holders of parent			
566,933	**595,281**	Share capital	23	**229,183**	218,269
1,207,665	**1,207,665**	Share premium		**464,951**	464,951
441,060	**441,060**	General reserve	24	**169,808**	169,808
188,977	**198,426**	Legal reserve	24	**76,394**	72,756
13,364	**13,779**	Revaluation reserve	12	**5,305**	5,145
308,052	**360,000**	Subordinated loan reserve	25	**138,600**	118,600
(1,496)	**(1,865)**	Cash flow hedge reserve	38	**(718)**	(576)
56,205	**50,036**	Cumulative changes in fair value		**19,264**	21,639
(2,403)	**(4,727)**	Foreign currency translation reserve		**(1,820)**	(925)
629,610	**768,810**	Retained profit		**295,992**	242,400
3,407,967	**3,628,465**	**TOTAL EQUITY**		**1,396,959**	1,312,067
25,268,359	**32,583,192**	**TOTAL LIABILITIES AND EQUITY**		**12,544,529**	9,728,318
US$ 1.56	**US$ 1.58**	Net assets per share	27	**RO 0.610**	RO 0.601
6,487,431	**8,276,395**	Contingent liabilities and commitments	28	**3,186,412**	2,497,661

The consolidated financial statements were authorised on 26th February, 2016 for issue in accordance with a resolution of the Board of Directors.

Chairman Director Chief Executive

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015

2014 US$ 000's	2015 US$ 000's		Notes	2015 RO 000's	2014 RO 000's
843,055	**863,673**	Interest income	29	**332,514**	324,576
(253,662)	**(235,483)**	Interest expense	30	**(90,661)**	(97,660)
589,393	**628,190**	**Net interest income**		**241,853**	226,916
52,938	**67,122**	Income from Islamic financing/Investment	29	**25,842**	20,381
(9,504)	**(18,660)**	Distribution to depositors	30	(7,184)	(3,659)
43,434	**48,462**	**Net income from Islamic financing**		**18,658**	16,722
632,827	**676,652**	**Net interest income and income from Islamic financing**		**260,511**	243,638
243,943	**266,964**	Commission and fee income (net)	31	**102,781**	93,918
118,322	**115,439**	Other operating income	32	**44,444**	45,554
995,092	1,059,055	**OPERATING INCOME**		**407,736**	383,110
		OPERATING EXPENSES			
(381,003)	**(415,249)**	Other operating expenses	33	**(159,871)**	(146,686)
(29,101)	**(29,052)**	Depreciation	12	**(11,185)**	(11,204)
(410,104)	**(444,301)**			**(171,056)**	(157,890)
(2,223)	**(1,558)**	Impairment for due from banks	6	**(600)**	(856)
(167,091)	**(186,971)**	Impairment for credit losses	7	**(71,984)**	(64,330)
67,696	**93,191**	Recoveries from provision for credit losses	7	**35,879**	26,063
(3,486)	**(13,034)**	Impairment for investments available-for-sale	9	**(5,018)**	(1,342)
3,935	**6,652**	Share of results from an associate	11	**2,561**	1,515
(511,273)	**(546,021)**			**(210,218)**	(196,840)
483,819	**513,034**	**PROFIT BEFORE TAXATION**		**197,518**	186,270
(59,852)	**(57,317)**	Tax expense	21	**(22,067)**	(23,043)
423,967	**455,717**	**PROFIT FOR THE YEAR**		**175,451**	163,227
		OTHER COMPREHENSIVE (EXPENSE) INCOME			
		Net other comprehensive income to be reclassified to profit or loss in subsequent periods			
8,888	**(660)**	Foreign currency translation of investment in an associate	11	**(254)**	3,422
(1,969)	**(1,665)**	Translation of net investments in foreign operations	11	**(641)**	(758)
2,982	**(1,358)**	Share of other comprehensive income of an associate	11	**(523)**	1,148
10,522	**(4,810)**	Change in fair value of investments available-for-sale		**(1,852)**	4,051
(2,494)	**(369)**	Change in fair value of cash flow hedge	38	**(142)**	(960)
17,929	**(8,862)**			**(3,412)**	6,903
		Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
-	**416**	Surplus on revaluation of land and building		**160**	-
17,929	**(8,446)**	**OTHER COMPREHENSIVE INCOME FOR THE YEAR**		**(3,252)**	6,903
441,896	**447,271**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**172,199**	170,130
		Total comprehensive income attributable to			
441,896	**447,270**	Equity holders of Parent Company		**172,199**	170,130
		Profit attributable to			
423,967	**455,717**	Equity holders of Parent Company		**175,451**	163,227
		Earnings per share:			
US$ 0.19	**US$ 0.20**	- Basic	35	**RO 0.077**	RO 0.071
US$ 0.18	**US$ 0.18**	- Diluted	35	**RO 0.070**	RO 0.068

Items in the other comprehensive income are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 21.

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

Attributable to equity holders of Parent Company

	Notes	Share capital	Share premium	General reserve	Legal reserve	Revaluation reserve
At 1 January 2015		218,269	464,951	169,808	72,756	5,145
Profit for the year		-	-	-	-	-
Share of other comprehensive income of an associates		-	-	-	-	160
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	160
Dividends paid	26	-	-	-	-	-
Issue of mandatory convertible bonds	26	-	-	-	-	-
Issue expenses of mandatory convertible bonds	26	-	-	-	-	-
Issue of bonus shares during the year		10,914				
Transfer to legal reserve	24	-	-	-	3,638	-
Transfer to subordinated loan reserve	25	-	-	-	-	-
At 31 December 2015 (RO 000's)		**229,183**	**464,951**	**169,808**	**76,394**	**5,305**
At 31 December 2015 (US$ 000's)		**595,281**	**1,207,665**	**441,060**	**198,426**	**13,779**

	Notes	Share capital	Share premium	General reserve	Legal reserve	Revaluation reserve
At 1 January 2014		215,226	451,837	163,392	71,735	5,145
Profit for the year		-	-	-	-	-
Share of other comprehensive income of associates		-	-	-	-	-
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-
Dividends paid	26	-	-	-	-	-
Issue of mandatory convertible bonds	26	-	-	-	-	-
Issue expenses of mandatory convertible bonds	26	-	-	-	-	-
Transfer to legal reserve	24	-	-	-	1,021	-
Conversion of convertible bonds	26	3,043	13,114	-	-	-
Transfer from subordinated loan reserve	25	-	-	6,416	-	-
Transfer to subordinated loan reserve	25	-	-	-	-	-
Other movements		-	-	-	-	-
At 31 December 2014 (RO 000's)		**218,269**	**464,951**	**169,808**	**72,756**	**5,145**
At 31 December 2014 (US$ 000's)		**566,933**	**1,207,665**	**441,060**	**188,977**	**13,364**

The attached notes 1 to 44 form part of these consolidated financial statements.

RO 000's

Subordinated loan reserve	Cash flow hedge reserve	Cumulative changes in fair value	Foreign currency translation reserve	Retained profit	Sub Total		
118,600	(576)	21,639	(925)	242,400	1,312,067		
–	–	–	–	175,451	175,451		
–	–	(523)	(254)	–	(617)		
–	(142)	(1,852)	(641)	–	(2,635)		
–	(142)	(2,375)	(895)	175,451	172,199		
–	–	–	–	(54,567)	(54,567)		
–	–	–	–	(32,416)	(32,416)		
–	–	–	–	(324)	(324)		
				(10,914)			
–	–	–	–	(3,638)	–		
20,000	–	–	–	(20,000)	–		
138,600	**(718)**	**19,264**	**(1,820)**	**295,992**	**1,396,959**		
360,000	**(1,865)**	**50,036**	**(4,727)**	**768,810**	**3,628,465**		

Subordinated loan reserve	Cash flow hedge reserve	Cumulative changes in fair value	Foreign currency translation reserve	Retained profit	Sub Total	Non-controlling interest	Total
88,733	384	16,440	(3,589)	202,774	1,212,077	217	1,212,294
–	–	–	–	163,227	163,227	–	163,227
–	–	1,148	3,422	–	4,570	–	4,570
–	(960)	4,051	(758)	–	2,333	–	2,333
–	(960)	5,199	2,664	163,227	170,130	–	170,130
–	–	–	–	(53,807)	(53,807)	–	(53,807)
–	–	–	–	(31,964)	(31,964)	–	(31,964)
–	–	–	–	(320)	(320)	–	(320)
–	–	–	–	(1,021)	–	–	–
–	–	–	–	–	16,157	–	16,157
(6,416)	–	–	–	–	–	–	–
36,283	–	–	–	(36,283)	–	–	–
–	–	–	–	(206)	(206)	(217)	(423)
118,600	**(576)**	**21,639**	**(925)**	**242,400**	**1,312,067**	**-**	**1,312,067**
308,052	**(1,496)**	**56,205**	**(2,403)**	**629,610**	**3,407,967**	**-**	**3,407,967**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

2014 US$ 000's	2015 US$ 000's		Notes	2015 RO 000's	2014 RO 000's
		CASH FLOWS FROM OPERATING ACTIVITIES			
483,819	**513,034**	**Profit for the year before taxation**		**197,518**	186,270
		Adjustments for:			
(3,935)	**(6,652)**	Share of results from an associate	11	**(2,561)**	(1,515)
29,101	**29,052**	Depreciation	12	**11,185**	11,204
3,486	**13,034**	Impairment for investments available-for-sale	9	**5,018**	1,342
167,091	**186,971**	Impairment for credit losses	7	**71,984**	64,330
2,223	**1,558**	Impairment for due from banks	6	**600**	856
(67,696)	**(93,191)**	Recoveries from impairment for credit losses	7	**(35,879)**	(26,063)
(345)	**(13)**	Profit on sale of property and equipment		**(5)**	(133)
(36,091)	**(8,317)**	Profit on sale of investments	32	**(3,202)**	(13,895)
(10,166)	**(7,777)**	Dividend income	32	**(2,994)**	(3,914)
567,487	**627,699**	**Operating profit before working capital changes**		**241,664**	218,482
(200,655)	**97,301**	Due from banks		**37,461**	(77,252)
(1,449,306)	**(889,834)**	Loans and advances		**(342,586)**	(557,983)
(320,397)	**(617,712)**	Islamic financing receivables		**(237,819)**	(123,353)
56,553	**100,649**	Other assets		**38,750**	21,773
(13,987)	**103,460**	Deposits from banks		**39,832**	(5,385)
1,938,797	**1,140,169**	Customers' deposits		**438,965**	746,437
492,992	**889,283**	Islamic customers' deposits		**342,374**	189,802
(2,597)	**(119,481)**	Certificates of deposit		**(46,000)**	(1,000)
(77,410)	**-**	Unsecured bonds		**-**	(29,803)
17,173	**(21,562)**	Other liabilities		**(8,301)**	6,612
1,008,650	**1,309,972**	Cash from operations		**504,340**	388,330
(55,538)	**(57,875)**	Income taxes paid		**(22,282)**	(21,382)
953,112	**1,252,097**	**Net cash from operating activities**		**482,058**	366,948
		CASH FLOWS FROM INVESTING ACTIVITIES			
3,805	**4,187**	Dividend from an associate	11	**1,612**	1,465
10,166	**7,777**	Dividends received from investment securities	32	**2,994**	3,914
(152,953)	**(741,629)**	Purchase of investments		**(285,527)**	(58,887)
201,725	**211,847**	Proceeds from sale of investments		**81,561**	77,664
(43,938)	**(41,465)**	Purchase of property and equipment	12	**(15,964)**	(16,916)
1,618	**62**	Proceeds from sale of property and equipment		**24**	623
20,423	**(559,221)**	**Net cash from / (used in) investing activities**		**(215,300)**	7,863
		CASH FLOWS FROM FINANCING ACTIVITIES			
(139,758)	**(141,732)**	Dividends paid		**(54,567)**	(53,807)
(16,668)	**-**	Subordinated loan paid		**-**	(6,417)
(156,426)	**(141,732)**	Net cash used in financing activities		**(54,567)**	(60,224)
817,109	**551,144**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**212,191**	314,587
2,195,182	**3,012,291**	Cash and cash equivalents at 1 January		**1,159,732**	845,145
3,012,291	**3,563,435**	**CASH AND CASH EQUIVALENTS AT 31 DECEMBER**	34	**1,371,923**	1,159,732

The attached notes 1 to 44 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2015

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The Bank and its subsidiary (together, the Group) operate in five countries (2014 - five countries) and employed 3,712 employees as of 31 December 2015 (2014: 3,607).

During 2013, the Parent Company inaugurated "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking license granted by the CBO on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities. The principal activities of Meethaq include: accepting customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes; undertaking Shari'a compliant investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 31 December 2015, Meethaq has 16 branches (2014 - 11 branches) in the Sultanate of Oman.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.2 Basis of preparation

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

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

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

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

2.3 Functional and presentation currency

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

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

For the year ended 31 December 2015, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2015.

The following new standards and amendments became effective as of 1 January 2015:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements 2010-2012 Cycle
- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures
- Annual Improvements 2011-2013 Cycle
- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

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

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

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2015:

IFRS 9 - Financial Instruments

In July 2014, the IASB issued final version of IFRS 9: Financial Instruments, which reflects all the 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 Parent Company and Group is in the process of performing a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Parent Company and Group in the future. Overall, the Parent Company and Group expect no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Parent Company and Group plan to adopt the new standard on the required effective date.

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

IFRS 16 – Leases: the IASB issued IFRS 16 Leases 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 effective for the annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with customers, has been applied, or is applied at the same date as IFRS 16. The Parent Company and Group plan to adopt the new standard on the required effective date.

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

2.5 Consolidation

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

(b) Transactions with non-controlling interests

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

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

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

(c) Investment in associates

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

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.
Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Foreign currency translation

(i) Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(iv) On consolidation, the assets and liabilities of foreign operations are translated into Rial Omani at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in other operating expenses or other operating income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

3.2 Revenue and expense recognition

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

3.2.1 Interest

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as "interest income' for financial assets and "interest expense" for financial liabilities. However, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate. Interest income, which is doubtful of recovery is included in loan impairment and excluded from income, until it is received in cash.

3.2.2 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 service charges, advisory fees, processing fees, syndication fees and others are recognised when they are due.

3.2.3 Dividends

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

3.2.4 Provisions

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

3.3 Financial assets and liabilities

3.3.1 Classification

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

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

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

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

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

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

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

(b) Loans and receivables

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

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

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

(c) Held to maturity

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

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

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

(d) Available-for-sale financial assets

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

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

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

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

(e) 'Day 1' profit or loss

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

3.3.2 Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

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

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

3When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3.3.3 Recognition

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

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

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

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

(ii) Financial liabilities

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

3.3.5 Offsetting

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

3.3.6 Amortised cost measurement

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

3.3.7 Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

3.3.8 Investment in equity and debt securities

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

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

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

3.3.9 Fair value measurement of derivatives

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

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

3.4 Identification and measurement of impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

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

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

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

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

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

If in a subsequent period, the amount of impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income. Also refer to notes 2.5 (c) associates, 3.3.1. (b) loans and receivables and 3.3.1. (c) held to maturity investments.

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

3.5 Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of reclassification.

Equity accounting for investment in associate ceases once classified and included as held for sale.

Investment in an associate classified as held for sale is disclosed in Note 8 to the consolidated financial statements.

3.6 Cash and cash equivalents

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

3.7 Due from banks

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

3.8 Property and equipment

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

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

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

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

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

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

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

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

3.9 Collateral pending sale

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

3.10 Business combination and Goodwill

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

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

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

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3.11 Deposits

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

3.12 Income tax

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

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

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

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

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

3.13 Fiduciary assets

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

3.14 Acceptances

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

3.15 Repurchase and resale agreements

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

3.16 Trade and settlement date accounting

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

3.17 Leases

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

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

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

3.18 Employee terminal benefits

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of comprehensive income when accrued.
The Group's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods.

3.19 Earnings per share

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

3.20 Financial guarantees contracts

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

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

3.21 Borrowings

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

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

3.22 Dividend on ordinary shares

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

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

3.23 Directors' remuneration

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results. Specific fair value estimates are disclosed in note 43.

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 Group's significant accounting estimates were on:

(a) Impairment losses on loans and advances

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

(b) Impairment on due from banks

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

(c) Fair value of derivatives and other financial instruments

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

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

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Group evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

(e) Impairment loss on investments in associates

The Group reviews its investments in associates periodically and evaluates the objective evidence of impairment. Objective evidence includes the performance of associate, the future business model, local economic conditions and other relevant factors. Based on the objective evidences, the Group determines the need for impairment loss on investments in associates.

(f) Taxes

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

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

5. CASH AND BALANCES WITH CENTRAL BANKS

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
595,540	**538,649**	Cash	**207,380**	229,283
1,299	**1,299**	Capital deposit with Central Banks	**500**	500
418,616	**26,423**	Certificate of deposits with Central Banks	**10,173**	161,167
1,158,426	**5,698,699**	Other balances with Central Banks	**2,193,999**	445,994
2,173,881	**6,265,070**		**2,412,052**	836,944

The capital deposit with the Central Banks cannot be withdrawn without the approval of the respective Central Bank.

6. DUE FROM BANKS

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
684,688	**360,831**	Nostro balances	**138,920**	263,605
1,726,686	**1,800,636**	Inter-bank placements	**693,245**	664,774
299,732	**428,248**	Loans to banks	**164,876**	115,397
2,711,106	**2,589,715**		**997,041**	1,043,776
(12,857)	**(14,415)**	Provision for impairment	**(5,550)**	(4,950)
2,698,249	**2,575,300**		**991,491**	1,038,826

The movement in provision for impairment is analysed below:

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
10,634	**12,857**	1 January	**4,950**	4,094
2,223	**1,558**	Provided during the year	**600**	856
12,857	**14,415**	31 December	**5,550**	4,950

7. LOANS AND ADVANCES/ISLAMIC FINANCING RECEIVABLES

Loans and advances – conventional

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
15,204,556	**15,899,658**	Loans	**6,121,368**	5,853,754
653,961	**715,823**	Overdrafts and credit cards	**275,592**	251,775
701,496	**613,379**	Loans against trust receipts	**236,151**	270,076
52,551	**63,475**	Bills purchased and discounted	**24,438**	20,232
626,106	**843,049**	Other advances	**324,574**	241,051
17,238,670	**18,135,384**		**6,982,123**	6,636,888
(652,631)	**(744,512)**	Provision for impairment	**(286,637)**	(251,263)
16,586,039	**17,390,872**		**6,695,486**	6,385,625

Islamic financing receivables

2014 US$ 000's	2015 US$ 000's		2015 RO 000's	2014 RO 000's
708,475	853,364	Housing finance	**328,545**	272,763
78,894	117,494	Consumer finance	**45,235**	30,374
272,166	706,543	Corporate finance	**272,019**	104,784
1,059,535	1,677,401		**645,799**	407,921
(19,821)	(28,753)	Provision for impairment	**(11,070)**	(7,631)
1,039,714	1,648,648		**634,729**	400,290

The movement in provision for impairment is analysed below:

Impairment for credit losses

2014 US$ 000's	2015 US$ 000's		2015 RO 000's	2014 RO 000's
524,213	**617,535**	**1 January**	**237,750**	201,822
167,091	**186,971**	Provided during the year	**71,984**	64,330
(65,119)	**(90,618)**	Released during the year	**(34,888)**	(25,071)
(3,252)	**(3,756)**	Written off during the year	**(1,446)**	(1,252)
6,535	**4,091**	Transfer from memorandum portfolio	**1,575**	2,516
(311)	**(312)**	Foreign currency translation difference	**(120)**	(120)
(11,622)	**(190)**	Transfer to collateral pending sale	**(73)**	(4,475)
617,535	**713,721**	**31 December (a)**	**274,782**	237,750

Contractual interest/profit not recognised

2014 US$ 000's	2015 US$ 000's		2015 RO 000's	2014 RO 000's
40,909	**54,917**	**At 1 January**	**21,144**	15,750
34,287	**30,364**	Contractual interest not recognised	**11,690**	13,201
(13,761)	**(24,644)**	Contractual interest recovered	**(9,488)**	(5,298)
(6,582)	**(1,335)**	Written off during the year	**(514)**	(2,534)
384	**242**	Transfer from memorandum portfolio	**93**	148
(156)	**-**	Transfer to memorandum portfolio	**-**	(60)
(164)	**-**	Transfer to collateral pending sale	**-**	(63)
54,917	**59,544**	**At 31 December (b)**	**22,925**	21,144
672,452	**773,265**	Total impairment (a) + (b)	**297,707**	258,894

Recoveries during the year of RO 35.879 million (2014: RO 26.063 million) include RO 0.991 million (2014- RO 0.992 million) recovered from loans written off earlier. The loans written off during the year include an amount of RO nil (2014: RO 0.06 million) transferred to memorandum portfolio, which were fully provided by the Group.

As of 31 December 2015, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 209.5 million (2014 - RO 200.1 million).

During the year, written off loans amounting to RO 1.67 million (2014: RO 2.66 million) were regularised. Accordingly these loans were reclassified from memorandum account to loans and advances. These accounts were fully provided.

8. OTHER ASSETS

2014 US$ 000's	2015 US$ 000's		2015 RO 000's	2014 RO 000's
274,457	**195,891**	Acceptances (Note 20)	**75,418**	105,666
74,668	**64,686**	Other debtors and prepaid expenses	**24,904**	28,747
84,810	**65,481**	Positive fair value of derivatives (Note 38)	**25,210**	32,652
54,078	**56,000**	Accrued interest	**21,560**	20,820
1,855	**1,745**	Deferred tax asset (Note 21)	**672**	714
2,517	**-**	Asset held for sale	**-**	969
8,481	**32,894**	Others	**12,664**	3,265
35,629	**19,719**	Collateral pending sale (net of provisions)	**7,592**	13,717
536,495	**436,416**		**168,020**	206,550

During 2015, the Parent Company acquired collateral amounting to RO 309 thousands; net of provisions RO 234 thousands (2014: RO 18.2 million; net of provisions RO 13.62 million) towards loan settlement. A portion of collateral amounting to RO 6.36 million (2014: nil) was also disposed. In accordance with the CBO's requirements, the bank has retained the existing impairment provision of RO 4.54 million (2014: nil) till all the properties are disposed

9. INVESTMENT SECURITIES

	Available for sale RO 000's	Held to maturity RO 000's	Fair value through profit or loss RO 000's	2015 Total RO 000's	2014 Total RO 000's
Quoted investments	**393,442**	**53,590**	**51,227**	**498,259**	291,110
Unquoted investments:					
Treasury bills	**-**	**967,648**	**-**	**967,648**	390,379
Bonds/equities	**62,401**	**946**	**-**	**63,347**	65,842
Total unquoted	**62,401**	**968,594**	**-**	**1,030,995**	456,221
Total investments	**455,843**	**1,022,184**	**51,227**	**1,529,254**	747,331
Impairment losses on investments	**(10,870)**	**-**	**-**	**(10,870)**	(6,561)
Net investments	**444,973**	**1,022,184**	**51,227**	**1,518,384**	740,770
2014	320,574	420,196	-	740,770	

	Available for sale US$ 000's	Held to maturity US$ 000's	Fair value through profit or loss US$ 000's	2015 Total US$ 000's	2014 Total US$ 000's
Quoted investments	**1,021,927**	**139,195**	**133,057**	**1,294,179**	756,130
Unquoted investments:					
Treasury bills	**-**	**2,513,371**	**-**	**2,513,371**	1,013,971
Bonds/equities	**162,081**	**2,457**	**-**	**164,538**	171,018
Total unquoted	**162,081**	**2,515,828**	**-**	**2,677,909**	1,184,989
Total investments	**1,184,008**	**2,655,023**	**133,057**	**3,972,088**	1,941,119
Impairment losses on investments	**(28,234)**	**-**	**-**	**(28,234)**	(17,042)
Net investments	**1,155,774**	**2,655,023**	**133,057**	**3,943,854**	1,924,077
2014	832,659	1,091,418	-	1,924,077	

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

2014 US$ 000's	2015 US$ 000's		2015 RO 000's	2014 RO 000's
		Quoted investments		
		Equity		
73,215	**101,522**	Foreign securities	**39,086**	28,188
87,455	**67,703**	Other services sector	**26,066**	33,670
23,818	**20,730**	Unit funds	**7,981**	9,170
23,332	**15,221**	Financial services sector	**5,860**	8,983
2,444	**3,582**	Industrial sector	**1,379**	941
		Debt		
409,309	**735,574**	Government bonds	**283,196**	157,584
73,481	**76,743**	Foreign bonds	**29,546**	28,290
1,021	**852**	Local bonds	**328**	393
694,075	**1,021,927**	Total quoted investments	**393,442**	267,219
		Unquoted investments Equity		
38,714	**38,603**	Foreign securities	**14,862**	14,905
21,930	**55,125**	Local securities	**21,223**	8,443
1,465	**2,021**	Unit funds	**778**	564
		Debt		
93,517	**66,332**	Local bonds	**25,538**	36,004
155,626	**162,081**	**Total unquoted investments**	**62,401**	59,916
849,701	**1,184,008**	**Total available for sale investments**	**455,843**	327,135
(17,042)	**(28,234)**	Impairment losses on investments	**(10,870)**	(6,561)
832,659	**1,155,774**	**Available for sale investments (net)**	**444,973**	320,574

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

2014 US$ 000's	2015 US$ 000's		2015 RO 000's	2014 RO 000's
22,299	**17,042**	At 1 January	**6,561**	8,585
3,486	**13,034**	Provided during the year	**5,018**	1,342
-	**(873)**	Written off during the year	**(336)**	-
(8,743)	**(969)**	Released during the year on disposal	**(373)**	(3,366)
17,042	**28,234**	At 31 December	**10,870**	6,561

The movement in investment securities may be summarised as follows:

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

	Available-for-sale	Held to maturity	Fair value through profit or loss	Total
	RO 000's	RO 000's	RO 000's	RO 000's
At 1 January 2014	333,489	228,551	-	562,040
Exchange differences on monetary assets	138	-	-	138
Additions	59,497	391,280	-	450,777
Disposals and redemption	(77,664)	(201,981)	-	(279,645)
Gain/(loss) from change in fair value	4,583	-	-	4,583
Impairment losses	(1,342)	-	-	(1,342)
Amortisation of discount / premium	(2,542)	2,346	-	(196)
Realised gains on sale	4,415	-	-	4,415
At 31 December 2014	320,574	420,196	-	740,770
US$ 000's	832,659	1,091,418	-	1,924,077

10. INVESTMENTS IN A SUBSIDIARY

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

Company name	Country of incorporation	Proportion held	
		2015	2014
Muscat Capital LLC	Kingdom of Saudi Arabia (KSA)	100%	100%

As at 31 December 2015, the authorised and issued share capital of the subsidiary is SAR 60 million (2014 - SAR 60 million).

During 2014, Muscat Capital LLC had a reduction in its share capital from SAR 100 million to SAR 60 million through equivalent reduction in accumulated losses from SAR 42.7 million to SAR 2.7 million. The reduction in capital is in conformity with the provisions of the KSA Companies Law in an event a limited liability company's losses exceed fifty percent of its share capital. Relevant regulatory approvals from CBO and Capital Market Authority, K.S.A have been obtained. During 2014, the bank acquired additional stake of 3.74% for a consideration of RO 423 thousands, adjusting its receivable from non-controlling interests stakeholder.

11. INVESTMENTS IN AN ASSOCIATE

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
123,244	**124,016**	Al Salam Bank ('ASB'), Kingdom of Bahrain	**47,746**	47,449

During 2015, share of results from associate amounted to RO 2.561 million (2014: RO 1.515 million) and share of other comprehensive expense from associate amounted to RO 0.62 million (2014: share of other comprehensive income of RO 0.2 million).

(i) Investment in BMI Bank B.S.C. (c), Kingdom of Bahrain (BMI)

On 30 March 2014, ASB, Bahrain acquired BMI by issuing 11 shares for 1 share of BMI. In accordance with the share swap ratio, the Bank received 315,494,795 shares in ASB in exchange of 28,681,345 shares of BMI resulting in its 14.74% shareholding in ASB. The market value of the bank's shareholding in ASB on the date of acquisition amounted to RO 68.98 million.

The Bank has accounted for investment in ASB as an associate at an adjusted market value of RO 46 million and recorded the difference between fair value of investment in ASB and carrying value of investment in BMI as a gain on derecognition of investment in BMI. This gain amounting to RO 9.48 million is included as part of other operating income in the consolidated statement of comprehensive income.

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
94,925	-	At 1 January	-	36,547
-	-	Share of other comprehensive income	-	-
(3,805)	-	Dividend received	-	(1,465)
704	-	Share of results for the year	-	271
(91,824)	-	Derecognition of investment in BMI	-	(35,353)
-	-	At 31 December	-	-

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

As of 31 December 2015, the Bank held 14.74% (2014 - 14.74%) shareholding in ASB. The bank is the single largest shareholder in ASB and has board representation. Accordingly, the bank has significant influence over ASB and the investment is recorded as an associate. The carrying value of the investment in ASB as on 31 December 2015 was as follows:

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
119,481	**123,244**	Carrying value of the Investment	**47,449**	46,000
3,231	**6,652**	Share of results for the period	**2,561**	1,244
532	**(1,603)**	Share of other comprehensive income	**(617)**	205
-	**(4,187)**	Dividends received	**(1,612)**	-
-	**(91)**	Other movements	**(35)**	-
123,244	**124,015**	At 31 December	**47,746**	**47,449**

The Bank's share of the results and other comprehensive income of ASB are reflected on the basis of reviewed results for the period ended 30 September 2015. The financial statements of ASB are prepared in accordance with Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The Management of the Bank believes that it is not practicable to restate the financial statements of ASB in order to reflect the position as per International Financial Reporting Standards and also considers the impact not to be material to the Group.

(iii) Financial information relating to ASB as at 30 September 2015

Financial information relating to an associate is summarised as follows

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
93,784	96,125	Total revenue	37,008	36,107
32,795	36,729	Net income	14,141	12,626
5,177,219	4,731,158	Total assets	1,821,496	1,993,229
4,315,764	3,879,429	Total liability	1,493,580	1,661,569
861,455	851,729	Equity	327,916	331,660

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

12. PROPERTY AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Cost or valuation:				
At 1 January 2015	**49,893**	**102,543**	**823**	**153,259**
Additions during the year	**-**	**15,739**	**225**	**15,964**
Disposals	**-**	**(70)**	**(9)**	**(79)**
Translation adjustment	**(11)**	**(23)**	**-**	**(34)**
At 31 December 2015	**49,882**	**118,189**	**1,039**	**169,110**
Depreciation:				
At 1 January 2015	**8,909**	**71,922**	**564**	**81,395**
Charge for the year	**1,044**	**10,047**	**94**	**11,185**

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Relating to disposals	**-**	**(51)**	**(9)**	**(60)**
Translation adjustment	**(10)**	**(21)**	**-**	**(31)**
At 31 December 2015	**9,943**	**81,897**	**649**	**92,489**
Net book value:				
At 31 December 2015	**39,939**	**36,292**	**390**	**76,621**
At 31 December 2015 (US$ 000's)	**103,738**	**94,265**	**1,013**	**199,016**

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Cost or valuation:				
At 1 January 2014	47,423	89,246	929	137,598
Additions during the year	2,481	14,247	188	16,916
Disposals	-	(928)	(294)	(1,222)
Translation adjustment	(11)	(22)	-	(33)
At 31 December 2014	49,893	102,543	823	153,259
Depreciation:				
At 1 January 2014	7,826	62,527	594	70,947
Charge for the year	1,091	10,009	104	11,204
Relating to disposals	-	(598)	(134)	(732)
Translation adjustment	(8)	(16)	-	(24)
At 31 December 2014	8,909	71,922	564	81,395
Net book value:				
At 31 December 2014	40,984	30,621	259	71,864
At 31 December 2014 (US$ 000's)	106,452	79,535	673	186,660

Land and buildings above includes leasehold land and buildings of RO 34,186 thousands (2014: RO 34,975 thousands). The Bank has a policy to revalue its owned land and buildings at the end of every five years. In accordance with the bank's policy, the owned land and buildings were revalued during 2012 by independent professional valuers on an open market basis.

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

13. FINANCE LEASE LIABILITIES

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

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

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
(114)	**(122)**	Current	**(47)**	(44)
99,673	**99,795**	Non-current	**38,421**	38,374
99,559	**99,673**	Total (note 20)	**38,374**	38,330
		Represented by:		
377,984	**370,979**	Gross finance lease payment due	**142,827**	145,524
(278,425)	**(271,306)**	Less: future finance charges	**(104,453)**	(107,194)
99,559	**99,673**	Net lease liability/ present value recognised as property	**38,374**	38,330

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

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

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

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

RO 000's	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
As at 31 December 2014					
Total minimum lease payments	2,697	2,697	8,091	132,039	145,524
Less: Amounts representing finance charges	(2,741)	(2,744)	(8,251)	(93,458)	(107,194)
Net finance lease liability	(44)	(47)	(160)	38,581	38,330

US$ 000's	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
As at 31 December 2014					
Total minimum lease payments	7,005	7,005	21,016	342,958	377,984
Less: Amounts representing finance charges	(7,119)	(7,127)	(21,431)	(242,748)	(278,425)
Net finance lease liability	(114)	(122)	(415)	100,210	99,559

14. DEPOSITS FROM BANKS

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
906,514	**637,249**	Inter bank borrowings	**245,341**	349,008
802,107	**6,190,187**	Vostro balances	**2,383,222**	308,811
600,000	**600,000**	Other money market deposits	**231,000**	231,000
2,308,621	**7,427,436**		**2,859,563**	888,819

15. CONVENTIONAL CUSTOMER DEPOSITS

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
5,224,829	**5,501,061**	Deposit accounts	**2,117,908**	2,011,559
5,092,649	**5,789,003**	Savings accounts	**2,228,766**	1,960,670
5,174,260	**5,237,239**	Current accounts	**2,016,337**	1,992,090
760,114	**823,306**	Call accounts	**316,973**	292,644
110,096	**151,509**	Margin accounts	**58,331**	42,387
16,361,948	**17,502,118**		**6,738,315**	6,299,350

16. ISLAMIC CUSTOMER DEPOSITS

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
589,847	**1,058,626**	Deposit accounts	**407,571**	227,091
86,956	**158,325**	Savings accounts	**60,955**	33,478
56,327	**172,257**	Current accounts	**66,319**	21,686
1,309	**234,514**	Margin accounts	**90,288**	504
734,439	**1,623,722**		**625,133**	282,759

17. CERTIFICATES OF DEPOSIT

During the year, certificates of deposits amounting to RO 46 million (2014: RO 1 million) were matured. The certificates of deposits issued by the Parent Company were unsecured and denominated in Rial Omani. The maturity profile and interest rate are disclosed in notes 42.3.2 and 42.4.4 respectively.

18. EURO MEDIUM TERM NOTES

Euro medium term notes are issued by the Parent Company under its Euro Medium Term Note Programme and are denominated in US Dollars. These are non-convertible, unsecured and listed on Luxemburg stock exchange. During 2015 and 2014, no new notes were issued or matured. The Parent Company has entered into an interest rate swap, which is designated as a fair value hedge, for hedging the interest rate risk on Euro medium term notes. The cumulative change in the fair value of the Euro medium term notes (hedged item) attributable to the risk hedged is recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position. The maturity profile and interest rates of floating rate notes are disclosed in notes 42.3.2 and 42.4.4 respectively.

19. MANDATORY CONVERTIBLE BONDS

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
120,602	**161,660**	At 1 January	**62,239**	46,432
83,024	**84,197**	Issuance during the year	**32,416**	31,964
(41,966)	**-**	Conversion during the year	**-**	(16,157)
161,660	**245,857**	At 31 December	94,655	62,239

The maturity profile and interest rate of mandatory convertible bonds are disclosed in notes 42.3.2 and 42.4.4 respectively. Mandatory convertible bonds were issued by the Parent Company as part of its dividend distribution. On maturity, the bonds will be converted to ordinary shares of the Parent Company by using a "conversion price" which will be calculated by applying 20% discount to 3 month average share price of the Parent Company on the Muscat Securities Market prior to the conversion. During 2015, there were no maturities of mandatory convertible bonds. During Q1-2014, the remaining 50% of bonds issued by the Bank in 2009 as part of its dividend distribution for the year 2008, representing RO 16.157 million were matured. Based on the terms of prospectus, conversion price was calculated at RO 0.531 which represented a 20% discount to average closing market price over the preceding 90 calendar day period prior to the conversion date after adjusting for the impact of bonus shares issued in Q1-2014. The Bank issued 30,427,504 shares on account of conversion.

20. OTHER LIABILITIES

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
353,282	**398,029**	Other liabilities and accrued expenses	**153,241**	136,014
274,457	**195,891**	Acceptances (note 8)	**75,418**	105,666
114,462	**128,992**	Accrued interest	**49,662**	44,068
99,559	**99,673**	Finance lease (note 13)	**38,374**	38,330
95,481	**89,574**	Negative fair value of derivatives (note 38)	**34,486**	36,760
23,704	**26,249**	Unearned discount and interest	**10,106**	9,126
15,231	**16,543**	Employees' terminal benefits	**6,369**	5,864
5,151	**5,306**	Deferred tax liability (note 21)	**2,043**	1,983
981,327	**960,257**		**369,699**	377,811

The charge for the year and amounts paid in respect of employees' terminal benefits were RO 1,087 thousands (2014: RO 1,178 thousands) and RO 582 thousands (2014 - RO 536 thousands), respectively.

21. TAXATION

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
		Current liability:		
60,104	**62,225**	Current year	**23,957**	23,140
14,815	**11,983**	Prior years	**4,613**	5,704
74,919	**74,208**		**28,570**	28,844

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
		Consolidated statement of comprehensive income:		
60,104	**62,225**	Current year	**23,957**	23,140
(13,434)	**(5,017)**	Prior years	**(1,932)**	(5,172)
46,670	**57,208**		**22,025**	17,968
		Relating to origination and reversal of		
13,182	**109**	temporary differences	**42**	5,075
59,852	**57,317**		**22,067**	23,043

i) The tax rate applicable to the Parent Company is 12% (2014 - 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 11.17% (2014 – 12.37%).

The difference between the applicable tax rate of 12% (2014 - 12%) and effective tax rate of 11.17% (2014: 12.37%) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

ii) The reconciliation of taxation on the accounting profit before tax for the year at RO 197.5 million (2014: RO 186.3 million) after the basic exemption limit of RO 30,000 and the taxation charge in the consolidated financial statements is as follows:

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
58,049	**61,556**	Tax charge at 12% on accounting profit before tax	**23,699**	22,349
		Add/(less) tax effect of:		
(3,073)	**(2,421)**	Income not taxable	**(932)**	(1,183)
4,805	**3,029**	Expenses not deductible or deferred	**1,166**	1,850
3	**13**	Foreign taxes on foreign-sourced income	**5**	1
320	**49**	Tax relating to subsidiary	**19**	123
13,182	**109**	Relating to origination and reversal of temporary differences	**42**	5,075
(13,434)	**(5,018)**	Reversal of provision for prior years	**(1,932)**	(5,172)
59,852	**57,317**	Tax charge as per consolidated statement of comprehensive income	**22,067**	23,043

iii) The deferred tax asset/liability has been recognised at the effective tax rate of 12% (2014 - 12%).

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

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

	At 1 January 2014	Charged to consolidated statement of comprehensive income	At 31 December 2014
	RO 000's	RO 000's	RO 000's
Asset			
Tax effect of provisions	6,292	(5,206)	1,086
Change in fair value of hedge	-	78	78
Liability:			
Tax effect of accelerated tax depreciation	(503)	53	(450)
	5,789	(5,075)	714

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

	31 December 2015			31 December 2014		
	Before tax	**Tax (charge)/ credit**	**After tax**	Before tax	Tax (charge)/ credit	After tax
	RO 000's	**RO 000's**	**RO 000's**	RO 000's	RO 000's	RO 000's
Foreign currency translation of investment in associates	**(254)**		**(254)**	3,422	-	3,422
Translation of net investments in foreign operations	**(641)**		**(641)**	(758)	-	(758)
Share of other comprehensive income of associate	**(523)**		**(523)**	1,148	-	1,148
Change in fair value of investments available for sale	**(1,792)**	**(60)**	**(1,852)**	4,583	(532)	4,051
Changes in fair value of hedge	**(142)**		**(142)**	(1,012)	52	(960)
Surplus on revaluation of land and building	**160**		**160**	-		-
Total	**(3,192)**	**(60)**	**(3,252)**	7,383	(480)	6,903

	1 January 2015	**Tax (charge)/ credit**	**31 December 2015**	1 January 2014	Tax (charge)/ Credit	31 December 2014
	RO 000's	**RO 000's**	**RO 000's**	RO 000's	RO 000's	RO 000's
Deferred tax liability	**1,983**	**60**	**2,043**	1,503	480	1,983

During the year, the Group charged deferred tax liability of RO 60 thousands (2014: RO 480 thousands) relating to fair value changes of investments available for sale and changes in fair value of hedge, which may be taxable in the future. The deferred tax credit/charge is disclosed under other comprehensive income.

	31 December 2015			31 December 2014		
	Before tax	**Tax (charge)/ credit**	**After tax**	Before tax	Tax (charge)/ credit	After tax
	US$ 000's	**US$ 000's**	**US$ 000's**	US$ 000's	US$ 000's	US$ 000's
Foreign currency translation of investment in associates	**(660)**		**(660)**	8,888	-	8,888
Translation of net investments in foreign operations	**(1,665)**		**(1,665)**	(1,969)	-	(1,969)
Share of other comprehensive income of associate	**(1,358)**		**(1,358)**	2,982	-	2,982
Change in fair value of investments available for sale	**(4,654)**	**(156)**	**(4,810)**	11,904	(1,382)	10,522
Changes in fair value of hedge	**(369)**		**(369)**	(2,629)	135	(2,494)
Surplus on revaluation of land and building	**416**		**416**	-	-	-
Total	**(8,290)**	**(156)**	**(8,446)**	19,176	(1,247)	17,929

	1 January 2015	**Tax (charge)/ credit**	**31 December 2015**	1 January 2014	Tax (charge)/ Credit	31 December 2014
	US$ 000's	**US$ 000's**	**US$ 000's**	US$ 000's	US$ 000's	US$ 000's
Deferred tax liability	**5,151**	**156**	**5,307**	3,904	1,247	5,151

The Bank's tax assessments have been completed by the tax authorities up to tax year 2009.

22. SUBORDINATED LIABILITIES

In accordance with the CBO regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes. During the year, the Bank obtained Tier II capital of nil (2014: RO nil) and repaid RO nil million (2014: RO 6.4 million).

2014	2015		2015	2014
US$ 000's	US$ 000's		RO 000's	RO 000's
454,545	454,545	Fixed rate Rial Omani subordinated loans	175,000	175,000
170,000	170,000	Floating rate US$ subordinated loans	65,450	65,450
624,545	624,545		240,450	240,450

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

23. SHARE CAPITAL

Share capital

The authorised share capital of the Parent Company is 3,500,000,000 shares of RO 0.100 each (2014: 3,500,000,000 of RO 0.100 each). At 31 December 2015, 2,291,822,597 shares of RO 0.100 each (2014: 2,182,688,188 shares of RO 0.100 each) have been issued and fully paid. The Bank's shares are listed on Muscat Securities Market, Bahrain stock exchange and London stock exchange. Listing in London stock exchange is through Global Depository Receipts issued by the Bank.

During March 2014, the bank converted remaining 50% portion of its mandatory convertible bonds issued in 2009 into share capital (note 19). The conversion amounting to RO 16.157 million was credited to the share capital and share premium amounting to RO 3.043 million and RO 13.114 million, respectively.

Significant shareholders

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

2014			2015	
No.of shares	% holding		No.of shares	% holding
514,733,262	23.58%	Royal Court Affairs	540,469,925	23.58%
269,211,333	12.33%	Dubai Financial Group	282,671,899	12.33%

24 LEGAL AND GENERAL RESERVES

(i) In accordance with the Omani Commercial Companies Law of 1974, the Parent Company is required to transfer 10% of its profit for the year to legal reserve until the accumulated balance of the reserve equals one third of the Parent Company's paid up share capital. During the year RO 3,638 thousands (2014: RO 1,021 thousands) was transferred from profits to legal reserve. After this transfer the Parent Company's legal reserve is equal to one third of its share capital.

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

25. SUBORDINATED LOAN RESERVE

The subordinated loan reserve is created in accordance with the guidelines provided by the Bank of International Settlement and CBO. During the year 2015, the Parent Company transferred RO 20 million (2014: 36.28 million) to subordinated loan reserve from its retained profit.

A subordinated loan of RO Nil was repaid during the year (2014: RO 6.42 million). On maturity, the reserve of RO Nil (2014: RO 6.42 million) related to this loan was thus transferred to general reserve.

26. PROPOSED DIVIDENDS

The Board of Directors has proposed a dividend of 30%, 25% in the form of cash and 5% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 57.296 million on Bank's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 114,591,130 shares of RO 0.100 each amounting to RO 11.46 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders and regulatory authorities.

For 2014, the Board of Directors had proposed a dividend of 45%, 25% in the form of cash,5% in the form of Bonus Shares and 15% in the form of mandatory-convertible bonds which was approved by the Bank's shareholders in its Annual General Meeting held on 18 March 2015. Thus shareholders received cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 54.57 million on the Bank's existing share capital. In addition, they received bonus shares in the proportion of one share for every 20 shares aggregating to 109,134,409 shares of RO 0.100 each amounting to RO 10.91 million. They also received mandatory-convertible bonds of RO 0.015 per ordinary share of RO 0.100 each aggregating to RO 32.74 million (including issue expenses). The mandatory-convertible bonds carry an annual coupon rate of 3.5% per annum. These bonds will mature after a period of 3 years from the date of issuance. On maturity, the bonds will be converted to ordinary shares of the Bank by using a "conversion price" which will be calculated by applying 20% discount to 3 month average share price of the Bank on the Muscat Securities Market prior to the conversion. The bonds are listed on the Muscat Securities Market.

27. NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets as at 31 December 2015 attributable to ordinary shareholders of RO 1,396.959 million (2014: RO 1,312.067 million) and on ordinary shares 2,291,822,597 (2014: 2,182,688,188 ordinary shares) being the number of shares outstanding as at 31 December 2015.

28. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Legal proceedings

Litigation is a common occurrence in the Banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, there were a number of legal proceedings outstanding against the Parent Company. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Credit related commitments

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

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

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

Irrevocable commitments to extend credit at the reporting date amounted to RO 619.3 million (2014: RO 401.5 million).

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

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
1,213,335	**2,126,585**	Letters of credit	**818,735**	467,134
5,274,096	**6,149,810**	Guarantees	**2,367,677**	2,030,527
6,487,431	**8,276,395**		**3,186,412**	2,497,661

(c) Capital commitments

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

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
5,000	5,078	Purchase of property and equipment	1,955	1,925

(d) As of the reporting date, the bank has not pledged any of its assets as security (2014: no assets were pledged).

(e) As of the reporting date, the amount payable on partly paid shares investments held by the Bank was RO 5.8 million (2014: RO 5.9 million)

28.1 Concentration of credit related commitments

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

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
26,021	**35,779**	Agriculture/allied activity	**13,775**	10,018
1,580,901	**1,730,429**	Construction	**666,215**	608,647
10,332	**2,190**	Export trade	**843**	3,978
2,427,187	**2,980,910**	Financial institutions	**1,147,650**	934,467
167,171	**964,039**	Government	**371,155**	64,361
437,034	**374,117**	Import trade	**144,035**	168,258
243,169	**226,571**	Manufacturing	**87,230**	93,620
286,842	**355,569**	Mining and quarrying	**136,894**	110,434
29,226	**16,771**	Real estate	**6,457**	11,252
849,881	**1,144,200**	Services	**440,517**	327,204
50,517	**65,023**	Transport	**25,034**	19,449
69,992	**86,945**	Utilities	**33,474**	26,947
144,187	**185,156**	Wholesale and retail trade	**71,285**	55,512
164,971	**108,696**	Others	**41,848**	63,514
6,487,431	**8,276,395**		**3,186,412**	2,497,661

29. INTEREST INCOME / INCOME ON ISLAMIC FINANCING

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
772,730	**793,370**	Loans and advances	**305,447**	297,501
39,031	**27,997**	Due from banks	**10,779**	15,027
31,294	**42,306**	Investments	**16,288**	12,048
843,055	**863,673**		**332,514**	324,576
52,226	**65,338**	Islamic financing receivable	**25,155**	20,107
60	**236**	Islamic due from banks	**91**	23
652	**1,548**	Islamic investment income	**596**	251
52,938	**67,122**		**25,842**	20,381
895,993	**930,795**		**358,356**	344,957

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

30. INTEREST EXPENSE / DISTRIBUTION TO DEPOSITORS

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
174,481	**165,019**	Customers' deposits	**63,532**	67,175
47,579	**50,049**	Subordinated liabilities / mandatory convertible bonds	**19,269**	18,318
6,179	**1,262**	Certificates of deposits	**486**	2,379
12,613	**8,369**	Bank borrowings	**3,222**	4,856
2,418	**-**	Unsecured bonds	**-**	931
10,392	**10,784**	Euro medium term notes	**4,152**	4,001
253,662	**235,483**		**90,661**	97,660
8,390	**17,743**	Islamic customers' deposits	**6,831**	3,230
1,114	**917**	Islamic bank borrowings	**353**	429
9,504	**18,660**		**7,184**	3,659
263,166	**254,143**		**97,845**	101,319

Interest expense on customers deposits include accruals towards prize schemes of RO 9 million (2014: RO 8 million) offered by the bank to its saving deposit holders.

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

31. COMMISSION AND FEES INCOME (NET)

The commission and fee income shown in the consolidated statement of comprehensive income is net of commission and fees paid of RO 732 thousands (2014: RO 944 thousands).

32. OTHER OPERATING INCOME

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
62,974	**84,090**	Foreign exchange	**32,375**	24,245
36,091	**8,317**	Profit on sale of non-trading investments liabilities	**3,202**	13,895
10,166	**7,777**	Dividend income	**2,994**	3,914
9,091	**15,255**	Other income	**5,873**	3,500
118,322	**115,439**		**44,444**	45,554

33. OTHER OPERATING EXPENSES

2014 US $ 000's	2015 US $ 000's		2015 RO 000's	2014 RO 000's
154,155	**165,546**	Employees' salaries	**63,735**	59,350
56,364	**62,923**	Other staff costs	**24,225**	21,700
9,751	**12,810**	Contribution to social insurance schemes	**4,932**	3,754
3,060	**2,823**	Employees' end of service benefits	**1,087**	1,178
223,330	**244,102**		**93,979**	85,982
119,003	**131,670**	Administrative expenses	**50,693**	45,816
38,151	**38,958**	Occupancy costs	**14,999**	14,688
519	**519**	Directors' remuneration	**200**	200
381,003	**415,249**		**159,871**	146,686

34. CASH AND CASH EQUIVALENTS

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

2014 US $ 000's	2015 US $ 000's		2015 RO 000's	2014 RO 000's
1,464,151	**1,440,062**	Due from banks	**554,424**	563,698
2,172,582	**6,263,771**	Cash and balances with Central Banks	**2,411,552**	836,444
1,013,971	**2,513,371**	Treasury bills	**967,648**	390,379
(1,638,413)	**(6,653,769)**	Deposits from banks	**(2,561,701)**	(630,789)
3,012,291	**3,563,435**		**1,371,923**	1,159,732

35. EARNINGS PER SHARE

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

	2015	2014
Profit attributable to ordinary shareholders of parent company for basic earnings per share (RO 000's)	**175,451**	163,227
Weighted average number of ordinary shares outstanding during the year (in 000's)	**2,291,823**	2,285,237
Basic earnings per share (RO)	**0.077**	0.071
Basic earnings per share (US$)	**0.20**	0.19

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

	2015	2014
Profit attributable to ordinary shareholders of parent company for basic earnings per share (RO 000's)	**175,451**	163,227
Interest on convertible bonds, net of taxation (RO 000's)	**3,247**	2,191
Weighted average number of ordinary shares adjusted for effect of dilution (in 000's)	**2,542,499**	2,418,912
Diluted earnings per share (RO)	**0.070**	0.068
Diluted earnings per share (US$)	**0.18**	0.18

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

	2015	2014
At 1 January	**2,152,261**	2,152,261
Effect of shares issued in conversion of convertible bonds	**30,428**	23,842
Effect of bonus shares issued	**109,134**	109,134
Weighted average number of ordinary shares for Basic earnings per share	**2,291,823**	2,285,237
Estimated effect of dilution from convertible bonds on conversion	**250,676**	133,675
Weighted average number of ordinary shares adjusted for effect of dilution	**2,542,499**	2,418,912

36. RELATED PARTY TRANSACTIONS

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

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
		Loans and advances (net)		
76,820	**77,225**	At January 1	**29,731**	29,575
9,958	**36,758**	Disbursed during the year	**14,152**	3,834
(11,875)	**(24,457)**	Repaid during the year	**(9,416)**	(4,572)
2,322	**(358)**	Less: decrease (increase) in provisions	**(138)**	894
77,225	**89,168**	At December 31	**34,329**	29,731
		Current deposit and other accounts		
118,567	**188,108**	At January 1	**72,421**	45,648
77,055	**10,634**	Received during the year	**4,094**	29,666
(7,514)	**(81,104)**	Repaid during the year	**(31,225)**	(2,893)
188,108	**117,638**	At December 31	**45,290**	72,421
47,029	**36,317**	Customers' liabilities under documentary credits, guarantees and other commitments	**13,983**	18,107

At 31 December 2015, the placements and other receivable balances due from an associate amount to RO 0.02 million (2014: RO 0.4 million) and the deposits due to an associate amount to RO 0.21 million (2014: RO 0.03 million).

For the year ended 31 December 2015, the interest income received from and interest expense paid to an associate amount to RO nil (2014: RO 5 thousands) and nil (2014: RO nil) respectively.

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

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
5,932	**42,706**	Royal Court Affairs	**16,442**	2,284
		Dubai Financial Group:		
21,595	**21,953**	Gross	**8,452**	8,314
(21,595)	**(21,953)**	Less: provisions	**(8,452)**	(8,314)
106,273	**74,548**	H.E. Sheikh Mustahail Ahmed Al Mashani group companies	**28,701**	40,915
12,049	**8,231**	Others	**3,169**	4,639
124,254	**125,485**		**48,312**	47,838

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

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
4,060	**2,920**	Interest income	**1,124**	1,563
1,397	**1,428**	Interest expenditure	**550**	538
18	**-**	Commission and other income	**-**	7
338	**327**	Directors' remuneration	**126**	130
182	**192**	Directors' sitting fees	**74**	70

On restructuring arrangement of the Bank's exposure to Dubai Financial Group during 2014 the suspended interest of RO 1.1 million was written off.

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

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
839	**792**	Royal Court Affairs	**305**	323
545	**621**	H.E. Sheikh Mustahail Ahmed Al Mashani group companies	**239**	210
13	**16**	Others	**6**	5
1,397	**1,429**		**550**	538

Key management compensation
Key management comprises of 6 members (2014: 6 members) of the management executive committee in the year 2015.

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
9,873	**9,504**	Salaries and other short-term benefits	**3,659**	3,801
171	**184**	Post-employment benefits	**71**	66
10,044	**9,688**		**3,730**	3,867

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

37. FIDUCIARY ACTIVITIES

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

2014	2015		2015	2014
US $ 000's	US $ 000's		RO 000's	RO 000's
1,244,262	**1,191,101**	Funds under management	**458,574**	479,041

38. DERIVATIVES

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

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

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

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. The Group transacts only in currency options for its customers. The Group does not engage in writing of options.

Derivatives held or issued for hedging purposes

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

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

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

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

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

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

31 December 2014	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity RO 000's		
	RO 000's (Note 8)	RO 000's (Note 20)	RO 000's	Within 3 months	4-12 months	>12 months
Derivatives:						
Fair value hedge	-	2,520	192,500	-	-	192,500
Cash flow hedge	-	655	65,450	-	-	65,450
Interest rate swaps	16,994	16,968	432,939	-	6,002	426,937
Interest rate CAP	394	394	19,466	-	19,466	-
Cross currency swap	-	964	385,000	-	77,000	308,000
Currency options - bought	1,431	-	77,194	30,413	44,575	2,206
Currency options - sold	-	1,431	77,194	30,413	44,575	2,206
Commodity derivatives -bought	232	-	11,322	2,830	8,492	-
Commodity derivatives - sold	-	232	11,322	2,830	8,492	-
Commodities purchase contracts	758	3,569	68,606	50,411	17,435	760
Commodities sale contracts	3,607	748	68,647	50,435	17,451	761
Forward purchase contracts	319	8,765	1,598,012	1,021,592	397,768	178,652
Forward sales contracts	8,917	514	1,597,573	1,019,592	397,229	180,752
	32,652	36,760	4,605,225	2,208,516	1,038,485	1,358,224
US$ 000's	84,810	95,481	11,961,623	5,736,405	2,697,364	3,527,855

39. REPURCHASE AGREEMENTS

The Group did not have any repurchase transactions outstanding as of the reporting date (2014: RO nil).

40. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The geographical distribution of assets and liabilities was as follows:

At 31 December 2015	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Cash and balances with Central Banks	**2,349,937**	**62,115**	**-**	**-**	**-**	**2,412,052**
Due from banks	**714,633**	**19,041**	**106,315**	**87,785**	**63,717**	**991,491**
Loans and advances	**6,848,927**	**446,888**	**7,358**	**-**	**27,042**	**7,330,215**
Investments	**1,147,238**	**364,335**	**11,090**	**11,089**	**32,378**	**1,566,130**
Property and equipment and other assets	**237,157**	**7,484**	**-**	**-**	**-**	**244,641**
Total assets	**11,297,892**	**899,863**	**124,763**	**98,874**	**123,137**	**12,544,529**
Deposits from banks	**34,540**	**114,688**	**260,773**	**3,797**	**2,445,765**	**2,859,563**
Customers' deposits and certificates of deposit	**6,911,224**	**421,683**	**16,289**	**277**	**13,975**	**7,363,448**
Euro medium term notes	**-**	**-**	**191,185**	**-**	**-**	**191,185**
Other liabilities and taxation	**387,728**	**10,541**	**-**	**-**	**-**	**398,269**
Subordinated liabilities / mandatory convertible bonds	**269,655**	**-**	**-**	**65,450**	**-**	**335,105**
Shareholders' funds	**1,396,959**	**-**	**-**	**-**	**-**	**1,396,959**
Total liabilities and equity	**9,000,106**	**546,912**	**468,247**	**69,524**	**2,459,740**	**12,544,529**

At 31 December 2015	Sultanate of Oman US$ 000's	Other GCC countries US$ 000's	Europe US$ 000's	United States of America US$ 000's	Others US$ 000's	Total US$ 000's
Cash and balances with Central Banks	**6,103,732**	**161,338**	**-**	**-**	**-**	**6,265,070**
Due from banks	**1,856,188**	**49,457**	**276,143**	**228,013**	**165,499**	**2,575,300**
Loans and advances	**17,789,421**	**1,160,748**	**19,112**	**-**	**70,239**	**19,039,520**
Investments	**2,979,838**	**946,325**	**28,805**	**28,803**	**84,099**	**4,067,870**
Property and equipment and other assets	**615,993**	**19,439**	**-**	**-**	**-**	**635,432**
Total assets	**29,345,172**	**2,337,307**	**324,060**	**256,816**	**319,837**	**32,583,192**
Deposits from banks	**89,715**	**297,891**	**677,332**	**9,862**	**6,352,636**	**7,427,436**
Customers' deposits and certificates of deposit	**17,951,232**	**1,095,281**	**42,309**	**719**	**36,299**	**19,125,840**
Euro medium term notes	**-**	**-**	**496,584**	**-**	**-**	**496,584**
Other liabilities and taxation	**1,007,086**	**27,379**	**-**	**-**	**-**	**1,034,465**
Subordinated liabilities / mandatory convertible bonds	**700,402**	**-**	**-**	**170,000**	**-**	**870,402**
Shareholders' funds	**3,628,465**	**-**	**-**	**-**	**-**	**3,628,465**
Total liabilities and equity	**23,376,900**	**1,420,551**	**1,216,225**	**180,581**	**6,388,935**	**32,583,192**

At 31 December 2015	Sultanate of Oman RO 000's	Other GCC countries RO 000's	Europe RO 000's	United States of America RO 000's	Others RO 000's	Total RO 000's
Cash and balances with Central Banks	720,847	116,097	-	-	-	836,944
Due from banks	93,883	224,909	182,735	58,923	478,376	1,038,826
Loans and advances	6,340,441	405,507	-	-	39,967	6,785,915
Investments	359,548	217,741	166,901	9,767	34,262	788,219
Property and equipment and other assets	273,528	4,886	-	-	-	278,414
Total assets	7,788,247	969,140	349,636	68,690	552,605	9,728,318
Deposits from banks	54,957	186,486	291,275	78	356,023	888,819
Customers' deposits and certificates of deposit	6,181,124	427,716	-	-	19,269	6,628,109
Euro medium term notes	-	-	189,979	-	-	189,979
Other liabilities and taxation	399,061	7,552	-	-	42	406,655
Subordinated liabilities / mandatory convertible bonds	237,239	-	-	65,450	-	302,689
Shareholders' funds	1,312,067	-	-	-	-	1,312,067
Total liabilities and equity	8,184,448	621,754	481,254	65,528	375,334	9,728,318

At 31 December 2015	Sultanate of Oman US$ 000's	Other GCC countries US$ 000's	Europe US$ 000's	United States of America US$ 000's	Others US$ 000's	Total US$ 000's
Cash and balances with Central Banks	1,872,330	301,551	-	-	-	2,173,881
Due from banks	243,852	584,179	474,636	153,047	1,242,535	2,698,249
Loans and advances	16,468,678	1,053,265	-	-	103,810	17,625,753
Investments	933,890	565,561	433,509	25,369	88,992	2,047,321
Property and equipment and other assets	710,464	12,691	-	-	-	723,155
Total assets	20,229,214	2,517,247	908,145	178,416	1,435,337	25,268,359
Deposits from banks	142,746	484,379	756,558	203	924,735	2,308,621
Customers' deposits and certificates of deposit	16,054,868	1,110,951	-	-	50,049	17,215,868
Euro medium term notes	-	-	493,452	-	-	493,452
Other liabilities and taxation	1,036,521	19,616	-	-	109	1,056,246
Subordinated liabilities / mandatory convertible bonds	616,205	-	-	170,000	-	786,205
Shareholders' funds	3,407,967	-	-	-	-	3,407,967
Total liabilities and equity	21,258,307	1,614,946	1,250,010	170,203	974,893	25,268,359

41. SEGMENTAL INFORMATION

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

For the year ended 31 December 2015:

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

For the year ended 31 December 2014:

Total	International	Oman		Oman	International	Total
US$ 000's	US$ 000's	US$ 000's	Segment revenue	RO 000's	RO 000's	RO 000's
843,055	36,800	806,255	Interest income	310,408	14,168	324,576
(253,662)	(12,254)	(241,408)	Interest expense	(92,942)	(4,718)	(97,660)
52,938	-	52,938	Income from Islamic financing	20,381	-	20,381
(9,504)	-	(9,504)	Distribution to depositors	(3,659)	-	(3,659)
243,943	16,535	227,408	Commission and fee income (net)	87,552	6,366	93,918
118,322	18,930	99,392	Other operating income	38,266	7,288	45,554
995,092	60,011	935,081		360,006	23,104	383,110
			Segment costs			
(381,003)	(21,733)	(359,270)	Other operating expenses	(138,319)	(8,367)	(146,686)
(29,101)	(1,054)	(28,047)	Depreciation	(10,798)	(406)	(11,204)
(2,223)	-	(2,223)	Impairment for placements	(856)	-	(856)
(167,091)	(45,109)	(121,982)	Impairment for credit losses	(46,963)	(17,367)	(64,330)
67,696	2,732	64,964	Recoveries from impairment for credit losses	25,011	1,052	26,063
(3,486)	-	(3,486)	Impairment for investments	(1,342)	-	(1,342)
3,935	3,935	-	Share of profit/(loss) from associates	-	1,515	1,515
(59,852)	(3,133)	(56,719)	Tax expense	(21,837)	(1,206)	(23,043)
(571,125)	(64,362)	(506,763)		(195,104)	(24,779)	(219,883)
423,967	(4,351)	428,318	Segment profit (loss) for the year	164,902	(1,675)	163,227
			Other information			
25,268,359	1,699,805	23,568,554	Segment assets	9,073,893	654,425	9,728,318
43,938	1,257	42,681	Segment capital expenses	16,432	484	16,916

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

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

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

As at 31 December 2014	Corporate banking RO 000's	Consumer banking RO 000's	Wholesale banking RO 000's	International banking * RO 000's	Subtotal RO 000's	Islamic banking RO 000's	Total RO 000's
Segment revenue							
Net interest income	76,092	104,570	36,770	9,484	226,916	-	226,916
Net income from Islamic financing	-	-	-	-	-	16,722	16,722
Commission, fees and other income (net)	18,834	61,612	43,581	14,087	138,114	1,358	139,472
Operating income	94,926	166,182	80,351	23,571	365,030	18,080	383,110
Segment costs							
Operating expenses (including depreciation)	(25,862)	(98,425)	(15,547)	(11,114)	(150,948)	(6,942)	(157,890)
Impairment for credit losses (net)	(14,597)	(5,098)	256	(16,343)	(35,782)	(2,485)	(38,267)
Impairment on due from banks / for investments	-	-	(2,198)	-	(2,198)	-	(2,198)
Share of results from an associate	-	-	-	1,515	1,515	-	1,515
Tax expense	(6,394)	(7,354)	(6,921)	(1,206)	(21,875)	(1,168)	(23,043)
	(46,853)	(110,877)	(24,410)	(27,148)	(209,288)	(10,595)	(219,883)
Segment profit for the year	48,073	55,305	55,941	(3,577)	155,742	7,485	163,227
Segment assets	3,901,433	2,522,129	2,223,733	654,425	9,301,720	426,598	9,728,318
Operating income (US $ 000's)	246,562	431,642	208,704	61,223	948,131	46,961	995,092
Segment profit for the year (US $ 000's)	124,866	143,649	145,301	(9,291)	404,525	19,442	423,967
Segment assets (US $ 000's)	10,133,593	6,550,984	5,775,930	1,699,805	24,160,312	1,108,047	25,268,359

42. FINANCIAL RISK MANAGEMENT

42.1 Introduction and overview

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

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

Risk management is the overall responsibility of the group's Board of Directors and managed through the Board Risk Committee (BRC). BRC provides recommendations to the Board of Directors on the risk-reward strategy, risk appetite and policies and framework for managing different types of risks. The Bank also has a Management Risk Committee (MRC) to facilitate achievement of the Bank's strategic objectives within the Board approved risk appetite, without exposing the Bank to undue risks or risk concentration. MRC provides recommendations to the Board of Directors through BRC on the risk-reward strategy, policies and framework for managing various risks. The Chief Risk Officer is the chairman of the Management Risk Committee. The Board reviews and approves the risk management strategy of the group and defines the risk appetite of the group. The Board approved strategy is implemented at management level through management committees. For the purpose of day-to-day management of risks, the group has created an independent Risk Management department (RMD). Risk Management department objectively reviews and ensures that the various functions of the group operate in compliance with the risk parameters set by the Board of Directors. Risk Management department has a direct reporting line to the Board of Directors of the group.

The risk appetite, approved by the Board of Directors of the group, in various business areas is defined and communicated through an enterprise-wide risk policy. The group's risk policy, approved by the Board of Directors, analyses and sets risk limits for core risks - Credit risk, Liquidity risk, Market risk and Operational risk. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels reported on a quarterly basis. This ensures prudent management of the risks assumed by the group in its normal course of business. The risk policy is updated regularly, based on an analysis of the economic trends and the operating environment in the countries where the group operates.

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

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

42.2 Credit risk

42.2.1 Management of credit risk

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

- Cross border risk
- Counterparty Risk
- Settlement risk

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

Risk limit control and mitigation policies

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

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off, all are governed by the Group's credit manual which is reviewed by Risk Management department and approved by appropriate approval authorities. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'.

- All Corporate lending proposals, where the proposed credit limit for a borrower or related group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.

- All Corporate relationships are reviewed at least once a year. Retail portfolio, including credit cards and mortgage portfolio, is reviewed on a portfolio basis at a product level at least once a year.

- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Group's risk policy.

- Credit exposures are risk rated to provide support for credit decisions. The portfolio is analysed based on risk grades and risk grade migration to focus on management of prevalent credit risk.

- Retail portfolio is rated using an application score card.

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

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

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

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

42.2.2 Exposure to credit risk – Statement of financial position items

	Loans and advances and Islamic financing to customers		Due from banks	
	2015	2014	2015	2014
	RO 000's	RO 000's	RO 000's	RO 000's
Individually impaired				
Sub-Standard	17,115	13,516	-	-
Doubtful	10,433	31,975	-	-
Loss	114,243	90,943	-	-
Gross amount	141,791	136,434	-	-
Allowance for impairment	(113,608)	(91,681)	-	-
Carrying amount	28,183	44,753	-	-
Collectively impaired				
Sub-Standard	8,594	7,301	-	-
Doubtful	11,236	10,503	-	-
Loss	47,855	45,911	-	-
Gross amount	67,685	63,715	-	-
Allowance for impairment	(62,475)	(54,886)	-	-
Carrying amount	5,210	8,829	-	-
Past due but not impaired				
Standard	147,698	59,698	-	-
Carrying amount	147,698	59,698	-	-
Past due but not impaired				
1-30 days	65,333	31,889	-	-
30-60 days	51,921	19,045	-	-
60-90 days	30,444	8,764	-	-
	147,698	59,698	-	-
Neither past due nor impaired				
Standard	**6,813,965**	6,416,836	**997,041**	1,043,776
Special mention	**456,783**	368,126	**-**	-
Gross amount	**7,270,748**	6,784,962	**997,041**	1,043,776
Allowance for impairment	**(121,623)**	(112,327)	**(5,550)**	(4,950)
Carrying amount	**7,149,125**	6,672,635	**991,491**	1,038,826
Total carrying amount	**7,330,215**	6,785,915	**991,491**	1,038,826
Carrying amount in USD'000	**19,039,520**	17,625,753	**2,575,300**	2,698,249
Total allowances for impairment	**(297,707)**	(258,894)	**(5,550)**	(4,950)
US$ 000's	**(773,265)**	(672,452)	**(14,415)**	(12,857)

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

As on 31 December 2015, restructured and rescheduled loans in standard and special mentioned portfolios amounted to RO 96 million (2014: RO 54 million) and in classified portfolio amounted to RO 64 million (2014: RO 62 million).

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

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

2014 US $ 000's	2015 US $ 000's		2015 RO 000's	2014 RO 000's
744,686	**629,161**	Financial guarantees	**242,227**	286,704
2,164,034	**2,484,803**	Other credit related liabilities	**956,649**	833,153
482,977	**561,470**	Loan commitments	**216,166**	185,946
3,391,697	**3,675,434**		**1,415,042**	1,305,803

The above table represents a worst case scenario of credit risk exposure as of 31 December 2015 and 2014, without taking into account of any collateral held or other credit enhancements attached.

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

- Regular review of the loans and advances portfolio to identify any potential risk;
- 97.3% of the loans and advances portfolio are considered to be neither past due nor impaired (2014: 98.3%);
- Of the RO 4,649 million (2014: RO 4,301 million) loans and advances assessed on an individual basis, less than 3% (2014: 3.2%) is impaired;
- Personal and housing loans represent 39.05% (2014: 38.95%) of total loans and advances which are backed by salary assignment and/or by collaterals;
- Well diversified loans and advances portfolio to avoid concentration risk in segment, sector, geographies and counterparty.

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

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

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

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

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

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

Loans and advances and Islamic financing to customers			Loans and advances and Islamic financing to customers	
2014	2015		2015	2014
US$ 000's	**US$ 000's**		**RO 000's**	RO 000's
		Against individually impaired		
358,704	**331,229**	Property	**127,523**	138,101
73	**1,429**	Equities	**550**	28
16,270	**4,792**	Others	**1,845**	6,264
375,047	**337,450**		**129,918**	144,393
		Against past due but not impaired		
432,571	**1,003,270**	Property	**386,259**	166,540
389,906	**496,021**	Equities	**190,968**	150,114
10,400	**9,099**	Others	**3,503**	4,004
832,877	**1,508,390**		**580,730**	320,658
		Against neither past due nor impaired		
6,682,294	**7,000,894**	Property	**2,695,344**	2,572,683
1,179,605	**1,452,566**	Equities	**559,238**	454,148
503,312	**734,356**	Others	**282,727**	193,775
8,365,211	**9,187,816**		**3,537,309**	3,220,606
9,573,135	**11,033,656**		**4,247,957**	3,685,657

(b) Repossessed collateral

The Group obtains assets by taking possession of collateral held as security. The carrying value of collateral held for sale as at 31 December 2015 is as follows:

	Carrying Amount	
	2015	2014
	RO 000's	RO 000's
Nature of assets		
Residential/commercial property	**7,592**	13,717
US$ 000's	**19,719**	35,629

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

42.2.8 Credit rating analysis

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

At 31 December 2015

Debt and T Bills	2015	2014
Rated:	RO 000's	RO 000's
Aaa to Aa3	**627,465**	473,672
A1 to A3	**724,796**	77,944
Baa1 to Baa3	**16,052**	22,263
Ba1 to Ba3	**3,506**	-
Unrated	**2,144**	3,700
	1,373,963	577,579
Equity	**155,291**	169,752
Total investment securities	**1,529,254**	747,331
Total investment securities (US$ 000's)	**3,972,088**	1,941,119

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

Banks rated:	2015 RO 000's	2014 RO 000's
Aaa to Aa3	**37,908**	23,426
A1 to A3	**367,585**	464,718
Baa1 to Baa3	**460,336**	379,604
Ba1 to Ba3	**57,356**	75,458
B1 & Below	**150**	7,231
Banks unrated	**73,706**	93,339
Total	**997,041**	1,043,776
Total (US$ 000's)	**2,589,715**	2,711,106

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

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

Rated:	2015 RO'000	2014 RO'000
Aaa to Aa3	**124,162**	71,914
A1 to A3	**643,887**	424,551
Baa1 to Baa3	**187,746**	198,164
Ba1 to Ba3	**87,902**	92,820
B1 & Below	**6,018**	8,948
Unrated	**2,136,697**	1,701,264
Total	**3,186,412**	2,497,661
Total (US$ 000's)	**8,276,395**	6,487,431

42.2.9 Concentration of credit risk

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

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

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

Carrying amount	Gross loans and advances and Islamic financing to customers		Due from banks	
	2015 RO 000's	2014 RO 000's	2015 RO 000's	2014 RO 000's
Concentration by sector				
Corporate	**4,235,464**	3,936,268	**-**	-
Sovereign	**10,146**	41	**-**	-
Financial institution	**403,482**	364,517	**997,041**	1,043,776
Retail	**2,978,830**	2,743,983	**-**	-
Total	**7,627,922**	7,044,809	**997,041**	1,043,776
US$ 000's	**19,812,785**	18,298,205	**2,589,715**	2,711,106

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

2014 USD 000's	2015 USD 000's		2015 RO 000's	2014 RO 000's
		Corporate and other loans		
1,749,579	**1,884,008**	Services	**725,343**	673,588
1,245,639	**1,202,208**	Mining and quarrying	**462,850**	479,571
1,367,761	**1,344,740**	Manufacture	**517,725**	526,588
628,216	**742,610**	Real estate	**285,905**	241,863
382,810	**506,855**	Wholesale and retail trade	**195,139**	147,382
795,397	**1,140,249**	Import trade	**438,996**	306,228
946,797	**1,048,005**	Financial institutions	**403,482**	364,517
1,242,019	**1,180,195**	Utilities	**454,375**	478,177
1,727,491	**1,892,182**	Transport	**728,490**	665,084
811,275	**844,873**	Construction	**325,276**	312,341
106	**26,353**	Government	**10,146**	41
52,106	**62,730**	Agriculture and allied activities	**24,151**	20,061
42,005	**28,608**	Export trade	**11,014**	16,172
179,774	**171,948**	Others	**66,200**	69,213
11,170,975	**12,075,564**		**4,649,092**	4,300,826
7,127,229	**7,737,221**	Personal and housing loans	**2,978,830**	2,743,983
18,298,204	**19,812,785**		**7,627,922**	7,044,809

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

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

Carrying amount	Gross loans and advances and Islamic financing to customers		Due from banks	
	2015	2014	2015	2014
	RO 000's	RO 000's	RO 000's	RO 000's
Concentration by location				
Sultanate of Oman	7,123,373	6,569,734	720,183	98,833
Other GCC countries	484,387	435,665	19,041	224,909
Europe	-	-	106,315	182,735
United States of America	-	-	87,785	58,923
Others	20,162	39,410	63,717	478,376
Total	7,627,922	7,044,809	997,041	1,043,776
US$ 000's	19,812,785	18,298,205	2,589,717	2,711,106

42.2.10 Settlement risk

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

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

42.3 Liquidity risk

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

42.3.1 Management of liquidity risk

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

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

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

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

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

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

42.3.2. Exposure to liquidity risk

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

	Liquid assets to total assets ratio		Liquid assets to total deposits ratio	
	2015	**2014**	**2015**	**2014**
As at 31 December	**20.12%**	22.16%	**27.65%**	34.10%
Average for the period	**23.05%**	26.19%	**32.46%**	33.07%
Maximum for the period	**26.45%**	28.30%	**36.43%**	35.70%
Minimum for the period	**19.53%**	24.12%	**27.65%**	30.45%

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

The asset and liability maturity profile was as follows:

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

	On demand or within 3 months	Four months to 12 months	One to five years	More than five years	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
As of 31 December 2015					
Cash balances with central banks	5,575,293	218,603	295,055	176,119	6,265,070
Due from banks	1,440,061	822,431	312,808	-	2,575,300
Loans and advances	4,833,198	1,708,390	4,102,426	8,395,506	19,039,520
Investments	2,217,345	1,449,296	142,177	259,052	4,067,870
Property and equipment and other assets	371,286	58,873	11,844	193,429	635,432
Total assets	14,437,183	4,257,593	4,864,310	9,024,106	32,583,192
Future interest cash flows	197,442	537,579	1,955,494	1,309,104	3,999,619
Deposits from banks	6,653,768	173,668	600,000	-	7,427,436
Customers' deposits and certificates of deposit	3,765,350	4,941,657	6,561,862	3,856,971	19,125,840
Euro medium term notes	-	-	496,584	-	496,584
Other liabilities and taxation	633,247	397,117	2,031	2,070	1,034,465
Subordinated liabilities / Mandatory convertible bonds	78,636	194,805	426,961	170,000	870,402
Shareholders' funds	-	-	-	3,628,465	3,628,465
Total liabilities and equity	11,131,001	5,707,247	8,087,438	7,657,506	32,583,192
Future interest cash flows	45,278	145,616	314,849	271,068	776,811

	On demand or within 3 months	Four months to 12 months	One to five years	More than five years	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
At 31 December 2014					
Cash balances with central banks	547,981	80,771	140,574	67,618	836,944
Due from banks	563,698	341,698	133,430	-	1,038,826
Loans and advances	1,718,823	754,720	1,364,157	2,948,215	6,785,915
Investments	621,683	34,323	73,232	58,981	788,219
Property and equipment and other assets	165,323	43,173	833	69,085	278,414
Total assets	3,617,508	1,254,685	1,712,226	3,143,899	9,728,318
Future interest cash flows	73,081	202,744	726,465	475,062	1,477,352
Deposits from banks	630,789	7,780	250,250	-	888,819
Customers' deposits and					
certificates of deposit	1,415,202	1,480,005	2,538,626	1,194,276	6,628,109
Euro medium term notes	-	-	189,979	-	189,979
Other liabilities and taxation	277,884	93,161	514	35,096	406,655
Subordinated liabilities / Mandatory convertible bonds	-	-	237,239	65,450	302,689
Shareholders' funds	-	-	-	1,312,067	1,312,067
Total liabilities and equity	2,323,875	1,580,946	3,216,608	2,606,889	9,728,318
Future interest cash flows	18,844	55,370	137,398	103,775	315,387

	On demand or within 3 months	Four months to 12 months	One to five years	More than five years	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
As of 31 December 2014					
Cash balances with central banks	1,423,328	209,795	365,127	175,631	2,173,881
Due from banks	1,464,151	887,527	346,571	-	2,698,249
Loans and advances	4,464,475	1,960,312	3,543,265	7,657,701	17,625,753
Investments	1,614,760	89,151	190,213	153,197	2,047,321
Property and equipment and other assets	429,411	112,138	2,164	179,442	723,155
Total assets	9,396,125	3,258,923	4,447,340	8,165,971	25,268,359
Future interest cash flows	189,821	526,608	1,886,922	1,233,927	3,837,278

	On demand or within 3 months	Four months to 12 months	One to five years	More than five years	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Deposits from banks	1,638,413	20,208	650,000	-	2,308,621
Customers' deposits and certificates of deposit	3,675,849	3,844,169	6,593,834	3,102,016	17,215,868
Euro medium term notes	-	-	493,452	-	493,452
Other liabilities and taxation	721,776	241,977	1,335	91,158	1,056,246
Subordinated liabilities / Mandatory convertible bonds	-	-	616,205	170,000	786,205
Shareholders' funds	-	-	-	3,407,967	3,407,967
Total liabilities and equity	6,036,038	4,106,354	8,354,826	6,771,141	25,268,359
Future interest cash flows	48,945	143,818	356,878	269,545	819,186

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

As on the reporting date, deposits from Ministries and other Government organisations represent 35.8% of the total customer deposits (2014: 31%).

42.4 Market risk

42.4.1 Management of market risks

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

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

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

42.4.2 Foreign exchange risk

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

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

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

2014	2015		2015	2014
USD 000's	USD 000's		RO 000's	RO 000's
598,532	**458,405**	US Dollar	**176,486**	230,435
186,042	**176,379**	Saudi Riyal	**67,906**	71,626
123,847	**127,730**	Bahraini Dinar	**49,176**	47,681
59,387	**343**	UAE Dirhams	**132**	22,864
58,868	**60,964**	Kuwait Dinar	**23,471**	22,664
8,743	**8,416**	Pakistani Rupee	**3,240**	3,366
7,301	**9,761**	Indian Rupee	**3,758**	2,811
4,982	**14,945**	Qatari Riyal	**5,754**	1,918
5,842	**8,158**	Others	**3,141**	2,249
1,053,544	**865,101**		**333,064**	405,614

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

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas associates and branches of equivalent RO 93 million (2014: RO 100 million) which are exempted from regulatory limit on foreign exchange exposure.

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

Exposure and sensitivity analysis:

The table below indicates the sensitivity analysis of foreign exchange exposure of the Group to changes in the non-parity foreign currency prices as at 31 December 2015 with all other variables held constant.

	At 31 December 2015		At 31 December 2014	
Non parity foreign currency net assets	% of change in the currency price(+/-)	Change in profit (+/-)	% of change in the currency price(+/-)	Change in profit (+/-)
Indian Rupees	10%	376	10%	281
Pakistani Rupees	10%	324	10%	337
Kuwaiti Dinar	10%	2,347	10%	2,266
Others	10%	314	10%	225

42.4.3 Investment Price Risk

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

Exposure and sensitivity analysis

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

a) For the local quoted equity portfolio, based on the beta factor of the portfolio performance to the MSM30 Index performance.

b) For the international quoted equity portfolio, based on the individual security market price movement.

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

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2015 was 0.19. Thus, a +/- 5% change in the value of MSM30 index may result in 0.93 % change in the value of Group's quoted local equity portfolio, amounting to RO 541 thousand adjustment in the unrealised gain recognised in the statement of other comprehensive income for the year.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2014 was 0.62. Thus, a +/- 5% change in the value of MSM30 index may result in 3.10% change in the value of Group's quoted local equity portfolio, amounting to RO 1.86 million adjustment in the unrealised gain recognised in the statement of other comprehensive income for the year.

International quoted equity portfolio of the Group comprises of shares listed in GCC stock markets, Indian Stock markets and other international markets. A +/-5% change in the market price of the respective securities, have resulted in change in value of the portfolio of +/- RO2.36 million (2014: +/-RO 1.91 million) and consequently increased or decreased in the unrealised gain recognised in the statement of other comprehensive income.

42.4.4. Interest rate risk management.

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

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

	Effective annual interest rate %	Floating rate or within 3 months	Months 4 to 12	Year 1 to 5	Over 5 years	Non-interest sensitive	Total
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
As of 31 December 2014							
Cash and balances with Central Banks	0-0.5	94,725	2,624	-	-	739,595	836,944
Due from banks	1.19	605,586	391,275	8,635	26,681	6,649	1,038,826
Loans and advances	4.92	2,350,570	907,122	1,980,245	1,543,852	4,126	6,785,915
Investments	2.14	374,938	69,280	153,733	45,317	144,951	788,219
Property and equipment and other assets	None	805	32,104	-	-	245,505	278,414
Total assets		3,426,624	1,402,405	2,142,613	1,615,850	1,140,826	9,728,318
Deposits from banks	0.79	847,090	10,153	19,250	1,695	10,631	888,819
Customers' deposits and certificates of deposit	1.20	675,784	3,603,135	1,010,827	135,342	1,203,021	6,628,109
Euro medium term notes	2.12	-	-	189,979	-	-	189,979
Other liabilities and taxation	None	-	-	-	2,066	404,589	406,655
Subordinated liabilities / Mandatory convertible bonds	5.78	65,450	-	237,239	-	-	302,689
Shareholders' funds	None	-	-	-	-	1,312,067	1,312,067
Total liabilities and equity		1,588,324	3,613,288	1,457,295	139,103	2,930,308	9,728,318
Total interest rate sensitivity gap		1,838,300	(2,210,883)	685,318	1,476,747	(1,789,482)	-
Cumulative interest rate sensitivity gap		1,838,300	(372,583)	312,735	1,789,482	-	-
In US$ 000		4,774,805	(967,748)	812,299	4,648,005	-	-

(i) The off-balance sheet gap represents the net notional amount of off-balance sheet financial instruments, including interest rate swaps which are used to manage interest rate risk.

(ii) The repricing profile is based on the remaining period to the next interest repricing date.

(iii) An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment.

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

The Parent Company uses simulation reports as an effective tool for understanding risk exposure under variety of interest rate scenarios. These reports help ALCO to understand the direction of interest rate risk in the Parent Company and decide on the appropriate strategy and hedging mechanism for managing it. The Parent Company's current on- and off-balance sheet exposures are evaluated under static environment to quantify potential effect of external interest rate shocks on the earnings and economic value of equity at risk, using assumptions about future course of interest rates and changes in Parent Company's business profile. The impact of interest rate changes on EVE is monitored by recognising the changes in the value of assets and liabilities for a given change in the market interest rate. The interest rate risk management is facilitated by limits of 5% NII impact and 20% impact on EVE for a 200 basis points shock.

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

Impact on Net Interest income	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
	RO 000's	RO 000's	RO 000's	RO 000's	RO'000's	RO 000's
2015						
As at 31 December	**6,372**	**4,804**	**4,071**	**2,409**	**1,815**	**2,916**
Average for the period	**9,998**	**2,077**	**5,991**	**2,116**	**2,721**	**2,915**
Maximum for the period	**22,966**	**13,463**	**12,427**	**8,571**	**5,895**	**6,409**
Minimum for the period	**(7,823)**	**(6,843)**	**(2,941)**	**(3,359)**	**(1,755)**	**(52)**
2014						
As at 31 December	7,062	36	4,111	1,222	1,587	2,077
Average for the period	8,563	1,306	4,655	1,077	1,837	1,873
Maximum for the period	19,899	10,016	10,489	4,532	4,660	3,348
Minimum for the period	706	(5,701)	(83)	(3,207)	(471)	(198)

Impact on Economic Value	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
2015						
As at 31 December	**91,520**	**617,638**	**(119,658)**	**133,735**	**(61,244)**	**64,298**
Average for the period	**76,756**	**579,548**	**(109,617)**	**128,417**	**(57,706)**	**60,763**
Maximum for the period	**162,019**	**706,004**	**(101,055)**	**139,860**	**(51,787)**	**66,888**
Minimum for the period	**1,870**	**476,434**	**(119,658)**	**119,147**	**(70,276)**	**56,089**
2014						
As at 31 December	9,545	479,424	(103,536)	121,201	(53,045)	57,181
Average for the period	25,380	462,400	(99,553)	107,307	(50,245)	52,098
Maximum for the period	71,756	512,333	(89,781)	121,201	(46,022)	57,181
Minimum for the period	(96,903)	332,545	(143,945)	56,189	(55,417)	41,929

Impact on Net Interest income	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
2015						
As at 31 December	**16,551**	**12,478**	**10,574**	**6,257**	**4,714**	**7,574**
Average for the period	**25,969**	**5,395**	**15,561**	**5,496**	**7,068**	**7,571**
Maximum for the period	**59,652**	**34,969**	**32,278**	**22,262**	**15,312**	**16,647**
Minimum for the period	**(20,319)**	**(17,774)**	**(7,639)**	**(8,725)**	**(4,558)**	**(135)**
2014						
As at 31 December	18,344	93	10,677	3,173	4,123	5,394
Average for the period	22,242	3,393	12,091	2,797	4,771	4,866
Maximum for the period	51,687	26,016	27,245	11,771	12,105	8,696
Minimum for the period	1,834	(14,808)	(216)	(8,329)	(1,223)	(513)

Impact on Economic Value	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
2015						
As at 31 December	237,714	1,604,255	(310,800)	347,364	(159,075)	167,008
Average for the period	199,366	1,505,319	(284,719)	333,551	(149,886)	157,826
Maximum for the period	420,829	1,833,777	(262,481)	363,273	(134,512)	173,735
Minimum for the period	4,857	1,237,491	(310,800)	309,473	(182,535)	145,686
2014						
As at 31 December	24,792	1,245,256	(268,925)	314,809	(137,778)	148,523
Average for the period	65,923	1,201,038	(258,579)	278,719	(130,507)	135,319
Maximum for the period	186,380	1,330,735	(233,198)	314,809	(119,537)	148,523
Minimum for the period	(251,697)	863,753	(373,882)	145,946	(143,939)	108,908

42.5 Commodity Price Risk

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

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

42.6 Operational risks

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

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

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

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

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

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

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

Business Continuity Planning (BCP)

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

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

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

42.7 Capital management

42.7.1 Regulatory capital

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

- Tier I capital, which includes ordinary share capital, share premium, distributable and non-distributable reserves and retained earnings (net of proposed dividend) after deductions for goodwill and fifty percent of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes;
- Tier II capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale after deductions for fifty percent of carrying value of investments in associates;
- Tier III capital which includes qualifying subordinated liabilities (net of reserves).

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

42.7.2 Capital adequacy

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

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

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

Basel III regulatory reporting

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

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

2014	2015		2015	2014
USD 000's	USD 000's		RO 000's	RO 000's
		Common Equity Tier 1 (CET1) capital: Instruments and reserves		
566,933	**595,281**	Share capital	**229,183**	218,269
1,207,665	**1,207,665**	Share premium	**464,951**	464,951
188,977	**198,426**	Legal reserve	**76,394**	72,756
441,060	**441,060**	General reserve	**169,808**	169,808
308,052	**360,000**	Subordinated loan reserve	**138,600**	118,600
487,877	**619,990**	Retained profit (post proposed cash dividend)	**238,696**	187,833
3,200,564	**3,422,422**	**Total**	**1,317,632**	1,232,217
		Less:		
(5,538)	**(7,527)**	Cumulative loss on fair value	**(2,898)**	(2,132)
(1,496)	**(1,865)**	Cumulative loss on cash flow hedge	**(718)**	(576)
(1,855)	**(1,745)**	Deferred tax assets	**(672)**	(714)
(2,403)	**(4,727)**	Foreign currency translation reserve	**(1,820)**	(925)
(92,969)	**(103,603)**	Significant investments in the common stock of banking, financial and insurance entities	**(39,887)**	(35,793)
(104,261)	**(119,467)**	Total regulatory adjustments to CET1	**(45,995)**	(40,140)
3,096,303	**3,302,955**	Total Common Equity Tier 1 capital (CET1)	**1,271,637**	1,192,077
-	**-**	Additional Tier 1 capital (AT1)	**-**	-
3,096,303	**3,302,955**	Total Tier 1 capital (T1 = CET1 + AT1)	**1,271,637**	1,192,077
		Tier 2 capital: instruments and provisions		
27,784	**25,904**	Cumulative change in fair value (45%)	**9,973**	10,697
254,504	**272,977**	General Loan loss impairment	**105,096**	97,984
282,494	**213,545**	Subordinated liabilities (net of reserves)	**82,215**	108,760
161,660	**161,660**	Mandatory convertible Bonds	**62,239**	62,239
726,442	**674,086**		**259,523**	279,680
		Less: Regulatory adjustments		
(39,844)	**(25,901)**	Significant investments in the common stock of banking, financial and insurance entities	**(9,972)**	(15,340)
686,598	**648,185**	Tier 2 capital (T2)	**249,551**	264,340
3,782,901	**3,951,140**	Total Regulatory Capital (TC = T1 + T2)	**1,521,188**	1,456,417
23,761,633	**24,538,345**	Total risk weighted assets	**9,447,263**	9,148,229
20,883,691	**21,680,960**	Of which: Credit risk weighted assets	**8,347,170**	8,040,221
1,228,545	**1,073,642**	Of which: Market risk weighted assets	**413,352**	472,990
1,649,397	**1,783,743**	Of which: Operational risk weighted assets	**686,741**	635,018

2014	2015	Capital Ratios: (expressed as a % of total risk weighted assets)	2015	2014
13.03%	**13.46%**	Common Equity Tier 1	**13.46%**	13.03%
13.03%	**13.46%**	Tier 1	**13.46%**	13.03%
15.92%	**16.10%**	Total capital	**16.10%**	15.92%

The total regulatory capital adequacy ratio of 16.10% (2014:15.92%) is after considering the proposed dividend of 30%:25% Cash and 5% Stock (2014: 25% Cash, 5% Stock and 15% Mandatory convertible bonds). The total capital adequacy pre consideration of dividend would be 16.71% (2014: 16.52%).

Capital Adequacy as per Basel II reporting for monitoring purposes:

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

2014	2015		2015	2014
USD 000's	USD 000's		RO 000's	RO 000's
3,122,864	3,341,805	Tier I Capital	1,286,594	1,202,303
694,034	660,333	Tier II Capital	254,229	267,203
3,816,898	4,002,138	Total regulatory capital	1,540,823	1,469,506
		Risk weighted assets		
20,883,691	21,680,961	Credit risk	8,347,170	8,040,221
1,228,545	1,073,642	Market risk	413,352	472,990
1,649,397	1,783,743	Operational risk	686,741	635,018
23,761,633	24,538,346	Total risk weighted assets	9,447,263	9,148,229
		Capital ratios		
16.06%	16.31%	Total regulatory capital expressed as a % of total risk weighted assets	16.31%	16.06%
13.14%	13.62%	Total Tier I capital expressed as a % of total risk weighted assets	13.62%	13.14%

The total regulatory capital adequacy ratio of 16.31% (2014: 16.06%) is after considering the proposed dividend of 25% Cash and 5% Stock(2014: 25% Cash, 5% Stock and 15% mandatory convertible bonds). The total capital adequacy ratio pre consideration of dividend would be 16.42% (2014: 16.66%).

42.7.3 Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) which provides an assessment of the Bank's actual capital adequacy on an advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, interest rate risk on banking book. The purpose of the Bank's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to project future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The process covers a forward looking plan for the next 5 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. It will scrutinize the current business model of the Bank and may lead to corresponding adjustments if the inherent risk goes beyond the Bank's risk appetite. ICAAP was approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The present plan will be updated at least annually for a rolling, forward-looking planning period of 5 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, a stress scenario has also been examined. This scenario assumes a prolonged recession and specifically incorporates a deterioration of credit quality, increased IRRBB and Market Risk as well as a decrease in retained profits.

42.7.4 Capital allocation

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

43. FAIR VALUE INFORMATION

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

	Notes	Loans and receivables	Available-for-sale	Held-to-maturity	Fair value through profit or loss	Other amortised cost	Total carrying value	Fair value
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
At 31 December 2015								
Cash and balances with Central Banks	5	2,412,052	-	-	-	-	2,412,052	2,412,052
Due from banks	6	991,491	-	-	-	-	991,491	991,491
Loans and advances	7	6,695,486	-	-	-	-	6,695,486	6,695,486
Islamic financing receivables	7	634,729	-	-	-	-	634,729	634,729
Investment securities	9	-	444,973	1,022,184	51,227	-	1,518,384	1,514,142
		10,733,758	444,973	1,022,184	51,227	-	12,252,142	12,247,900
Deposits from banks	14	-	-	-	-	2,859,563	2,859,563	2,859,563
Customers' deposits	15	-	-	-	-	6,738,315	6,738,315	6,738,315
Islamic customer deposits	15	-	-	-	-	625,133	625,133	625,133
Euro medium term notes	18	-	-	-	-	191,185	191,185	191,185
Subordinated liabilities / mandatory convertible bonds	22	-	-	-	-	335,105	335,105	336,512
		-	-	-	-	10,749,301	10,749,301	10,750,708

	Notes	Loans and receivables	Available-for-sale	Held-to-maturity	Other amortised cost	Total carrying value	Fair value
		RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
At 31 December 2014							
Cash and balances with Central Banks	5	836,944	-	-	-	836,944	836,944
Due from banks	6	1,038,826	-	-	-	1,038,826	1,038,826
Loans and advances	7	6,385,625	-	-	-	6,385,625	6,385,625
Islamic financing receivables	7	400,290	-	-	-	400,290	400,290
Investment securities	9	-	320,574	420,196	-	740,770	737,289
		8,661,685	320,574	420,196	-	9,402,455	9,398,974
Deposits from banks	14	-	-	-	888,819	888,819	888,819
Customers' deposits	15	-	-	-	6,299,350	6,299,350	6,299,350
Islamic customers' deposits	15	-	-	-	282,759	282,759	282,759
Certificates of deposit	17	-	-	-	46,000	46,000	46,000
Euro medium term notes	18			-	189,979	189,979	189,979
Subordinated liabilities / mandatory convertible bonds	22	-	-	-	302,689	302,689	306,424
		-	-	-	8,009,596	8,009,596	8,013,331

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

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

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

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

2014	Level 1	Level 2	Level 3	Total
	RO 000's	RO 000's	RO 000's	RO 000's
Assets				
Derivatives	-	32,652	-	32,652
Available-for-sale financial assets:				
- Equity securities	74,391	-	23,912	98,303
- Debt investments	186,267	-	36,004	222,271
Total assets	260,658	32,652	59,916	353,226
Liabilities				
Derivatives	-	36,760	-	36,760

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

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

	Equity securities	Debt investments	Total
	RO 000's	RO 000's	RO 000's
At 1 January 2014	20,415	23,677	44,092
Realised gain on sale	1,142	-	1,142
Gain from change in fair value	1,886	98	1,984
Additions	6,362	17,052	23,414
Disposals and redemption	(5,891)	(4,823)	(10,714)
Exchange differences	(2)	-	(2)
At 31 December 2014	23,912	36,004	59,916

As of 31 December 2015, 59% (2014: 36%) of the level 3 equity securities were valued on the basis of the latest available audited financial statements and 41% (2014: 64%) were valued on the basis of latest available capital accounts statements of the investee companies received from independent fund managers. The debt investments were carried at cost. The Group holds adequate provisioning on the above investments as of the reporting date.

43.1 Estimation of fair values

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

43.1.1 Loans and advances

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

43.1.2 Investments carried at cost and derivatives

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

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

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

43.1.4 Other on-balance sheet financial instruments

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

43.1.5 Off-balance sheet financial instruments

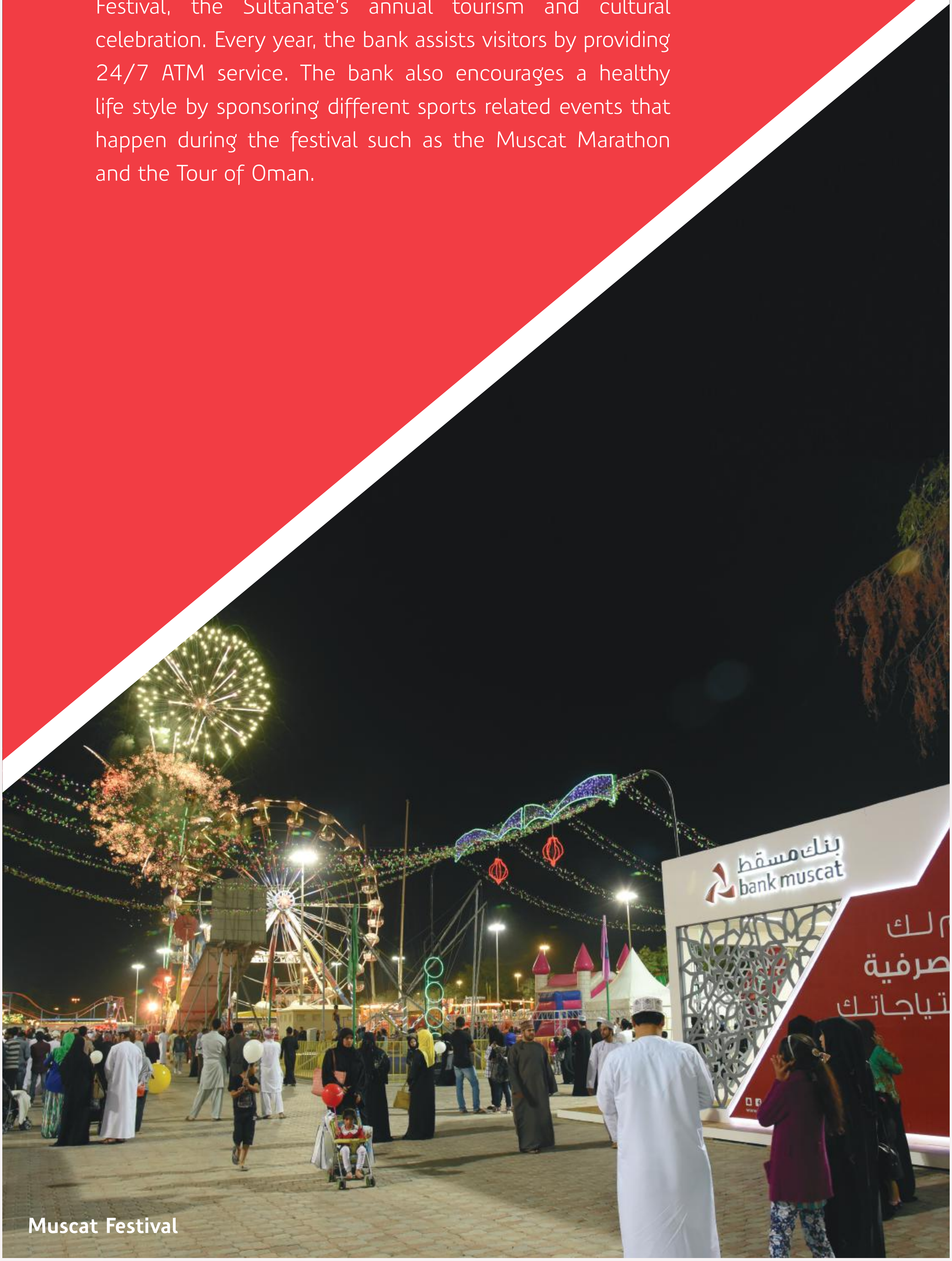
No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the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

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

44. COMPARATIVE FIGURES

No material corresponding figures for 2014 included for comparative purposes were reclassified.

bank muscat always provides lead support to Muscat Festival, the Sultanate's annual tourism and cultural celebration. Every year, the bank assists visitors by providing 24/7 ATM service. The bank also encourages a healthy life style by sponsoring different sports related events that happen during the festival such as the Muscat Marathon and the Tour of Oman.



Muscat Festival

Building a better
working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF bank muscat SAOG

Report on the Financial Statements

We have audited the accompanying statement of financial position of Islamic banking window of bank muscat SAOG (hereinafter bank muscat referred as the "the Bank" and its islamic banking window as "Meethaq") as of 31 December 2015 and the related statements of income, cash flows, changes in owner's equity and sources and uses of charity fund for the year ended 31 December 2015 and a summary of significant accounting policies and other explanatory information. These financial statements and the Meethaq's undertaking to operate in accordance with Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Meethaq as of 31 December 2015, the results of its operations, its cash flows, changes in owner's equity and sources and uses of charity fund for the year ended 31 December 2015 in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and Financial Accounting Standards issued by AAOIFI

Ernst & Young LLC
Sanjay

26 February 2016
Muscat

Report of Shari'a Supervisory Board to the shareholders of Bank Muscat SAOG

"In the name of Allah, the Beneficent, The Merciful"

To the shareholders of Bank Muscat SAOG / The Bord of Directors.

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the letter of appointment we are required to submit this report:

We have reviewed the principles and contracts relating to the transactions and applications introduced by Meethaq – The licensed Islamic banking window of Bank Muscat SAOG (hereinafter Bank Muscat SAOG referred to as the "Bank" and its Islamic banking window as "Meethaq") during the period ended 31 December 2015.

- We have also conducted our review to form an opinion as to whether Meethaq has complied with Shari'a principles and also with the specific Fatawa, rulings and guidelines issued by us.
- We conducted our review which included examining, on test basis, of each type of transaction, the relevant documentation and procedures adopted by Meethaq.
- We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Meethaq has not violated Shari'a principles nor rules
- We have reviewed the financial statements of Meethaq for the period ended 31 December 2015.

In our opinion:

i. The contracts, transactions and dealings entered into by the Meethaq during the period ended 31 December 2015 that we have received, are in compliance with Shari'a principles;

ii. The allocation of profit and charging of losses relating to investment accounts conforms to the basis that had been approved by us in accordance with Shari'a principles;

iii. All earnings that have been realized from sources or by means prohibited by Shari'a principles have been credited to the charity account.

ص.ب ١٣٤، روي، الرمز البريدي ١١٢، سلطنة عمان. هاتف: ٢٤٧٦٥٥٥٥ ٩٦٨+ فاكس: ٢٤٧٨٥٥٧٢ ٩٦٨+
P.O. Box 134, Ruwi, P C 112, Sultanate of Oman. Tel.: +968 24765555 Fax : +968 24785572
www.bankmuscat.com

Report of Shari'a Supervisory Board to the shareholders of Bank Muscat SAOG

iv. The Bank's management is not authorized to pay Zakat on behalf of the shareholders, and as such the responsibility for payment of Zakat lies with the shareholders.

v. The Bank's management is responsible for ensuring that Meethaq conducts its business in accordance with Shari'a principles. It is our responsibility to form an independent opinion, based on our review of the operations of Meethaq, and to report to you.

Finally, we take this opportunity to thank the Board of Directors and members of the executive management for their care and diljence in complying with Shari'a rulings and we wish the shareholders all the best and this country all the prosperity.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

15 Rabia II 1437
25 January 2016
Muscat

Prof. Ali Muhyealdin Ali Al-Quradaghi
Chairman of SSB

Shaikh. Esam Mohammed Ishaq
Executive Member of SSB

Dr. Majid bin Mohamed Al-Kindi
Member of SSB

This report is a translation of the Arabic version which was approved by the Shari'a Supervisory Board.

ص.ب ١٣٤، روي، الرمز البريدي ١١٢، سلطنة عمان. هاتف: ٢٤٧٦٥٥٥٥ ٩٦٨+ فاكس: ٢٤٧٨٥٥٧٢ ٩٦٨+
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STATEMENT OF FINANCIAL POSITION
At 31 December 2015

2014 US$'000	2015 US$'000		Notes	2015 RO'000	2014 RO'000
		ASSETS			
7,132	**10,046**	Cash		**3,867**	2,746
19,748	**82,878**	Balances with Central Bank of Oman		**31,908**	7,603
11,226	**72,548**	Due from banks	4	**27,931**	4,322
67,054	**78,326**	Murabaha and other receivables	5	**30,156**	25,816
972,660	**1,444,845**	Musharaka	6	**556,266**	374,474
-	**125,471**	Ijarah Muntahia Bittamleek	7	**48,306**	-
20,442	**162,696**	Investments	8	**62,638**	7,870
5,353	**9,782**	Property and equipment	9	**3,766**	2,061
4,431	**6,065**	Other assets	10	**2,335**	1,706
1,108,046	**1,992,657**	**TOTAL ASSETS**		**767,173**	426,598
		LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS			
		AND OWNER'S EQUITY			
		Liabilities			
168,961	**127,987**	Due to banks under Wakala		**49,275**	65,050
57,636	**299,712**	Current accounts		**115,389**	22,190
24,940	**57,830**	Other liabilities	11	**22,265**	9,602
251,537	**485,529**	**Total liabilities**		**186,929**	96,842
743,107	**1,326,437**	**Equity of Investment Account Holders**	12	**510,678**	286,096
		Owner's equity			
77,922	**129,870**	Allocated share capital	13	**50,000**	30,000
35,532	**51,242**	Retained earnings		**19,728**	13,680
(52)	**(421)**	Investment fair value reserve	8	**(162)**	(20)
113,402	**180,691**	Total owner's equity		**69,566**	43,660
		TOTAL LIABILITIES, EQUITY OF INVESTMENT			
1,108,046	**1,992,657**	**ACCOUNT HOLDERS AND OWNER'S EQUITY**		**767,173**	426,598
52,865	**46,852**	CONTINGENT LIABILITIES AND COMMITMENTS	14	**18,038**	20,353

The financial statements were authorised on 26 January 2016 for issue in accordance with a resolution of the Board of Directors.

Chairman Director Chief Executive

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF INCOME
For the year ended 31 December 2015

2014 US$ '000	2015 US$ '000		Notes	2015 RO '000	2014 RO '000
		INCOME			
54,481	**68,215**	Income from Islamic finance and investments	15	**26,263**	20,975
(20,392)	**(23,488)**	Return on equity of investment accountholders before Meethaq's share as a Mudarib		**(9,043)**	(7,851)
11,447	**5,704**	Meethaq's share as a Mudarib	15	**2,196**	4,407
(8,945)	**(17,784)**	**Return on equity of investment account holders**		**(6,847)**	(3,444)
45,536	**50,431**	Meethaq's share of income from equity of investment account holders as a Mudarib and Rabalmal		**19,416**	17,531
1,924	**2,531**	Other income	16	**975**	741
47,460	**52,962**			**20,391**	18,272
(499)	**(642)**	Net profit on due to banks under Wakala		**(247)**	(192)
46,961	**52,320**	**NET OPERATING INCOME**		**20,144**	18,080
		OPERATING EXPENSES			
(7,831)	**(11,348)**	Staff expenses		**(4,369)**	(3,015)
(2,057)	**(2,961)**	Occupancy costs		**(1,140)**	(792)
(758)	**(1,483)**	Depreciation	9	**(571)**	(292)
(7,384)	**(8,039)**	Others		**(3,095)**	(2,843)
(18,030)	**(23,831)**			**(9,175)**	(6,942)
28,931	**28,489**	**NET INCOME BEFORE PROVISION AND TAXATION**		**10,969**	11,138
(6,918)	**(9,722)**	Provision for impairment	17	**(3,743)**	(2,663)
-	**(1,551)**	Provision for investments	8	**(597)**	-
462	**943**	Recoveries from provision for impairment	17	**363**	178
22,475	**18,159**	**NET INCOME BEFORE TAXATION**		**6,992**	8,653
(3,034)	**(2,452)**	Taxation		**(944)**	(1,168)
19,441	**15,707**	NET INCOME FOR THE YEAR		**6,048**	7,485

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

2014 US$ '000	2015 US$ '000		Notes	2015 RO '000	2014 RO '000
		OPERATING ACTIVITIES			
22,475	**18,159**	Net income before taxation		**6,992**	8,653
		Adjustments for:			
758	**1,487**	Depreciation	9	**571**	292
-	**1,551**	Impairment for investments	8	**597**	-
6,917	**9,722**	Impairment for credit losses	17	**3,743**	2,663
(462)	**(943)**	Recoveries from impairment for credit losses	17	**(363)**	(178)
(745)	**(686)**	Profit on sale of investments		**(264)**	(287)
(857)	**(644)**	Dividends received		**(248)**	(330)
28,086	**28,646**	Operating profit before changes in operating assets and liabilities		**11,028**	10,813
		Net changes in operating assets and liabilities:			
(56,975)	**(12,860)**	Murabaha and other receivables		**(4,951)**	(21,935)
(263,706)	**(479,379)**	Musharaka		**(184,561)**	(101,527)
-	**(125,470)**	Ijarah Muntahia Bittamleek		**(48,306)**	-
(135)	**(3,288)**	Due from banks		**(1,266)**	(52)
(2,919)	**(1,634)**	Other assets		**(629)**	(1,124)
45,735	**242,075**	Current accounts		**93,199**	17,608
53,000	**(53,000)**	Due to banks under Wakala		**(20,405)**	20,405
8,831	**30,442**	Other liabilities		**11,720**	3,400
(188,083)	**(374,468)**	Net cash used in operating activities		**(144,171)**	(72,412)
		INVESTING ACTIVITIES			
857	**644**	Dividends received		**248**	330
(5,410)	**(143,488)**	Investments		**(55,243)**	(2,083)
(4,823)	**(5,914)**	Addition to property and equipment	9	**(2,277)**	(1,857)
(9,376)	**(148,758)**	Net cash used in investing activities		**(57,272)**	(3,610)
		FINANCING ACTIVITIES			
25,974	**51,948**	Allocated capital received		**20,000**	10,000
165,205	**583,330**	Equity of investment account holders		**224,582**	63,604
191,179	**635,278**	Net cash from financing activities		**244,582**	73,604
(6,280)	**112,052**	**INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS**		**43,139**	(2,418)
(71,709)	**(77,990)**	Cash and cash equivalents at beginning of the year		**(30,026)**	(27,608)
(77,989)	**34,062**	**CASH AND CASH EQUIVALENTS AT END OF THE YEAR**		**13,113**	(30,026)
		Cash and Cash equivalents comprise of:			
7,132	**10,046**	Cash		**3,867**	2,746
19,748	**82,878**	Balances with Central Bank of Oman		**31,908**	7,603
11,091	**69,125**	Due from banks		**26,613**	4,270
(115,960)	**(127,987)**	Due to banks under Wakala		**(49,275)**	(44,645)
(77,989)	**34,062**			**13,113**	(30,026)

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF CHANGES IN OWNER'S EQUITY
For the year ended 31 December 2015

	Allocated share capital	Retained earnings	Investment fair value reserve	Total owner's equity
	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2015	30,000	13,680	(20)	43,660
Capital allocated by the Head office	20,000	-	-	20,000
Net income for the year	-	6,048	-	6,048
Cumulative changes in fair value	-	-	(142)	(142)
Balance at 31 December 2015 (RO'000)	50,000	19,728	(162)	69,566
Balance at 31 December 2015 (US$'000)	129,870	51,242	(421)	180,691
Balance at 1 January 2014	20,000	6,195	-	26,195
Capital allocated by the Head office	10,000	-	-	10,000
Net income for the year	-	7,485	-	7,485
Cumulative changes in fair value	-	-	(20)	(20)
Balance at 31 December 2014 (RO'000)	30,000	13,680	(20)	43,660
Balance at 31 December 2014 (US$'000)	77,922	35,532	(52)	113,402

The attached notes 1 to 25 form part of these financial statements.

STATEMENT OF SOURCES AND USES OF CHARITY FUND
For the year ended 31 December 2015

2014	2015		2015	2014
US$'000	US$'000		RO'000	RO'000
		Sources of charity fund		
5	**18**	Charity funds at beginning of the year	**7**	2
5	**44**	Penalties to customers for late payment	**17**	2
13	**-**	Dividend purification	**-**	5
23	**62**	Total sources of funds during the year	**24**	9
		Uses of charity fund		
5	**16**	Distributed to charity organisation	**6**	2
5	**16**	Total uses of funds during the year	**6**	2
18	**46**	**Undistributed charity fund at end of the year (note 11)**	**18**	7

The attached notes 1 to 25 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2015

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

bank muscat SAOG (the "Bank" or the "Head office") established "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking licence granted by the Central Bank of Oman ("the CBO") on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities.

Meethaq offers a full range of Islamic banking services and products. The principal activities of Meethaq include: accepting Shari'a compliant customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes; undertaking investment activities; providing commercial banking services and other investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 31 December 2015, Meethaq has 16 operating branches in the Sultanate of Oman and its registered address is P.O. Box 134, Ruwi, P C 112, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the financial statements are prepared in accordance with Financial Accounting Standards (FAS) issued by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Meethaq and other applicable requirements of CBO. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI and other directives, the Islamic Window uses the relevant International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

2.2 Basis of measurement

The financial statements are prepared under historical cost basis convention except for equity type investments at fair value through equity, debt type investments at fair value through income statement and derivative financial instruments.

2.3 Functional and presentation currency

The financial statements are presented in Rial Omani (RO) which is Meethaq's functional currency and also in US Dollars, for the convenience of the 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. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands, unless otherwise stated.

3 ACCOUNTING POLICIES

3.1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below:

3.1.1 Cash and cash equivalents

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

3.1.2 Due from banks

Due from banks comprise of receivables under Wakala contracts and Nostro balances. Wakala contracts are recognised at fair value of consideration paid less amounts settled, if any. Profits on Wakala balances are received as per the respective agreement. Nostro balances are current accounts of Meethaq with other financial institutions.

3.1.3 Murabaha receivables

Murabaha receivables are stated net of deferred profits, amounts written off and provision for impairment, if any. Murabaha receivables are sales on deferred payment terms. Meethaq arranges a murabaha transaction by buying an asset (which represents the object of the murabaha) and then sells this asset to murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. Promise made in the murabaha to the purchase orderer is binding upon the customer.

3.1.4 Musharaka

Musharaka contract represents a partnership between Meethaq and a customer whereby each party contributes to the capital in equal or varying proportions to develop a new asset or share in an existing one, and whereby each of the party becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Meethaq enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into periodic profit payment agreement on Ijara basis for the utilisation of Meethaq's Musharaka share by the customer. Over the tenor, one partner's investment in the partnership declines on account of the other partner's increase in the partnership investment through repayment of the former partner's share.

3.1.5 Ijarah Muntahia Bittamleek

"Ijarah assets (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal tittle of the assets passes at the end of the lease term, provided that all the lease installments are settled. Depreciation is calculated on systematic basis to reduce the cost of leased assets over the period of lease. The Meethaq assesses at each reporting date whether there is objective evidence that these assets are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

3.1.6 Investments

Investments comprise of equity type instruments carried at fair value through equity and debt type instruments carried at fair value through statement of income and at amortised cost.

All investments, are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment, except in the case of investment carried at fair value through statement of income, if any.

Equity-type instruments at fair value through equity

Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owner's equity and equity of investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owner's equity or equity of investment account holders is recognised in the statement of income. Where a reliable measure of fair value for equity instruments is not available, these are measured at cost. Impairment losses on equity type instruments carried at fair value through equity are not reversed through the statement of income.

Debt-type instruments at fair value through statement of income

Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with unrealised gains or losses recognised in the statement of income. All other gains or losses arising from these investments are also recognised in statement of income.

Debt-type instruments at amortised cost

Investments which have fixed or determinable payments and where Meethaq has both the intent and ability to hold to maturity are classified as debt type instrument carried at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type of instruments is recognised in the statement of income, when the instruments are de-recognised or impaired.

3.1.7 Derivative financial instruments

Meethaq holds derivative financial instruments to hedge its foreign currency exposures. However, it does not apply hedge accounting. Hence, foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at reporting date and the resultant gains and losses for the financial year are recognised in the statement of income.

3.1.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation. The cost of additions and major improvements are capitalised. Maintenance and repairs are charged to the statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Furniture, fixtures and equipment	5 - 10
Hardware and software	5 - 10

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

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

3.1.9 Due to banks under Wakala

Due to banks and financial institutions comprise of payables under Wakala contracts. These are recognised at fair value of consideration received less amounts settled, if any. Profits on these accounts are paid as per the respective agreement.

3.1.10 Current accounts

Current accounts are funds received under Qard whereby the principal amount is guaranteed to be repaid by Meethaq. These funds are neither entitled to any profit nor bear any losses. Current accounts are stated at fair value of consideration received less amounts settled, if any.

3.1.11 Equity of investment account holders

Equity of investment account holders comprises of deposits obtained on the basis of Mudaraba which are invested in Islamic assets. There is no restriction on Meethaq for the use of the equity of investment account holders. Equity of investment account holders is measured at the fair value of the consideration received less amounts settled.

3.1.12 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment account holders, after allocating the mudarib share, in order to cater against future losses for equity of investment account holders.

3.1.13 Profit equalisation reserve

Meethaq appropriates a certain amount in excess of the profit to be distributed to equity of investment account holders before taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment account holders.

3.1.14 Revenue recognition

Murabaha receivables

Profit on murabaha receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised by proportionately allocating the attributable profits over the deferred period whereby each financial period carries its portion of profits irrespective of when the cash is received, net of suspended interest.

Musharaka

Income on Musharaka is recognised when the right to receive payment is established or when distribution is made, net of suspended interest.

Ijarah Muntahia Bittamleek

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

Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

Meethaq's share of income from equity of investment account holders as Rabalmal and Mudarib

Income is allocated proportionately between equity of investment account holders and shareholders on the basis of their respective investment in the pool before allocation of the mudarib fees. Meethaq's share as a mudarib for managing the equity of investment account holders is accrued based on the terms and conditions of the related mudaraba agreements.

Fees and commission income

Fees and commission income is recognised when earned.

Commission on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Islamic Window has fulfilled all its obligations in connection with the related transaction.

Investment income

Income from investments at amortised cost is recognised on a time-proportionate basis based on underlying rate of return. Dividend income is recognised when the Meethaq's right to receive the payment is established.

3.1.15 Return on equity of investment account holders

Return on equity of investment accountholders is calculated based on the income generated from jointly financed assets after deducting the expenses related to investment pool (mudarib expenses). Mudarib expenses include all direct expenses incurred by Meethaq, including specific provisions. Meethaq's "mudarib share of income" is deducted from the investors' share of income before distributing such income.

3.1.16 Taxation

Taxation is calculated and paid by the Head office on an overall basis. Taxation expense in the financial statements represents allocation of such taxation to the Meethaq.

3.1.17 Provisions

Provisions are recognised when Meethaq has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

3.1.18 Derecognition of financial assets and liabilities

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

(i) the right to receive cash flows from the asset has expired;

(ii) Meethaq retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) Meethaq has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.1.19 Identification and measurement of impairment assets

At each reporting date, the Meethaq reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately in the income statement.

3.1.20 Earnings prohibited by Shari'a

Meethaq is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income, if any, is credited to a charity fund where Meethaq uses these funds for social welfare activities.

3.1.21 Foreign currencies

Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

3.1.22 Employees' end of service benefits

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of income when accrued. Meethaq's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods. This amount is accrued and recognised as an expense in the statement of income.

3.1.23 Joint and self financed

Assets that are jointly owned by Meethaq and the equity of investment account holders are classified under the caption "jointly financed" in the financial statements. Assets that are financed solely by Meethaq, if any, are classified under "self financed".

3.1.24 Zakah

Meethaq is not required to pay Zakah on behalf of shareholders and investment account holders. It is the responsibility of shareholders and investment account holders to pay Zakah.

3.1.25 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legal or religious enforceable right to set off the recognised amounts and Meethaq intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.1.26 Commingling of funds

The funds of Islamic Window are not commingled with the funds of Conventional Operations of the Bank.

3.1.27 Fair value

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- For unquoted investments, fair values is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic Window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

3.2 Significant accounting judgments and estimates

The preparation of Meethaq's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The most significant use of judgments and estimates is as follows:

Impairment provisions against financing contracts with customers

Meethaq reviews its financing contracts at each reporting date to assess whether an impairment provision should be recorded in the financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgments and uncertainty. Actual results may differ due to changes in the underlying facts.

In addition to specific provisions against individually significant financing contracts, Meethaq also makes a collective impairment provision against exposures which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This takes into consideration, factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Liquidity

Meethaq manages its liquidity through consideration of the maturity profile of its assets, liabilities and investment accounts which is set out in the liquidity risk disclosures. This requires judgment when determining the maturity of assets, liabilities and investment accounts with no specific maturities.

Classification of investments

"Management decides on acquisition of:

- an equity type financial asset, whether it should be carried at fair value through equity or through statement of income, and
- For a debt type financial asset, whether it should be carried at amortised cost or at fair value through statement of income."

3.3 Standard issued but not yet effective

FAS 27 – Investment Accounts

FAS 27 will replace FAS 5 - 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. Upon adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation will be enhanced without having any significant impact on the financial statements of the Islamic Window.

FAS 27 is applicable for financial periods beginning from 1 January 2016. Meethaq intends to adopt the standard from its effective date.

3.4 New and amended standards, and interpretations

These financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the financial statements for the year ended 31 December 2014, except for amendment to FAS 23 which have been issued by AAOIFI.

Amendment to FAS 23 – Consolidation

The amendment introduced to FAS 23 is to give clarification on the way an Islamic financial institution (IFI) should determine if financial statements of an investee company, or a subsidiary, should be consolidated with its own. The amendment provides clarification that, in addition to the existing stipulations in the standard, control may also exist through rights arising from other contractual arrangement, voting rights of the Islamic financial institutions that give de facto power over an entity, potential voting rights, or a combination of these factors.

In terms of voting rights, the amendment also clarifies that an IFI shall consider only substantive voting rights in its assessment of whether the institution has power over an entity. In order to be substantive, the voting rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. Determination of voting rights shall include current substantive voting rights and currently-exercisable voting rights

The amendments and clarifications are effective for the annual financial periods ending on or after 31 December 2015. The transition provision requires retrospective application including restatement of previous period comparatives. The amendment had no impact on the financial statements of the Meethaq.

4 DUE FROM BANKS

2014 US$'000	2015 US$'000		2015 RO'000	2014 RO'000
11,000	**66,842**	Due from banks under Wakala	**25,734**	4,235
226	**5,706**	Nostro current accounts	**2,197**	87
11,226	**72,548**		**27,931**	4,322

5 MURABAHA AND OTHER RECEIVABLES

2014	2015		2015	2014
US$'000	US$'000		RO'000	RO'000
72,724	**85,235**	Murabaha receivables - Jointly financed	**32,816**	27,999
(5,371)	**(6,862)**	Deferred profit	**(2,642)**	(2,068)
(1,003)	**(1,322)**	Provision for impairment (note 17)	**(509)**	(386)
66,350	**77,051**	Net murabaha receivables	**29,665**	25,545
704	**1,275**	Receivables under Ujrah	**491**	271
67,054	**78,326**		**30,156**	25,816

Meethaq considers the promise to purchase made by the customer in a Murabaha transaction to be binding.

6 MUSHARAKA

2014	2015		2015	2014
US$'000	US$'000		RO'000	RO'000
991,482	**1,471,010**	Musharaka - Jointly financed	**566,339**	381,720
(18,773)	**(25,965)**	Provision for impairment (note 17)	**(9,996)**	(7,227)
(49)	**(200)**	Reserved profit	**(77)**	(19)
972,660	**1,444,845**		**556,266**	374,474

Musharaka which were non-performing as of 31 December 2015 amounted to RO 1,464 thousands (2014 - RO 665 thousands).

7 IJARAH MUNTAHIA BITTAMLEEK

2014	2015		2015	2014
US$'000	US$'000		RO'000	RO'000
-	**126,739**	Cost, net of accumulated depreciation	**48,794**	-
-	**(1,268)**	Provision for impairment (note 17)	**(488)**	-
-	**125,471**	Net Ijarah Muntahia Bittamleek	**48,306**	-

8 INVESTMENTS

2014	2015		2015	2014
US$'000	US$'000		RO'000	RO'000
		Equity type Investment at fair value through equity		
7,434	**18,187**	Shares - Jointly financed	**7,002**	2,862
		Debt type Investment at fair value through income statement		
-	**133,057**	Sukuk - Jointly financed	**51,227**	-
		Debt type Investment at amortised cost		
13,008	**13,003**	Sukuk - Jointly financed	**5,006**	5,008
20,442	**164,247**		**63,235**	7,870
-	**(1,551)**	Provision for investments	**(597)**	-
20,442	**162,696**	**Investments (net)**	**62,638**	7,870
The movement in impairement of investment securities is summerised as follows:				
-	**-**	At 1 January	**-**	-
-	**(1,551)**	Provided during the year	**(597)**	-
-	**(1,551)**	At 31 December	**(597)**	-

Equity type investments at fair value through equity is carried at fair value and it includes a market to market loss of RO 162 thousands (2014 : loss of RO 20 thousands).

9 PROPERTY AND EQUIPMENT

	2015			
	Furniture and fixtures RO'000	Equipment RO'000	Hardware and software RO'000	Total RO'000
Cost:				
At 1 January 2015	**1,374**	**414**	**605**	**2,393**
Additions	**489**	**149**	**1,638**	**2,276**
At 31 December 2015	**1,863**	**563**	**2,243**	**4,669**
Depreciation:				
At 1 January 2015	**149**	**58**	**125**	**332**
Provided during the year	**318**	**100**	**153**	**571**
At 31 December 2015	**467**	**158**	**278**	**903**
Net book values:				
At 31 December 2015 (RO'000)	**1,396**	**405**	**1,965**	**3,766**
At 31 December 2015 (US$'000)	**3,626**	**1,052**	**5,104**	**9,782**
Cost:				
At 1 January 2014	316	131	89	536
Additions	1,058	283	516	1,857
At 31 December 2014	1,374	414	605	2,393
Depreciation:				
At 1 January 2014	23	7	10	40
Provided during the year	126	51	115	292
At 31 December 2014	149	58	125	332
Net book values:				
At 31 December 2014 (RO'000)	1,225	356	480	2,061
At 31 December 2014 (US$'000)	3,182	925	1,247	5,353

10 OTHER ASSETS

2014 US$'000	2015 US$'000		2015 RO'000	2014 RO'000
1,644	**3,265**	Profit receivable	**1,257**	633
1,548	**1,247**	Prepayments	**480**	596
1,239	**1,553**	Others	**598**	477
4,431	**6,065**		**2,335**	1,706

11 OTHER LIABILITIES

2014 US$'000	2015 US$'000		2015 RO'000	2014 RO'000
6,753	**22,670**	Payable to head office	**8,728**	2,600
5,545	**7,997**	Provision for taxation	**3,079**	2,135
12,298	**30,667**	Due to head office	**11,807**	4,735
8,395	**15,906**	Profit payable	**6,124**	3,232
4,247	**11,257**	Others	**4,334**	1,635
24,940	**57,830**		**22,265**	9,602

"Others include charity payable of RO 18 thousands (2014 - RO 7 thousands) which has been accumulated during the year.
Meethaq is not a separate taxable entity. The tax is calculated and paid on an overall basis by the head office. Based on the effective tax rate, Head office has allocated a taxation provision to Meethaq."

12 EQUITY OF INVESTMENT ACCOUNT HOLDERS

Equity of investment account holders ('IAH') is commingled with Meethaq's funds and utilised in the business of Meethaq according to the weights of each type of fund. These weights are declared by Meethaq at the beginning of each month. Mudarib expenses are charged to the pool which include all direct expenses incurred by Meethaq, including impairment provisions. Meethaq's effective share in profits as

Mudarib for the period was 24.3% (2014: 56.1%). The rate of return on each type of investment account is disclosed by Meethaq on a monthly basis. As of 31 December, the breakup of equity of investment account holders is as follows:

2014 US$'000	2015 US$'000		2015 RO'000	2014 RO'000
86,956	**158,325**	Savings accounts	**60,955**	33,478
654,782	**1,058,626**	Fixed term accounts	**407,571**	252,091
-	**107,055**	Other deposits	**41,216**	-
741,738	**1,324,006**	Total	**509,742**	285,569
1,260	**2,187**	Profit equalisation reserve (note 12.1)	**842**	485
109	**244**	Investment risk reserve (notes 12.2)	**94**	42
743,107	**1,326,437**		**510,678**	286,096

12.1 Movement in profit equalisation reserve

2014 US$'000	2015 US$'000		2015 RO'000	2014 RO'000
291	**1,260**	1 January	**485**	112
969	**927**	Apportioned from income allocable to equity of IAH	**357**	373
1,260	**2,187**	Balance at 31 December	**842**	485

12.2 Movement in investment risk reserve

2014 US$'000	2015 US$'000		2015 RO'000	2014 RO'000
13	**109**	At beginning of the year	**42**	5
96	**135**	Apportioned from income allocable to equity of IAH	**52**	37
109	**244**	Balance at 31 December	**94**	42

13 ALLOCATED SHARE CAPITAL

At inception, Meethaq had been allocated a share capital of RO 20 million by the Head office. In 2015, further capital was injected of RO 20 million (RO 10 million in 2014) to comply with the regulatory requirements.

14 CONTINGENCIES AND COMMITMENTS

2014 US$'000	2015 US$'000		2015 RO'000	2014 RO'000
44,005	**31,675**	Guarantees	**12,195**	16,942
8,860	**15,177**	Letters of credit	**5,843**	3,411
52,865	**46,852**		**18,038**	20,353

15 INCOME FROM ISLAMIC FINANCE AND INVESTMENTS

2014 US$'000	2015 US$'000		2015 RO'000	2014 RO'000
1,522	**3,109**	Murabaha receivables	**1,197**	586
50,683	**61,823**	Musharaka	**23,802**	19,513
-	**314**	Ijarah Muntahia Bittamleek	**121**	-
2,255	**2,878**	Investments	**1,108**	868
21	**91**	Ujrah fee	**35**	8
54,481	**68,215**		**26,263**	20,975

Considering the overall circumstances, the bank, for the best interest, has discretely forgone RO 1.8 million (2014 - RO 0.7 million) from its profit share as Mudarib to depositors. This however is not be construed as a precedent to happen in subsequent years.

16 OTHER INCOME

2014	2015		2015	2014
US$'000	US$'000		RO'000	RO'000
184	**306**	Fee and commission	**118**	71
119	**249**	Foreign exchange gain – net	**96**	46
1,081	**862**	Handling commission	**332**	416
540	**1,114**	Service fee and other	**429**	208
1,924	**2,531**		**975**	741

17 PROVISION FOR IMPAIRMENT

	2015			
	Ijarah Muntahia Bittamleek	Murabaha receivables	Musharaka	Total
	RO'000	RO'000	RO'000	RO'000
Provision at beginning of the year	**-**	**386**	**7,227**	**7,613**
Charge for the year	**488**	**123**	**3,132**	**3,743**
Recoveries	**-**	**-**	**(363)**	**(363)**
Provision at end of the year	**488**	**509**	**9,996**	**10,993**

	2015			
	Ijarah Muntahia Bittamleek	Murabaha receivables	Musharaka	Total
	US$'000	US$'000	US$'000	US$'000
Provision at beginning of the year	**-**	**1,003**	**18,773**	**19,776**
Charge for the year	**1,268**	**319**	**8,135**	**9,722**
Recoveries	**-**	**-**	**(943)**	**(943)**
Provision at end of the year	**1,268**	**1,322**	**25,965**	**28,555**

	2014			
	Ijarah Muntahia Bittamleek	Murabaha receivables	Musharaka	Total
	RO'000	RO'000	RO'000	RO'000
Provision at beginning of the year	-	75	5,053	5,128
Charge for the year	-	311	2,352	2,663
Recoveries	-	-	(178)	(178)
Provision at end of the year	-	386	7,227	7,613

	2014			
	Ijarah Muntahia Bittamleek	Murabaha receivables	Musharaka	Total
	US$'000	US$'000	US$'000	US$'000
Provision at beginning of the year	-	195	13,125	13,320
Charge for the year	-	808	6,110	6,918
Recoveries	-	-	(462)	(462)
Provision at end of the year	-	1,003	18,773	19,776

18 SEGMENTAL INFORMATION

The activities of Meethaq are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. Further, Meethaq operates solely in the Sultanate of Oman, therefore, no geographical segment information is presented.

19 RELATED PARTY TRANSACTIONS

Related parties comprise of the Head office, directors and key management personnel of Meethaq and the Head office, close members of their families, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Bank, members of Shari'a Supervisory Board (SSB) and external auditors.

The significant balances with related parties at 31 December 2015 were as follows:

2014	2015		2015	2014
US$'000	US$'000		RO'000	RO'000
		Statement of financial position		
		Head office Balances:		
64,935	-	Equity of investment account holders	-	25,000
75,000	**80,000**	Due to banks- affiliates	**30,800**	28,875
12,298	**30,667**	Other liabilities	**11,807**	4,735
152,233	**110,667**		**42,607**	58,610

The transactions with the related parties included in the statement of income for the year ended 31 December 2015 are as follows:

2014	2015		2015	2014
US$'000	US$'000		RO'000	RO'000
		Statement of income		
556	**39**	Return on equity of IAH	**15**	214
88	**330**	Profit on due to banks	**127**	34
184	**174**	Remuneration and expense reimbursements of SSB	**67**	71
828	**543**		**209**	319

20 DERIVATIVE FINANCIAL INSTRUMENTS

				RO 000's
	Notional	Notional amounts by term to maturity		
	amount total	within 3 months	4-12 months	> 12 months
31 December 2015				
Forward purchase contracts	**501,665**	**51,915**	**401,505**	**48,245**
Forward sales contracts	**501,836**	**51,926**	**400,887**	**49,023**
Total	**1,003,501**	**103,841**	**802,392**	**97,268**
Total US$	**2,606,496**	**269,717**	**2,084,135**	**252,644**
31 December 2014				
Forward purchase contracts	42,350	25,795	16,555	-
Forward sales contracts	42,350	25,795	16,555	-
Total	84,700	51,590	33,110	-
Total US$	220,000	134,000	86,000	-

Fair values of the derivative financial instruments are not material to warrant a disclosure.

21 RISK MANAGEMENT

Meethaq's risk management is centralised at the level of Head office. It is a process whereby the Head office identifies key risks, applies consistent, understandable risk measures, and chooses which risks to reduce and which to hold and by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that Meethaq operates within the risk appetite levels set by the Bank's Board of Directors while pursuing its objective of maximising the risk adjusted returns. The overall risk management philosophy of the Bank is disclosed in the consolidated financial statements of the Bank. Specific disclosures pertaining to the following risks, for which Meethaq is exposed, are given below:

a) Liquidity risk

Liquidity risk is the risk that Meethaq will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Asset Liability Committee (ALCO) of the Bank manages the liquidity position of Meethaq. In order to ensure that Meethaq meets its financial obligations as and when they fall due, cash flow positions are closely monitored. If required, Meethaq, being a window operation of the Bank, obtains funding from the Head office.

The table below summarises the maturity profile of Meethaq's assets, liabilities and investment accounts as of 31 December 2015 based on expected periods to cash conversion from the statement of financial position date:

31 December 2015	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS					
Cash and balances with Central Bank of Oman	9,530	11,476	12,319	2,450	35,775
Due from banks	26,613	769	-	549	27,931
Murabaha and other receivables	7,599	415	4,420	17,722	30,156
Musharaka	85,393	29,969	158,606	282,298	556,266
Ijarah Muntahia Bittamleek	423	2,769	15,300	29,814	48,306
Investments	40,002	16,667	5,006	963	62,638
Property and equipment	-	-	-	3,766	3,766
Other assets	2,335	-	-	-	2,335
Total assets	171,895	62,065	195,651	337,562	767,173
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNER'S EQUITY					
Due to banks under Wakala	49,275	-	-	-	49,275
Current accounts	46,154	40,387	-	28,848	115,389
Other liabilities	19,256	3,009	-	-	22,265
Total liabilities	114,685	43,396	-	28,848	186,929
Equity of investment accountholders	26,836	201,455	259,615	22,772	510,678
Total owner's equity	-	-	-	69,566	69,566
Total liabilities, equity of investment account holders and owner's equity	141,521	244,851	259,615	121,186	767,173
Net gap	30,374	(182,786)	(63,964)	216,376	-
Cumulative net gap	30,374	(152,412)	(216,376)	-	-

31 December 2015	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
ASSETS					
Cash and balances with Central Bank of Oman	24,755	29,808	31,997	6,364	92,924
Due from banks	69,125	1,997	-	1,426	72,548
Murabaha and other receivables	19,736	1,078	11,481	46,031	78,326
Musharaka	221,797	77,842	411,964	733,242	1,444,845
Ijarah Muntahia Bittamleek	1,098	7,192	39,740	77,441	125,471
Investments	103,901	43,291	13,003	2,501	162,696
Property and equipment	-	-	-	9,782	9,782
Other assets	6,065	-	-	-	6,065
Total assets	446,477	161,208	508,185	876,787	1,992,657
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNER'S EQUITY					
Due to banks under Wakala	127,987	-	-	-	127,987
Current accounts	119,881	104,901	-	74,930	299,712
Other liabilities	50,015	7,815	-	-	57,830
Total liabilities	297,883	112,716	-	74,930	485,529
Equity of investment accountholders	69,704	523,260	674,325	59,148	1,326,437
Total owner's equity	-	-	-	180,691	180,691
Total liabilities, equity of investment account holders and owner's equity	367,587	635,976	674,325	314,769	1,992,657
Net gap	78,890	(474,768)	(166,140)	562,018	-
Cumulative net gap	78,890	(395,878)	(562,018)	-	-

31 December 2014	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS					
Cash and balances with Central Bank of Oman	3,350	2,798	3,872	329	10,349
Due from banks	4,270	30	-	22	4,322
Murabaha and other receivables	13,237	86	7,746	4,747	25,816
Musharaka	430	30,151	126,408	217,485	374,474
Investments	2,862	-	5,008	-	7,870
Property and equipment	-	-	-	2,061	2,061
Other assets	1,706	-	-	-	1,706
Total assets	25,855	33,065	143,034	224,644	426,598
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNER'S EQUITY					
Due to banks under Wakala	44,645	20,405	-	-	65,050
Current accounts	8,872	7,774	-	5,544	22,190
Other liabilities	8,757	845	-	-	9,602
Total liabilities	62,274	29,024	-	5,544	96,842
Equity of investment accountholders	38,785	96,477	144,024	6,810	286,096
Total owner's equity	-	-	-	43,660	43,660
Total liabilities, equity of investment account holders and owner's equity	101,059	125,501	144,024	56,014	426,598
Net gap	(75,204)	(92,436)	(990)	168,630	-
Cumulative net gap	(75,204)	(167,640)	(168,630)	-	-

31 December 2014	On demand or within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
ASSETS					
Cash and balances with Central Bank of Oman	8,700	7,268	10,057	855	26,880
Due from banks	11,091	77	-	58	11,226
Murabaha and other receivables	34,382	223	20,119	12,330	67,054
Musharaka	1,118	78,314	328,332	564,896	972,660
Investments	7,434	-	13,008	-	20,442
Property and equipment	-	-	-	5,353	5,353
Other assets	4,431	-	-	-	4,431
Total assets	67,156	85,882	371,516	583,492	1,108,046
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNER'S EQUITY					
Due to banks under Wakala	115,960	53,001	-	-	168,961
Current accounts	23,046	20,191	-	14,399	57,636
Other liabilities	22,744	2,196	-	-	24,940
Total liabilities	161,750	75,388	-	14,399	251,537
Equity of investment accountholders	100,740	250,592	374,088	17,687	743,107
Total owner's equity	-	-	-	113,402	113,402
Total liabilities, equity of investment account holders and owner's equity	262,490	325,980	374,088	145,488	1,108,046
Net gap	(195,334)	(240,098)	(2,572)	438,004	-
Cumulative net gap	(195,334)	(435,432)	(438,004)	-	-

b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Profit rate risk

Profit rate risk is the risk that Meethaq will incur a financial loss as a result of mismatch in the profit rate on Meethaq's assets and liabilities. The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Meethaq is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Meethaq's results do not allow Meethaq to distribute profits in line with the market rates. To cater against DCR, Meethaq creates profit equalisation reserve as disclosed in note 12.

Effective profit rate on profit bearing assets, liabilities and equity of investment account holders as of 31 December 2015 are as follows:

	2015	2014
Assets:		
Murabaha and other receivables	**4.17%**	5.22%
Ijarah Muntahia Bittamleek	**2.32%**	-
Due from banks	**0.27%**	0.41%
Musharaka	**5.33%**	5.67%
Investments	**4.25%**	5.00%
Liabilities:		
Due to banks under Wakala	**0.63%**	0.39%
Equity of Investment Account Holders		
Savings accounts	**0.73%**	0.58%
Fixed term accounts	**1.89%**	2.21%
Other deposits	**0.45%**	-
Foreign exchange risk		

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure that they are maintained within established approved limits. The following table summarises the exposure by currency as of 31 December 2015.

	2015		
	Assets	Liabilities	Net
	RO'000	RO'000	RO'000
US Dollars	**832,843**	**852,652**	**(19,809)**
Euro	**33,010**	**33,005**	**5**
UAE Dirham	**888**	**879**	**9**
Others	**-**	**1**	**(1)**

	2014		
	Assets	Liabilities	Net
	RO'000	RO'000	RO'000
US Dollars	49,038	50,684	(1,646)
Euro	18	-	18
UAE Dirham	34	7	28
Others	-	4	(4)

Foreign currency risk sensitivity analysis

A 5% change in foreign exchange rates, with all other variables held constant, will have an impact of RO 990 thousands on Meethaq's statement of income (2014 - RO 80 thousands).

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. A 10% change in equity indices will have an impact of RO 641 thousands on the equity of Meethaq (2014 - RO 286 thousands).

c) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. Meethaq credit risk is managed by monitoring credit exposures, continually assessing the creditworthiness of counterparties, and by entering into collateral agreements in the form of mortgages, pledge of assets and personal guarantees.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk by type of Islamic financing contracts before the effect of mitigation through the use of collateral or other credit enhancements.

2014	2015		2015	2014
US$'000	US$'000		RO'000	RO'000
11,226	**72,548**	Due from banks	**27,931**	4,322
67,054	**78,326**	Murabaha receivables	**30,156**	25,816
972,660	**1,444,845**	Musharaka	**556,266**	374,474
-	**125,471**	Ijarah Muntahia Bittamleek	**48,306**	-
13,008	**146,060**	Investment in Sukuk	**56,233**	5,008
1,644	**3,265**	Other assets	**1,257**	633
1,065,592	**1,870,515**	Total	**720,149**	410,253
52,865	**46,852**	Contingencies and commitments	**18,038**	20,353
1,118,457	**1,917,367**	Total credit risk exposure	**738,187**	430,606

Quality of maximum exposure to credit risk

The table below shows the credit quality of maximum exposure to credit risk based on Meethaq's Internal credit quality assessment. The balances presented are net of impairment provision.

	31 December 2015			
	Neither past due nor impaired	Past due but not impaired	Non performing	Total
	RO'000	RO'000	RO'000	RO'000
Due from banks	**27,931**	**-**	**-**	**27,931**
Murabaha receivables	**30,156**	**-**	**-**	**30,156**
Musharaka	**545,808**	**8,994**	**1,464**	**556,266**
Ijarah Muntahia Bittamleek	**48,306**	**-**	**-**	**48,306**
Investment in Sukuk	**56,233**	**-**	**-**	**56,233**
Other assets	**1,257**	**-**	**-**	**1,257**
	709,691	**8,994**	**1,464**	**720,149**

	31 December 2015			
	Neither past due nor impaired	Past due but not impaired	Non performing	Total
	US$'000	US$'000	US$'000	US$'000
Due from banks	**72,548**	**-**	**-**	**72,548**
Murabaha receivables	**78,326**	**-**	**-**	**78,326**
Musharaka	**1,417,683**	**23,361**	**3,803**	**1,444,845**
Ijarah Muntahia Bittamleek	**125,471**	**-**	**-**	**125,471**
Investment in Sukuk	**146,060**	**-**	**-**	**146,060**
Other assets	**3,265**	**-**	**-**	**3,265**
	1,843,353	**23,361**	**3,803**	**1,870,515**

	31 December 2014			
	Neither past due nor impaired	Past due but not impaired	Non performing	Total
	RO'000	RO'000	RO'000	RO'000
Due from banks	4,322	-	-	4,322
Murabaha receivables	25,816	-	-	25,816
Musharaka	339,403	34,406	665	374,474
Investment in Sukuk	5,008	-	-	5,008
Other assets	633	-	-	633
	375,182	34,406	665	410,253

	31 December 2014			
	Neither past due nor impaired	Past due but not impaired	Non performing	Total
	US$'000	US$'000	US$'000	US$'000
Due from banks	11,226	-	-	11,226
Murabaha receivables	67,054	-	-	67,054
Musharaka	881,567	89,366	1,727	972,660
Investment in Sukuk	13,008	-	-	13,008
Other assets	1,644	-	-	1,644
	974,499	89,366	1,727	1,065,592

Ageing analysis of past due but not impaired balances

	31 December 2015			
	Less than 30 days	31 to 60 days	61 to 90 days	Total
	RO'000	RO'000	RO'000	RO'000
Musharaka	2,214	5,951	829	8,994
Total (RO'000)	2,214	5,951	829	8,994
Total (US$'000)	5,751	15,457	2,153	23,361

Classification of non-performing balances

	31 December 2015			
	Sub-standard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000
Musharaka	532	530	402	1,464
	532	530	402	1,464
Provision for impairment	123	279	384	786
Net	409	251	18	678

Classification of non-performing balances

	31 December 2015			
	Sub-standard	Doubtful	Loss	Total
	US$'000	US$'000	US$'000	US$'000
Musharaka	1,382	1,377	1,044	3,803
	1,382	1,377	1,044	3,803
Provision for impairment	319	725	997	2,042
Net	1,063	652	47	1,761

	31 December 2014			
	Less than 30 days	31 to 60 days	61 to 90 days	Total
	RO'000	RO'000	RO'000	RO'000
Musharaka	33,735	457	214	34,406
Total (RO'000)	33,735	457	214	34,406
Total (US$'000)	87,623	1,187	556	89,366

Classification of non-performing balances

	31 December 2014			
	Sub-standard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000
Musharaka	107	141	417	665
	107	141	417	665
Provision for impairment	43	70	402	515
Net	64	71	15	150

	31 December 2014			
	Sub-standard	Doubtful	Loss	Total
	US$'000	US$'000	US$'000	US$'000
Musharaka	278	366	1,083	1,727
	278	366	1,083	1,727
Provision for impairment	112	182	1,044	1,338
Net	166	184	39	389

d) Operational risk

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

As the management of all other risks, operational risk for Meethaq is managed centrally at the Head office level. The detailed operational risk management approach is disclosed in the consolidated financial statements of the Bank.

22 CONCENTRATION OF ASSETS, LIABILITIES AND INVESTMENT ACCOUNTS

All the assets, liabilities and Investment account holders (IAH's) of Meethaq are located in Oman. The distribution of assets, liabilities and investment accounts is as follows:

	Assets	Liabilities	IAH's	Assets	Liabilities	IAH's
	2015	2015	2015	2014	2014	2014
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Government	**86,102**	**87,959**	**365,166**	7,603	516	111,700
Trading and manufacturing	**21,202**	**1,220**	**8,227**	11,999	206	5,707
Construction	**101,847**	**-**	**-**	66,497	1,650	777
Retail	**365,306**	**28,363**	**70,235**	298,473	7,488	48,835
Banking and financial institutions	**32,794**	**57,271**	**62,500**	4,322	69,785	74,000
Services	**24,053**	**10,271**	**4,550**	21,786	11,311	44,338
Transport & Communications	**123,072**	**-**	**-**	-	-	-
Others	**12,797**	**1,845**	**-**	15,918	5,887	740
	767,173	**186,929**	**510,678**	**426,598**	96,843	286,097

	Assets	Liabilities	IAH's	Assets	Liabilities	IAH's
	2015	2015	2015	2014	2014	2014
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Government	**223,642**	**228,465**	**948,483**	19,748	1,340	290,130
Trading and manufacturing	**55,070**	**3,169**	**21,369**	31,166	535	14,823
Construction	**264,538**	**-**	**-**	172,719	4,286	2,018
Retail	**948,847**	**73,670**	**182,429**	775,255	19,449	126,844
Banking and financial institutions	**85,179**	**148,755**	**162,338**	11,226	181,260	192,208
Services	**62,475**	**26,678**	**11,818**	56,587	29,379	115,164
Transport & Communications	**319,668**	**-**	**-**	-	-	-
Others	**33,238**	**4,792**	**-**	41,345	15,290	1,922
	1,992,657	**485,529**	**1,326,437**	1,108,046	251,539	743,109

23 CAPITAL MANAGEMENT

"Central Bank of Oman (CBO), sets and monitors capital requirements for the Bank as whole as well as individually for Meethaq being a window operation. A minimum of 12.625% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Meethaq. The regulatory capital of Meethaq is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office;
- Tier II capital, which includes collective impairment allowance to the extent of 1.75% of the risk weighted assets."

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

2014	2015		2015	2014
	US$'000		RO'000	RO'000
77,922	**129,870**	Allocated capital	**50,000**	30,000
35,532	**51,242**	Retained profits	**19,728**	13,680
113,454	**181,112**	**Tier I Capital**	**69,728**	43,680
(52)	**(421)**	Less: Investment fair value reserve	**(162)**	(20)
9,460	**26,416**	Loan loss impairment- portfolio	**10,170**	3,642
9,408	**25,995**	**Tier II Capital**	**10,008**	3,622
122,862	**207,107**	**Total capital available**	**79,736**	47,302
		Risk weighted assets (RWA)		
679,987	**1,248,426**	Credit risk	**480,644**	261,795
2,795	**177,753**	Market risk	**68,435**	1,076
74,021	**81,218**	Operational Risk	**31,269**	28,498
756,803	**1,507,397**	**Total RWA**	**580,348**	291,369
		Capital ratios		
16.23%	**13.74%**	**Total capital as a % of total RWA**	**13.74%**	16.23%
14.99%	**12.01%**	**Total tier I capital as a % of total RWA**	**12.01%**	14.99%

24 FAIR VALUE OF ASSETS AND LIABILITIES

Set out below is an overview of carrying value of financial assets and liabilities held by Meethaq as of reporting date which, in the opinion of the management, are not materially different from the fair value:

31 December 2015

Carrying amount	Fair value		Carrying amount	Fair value
US$'000	US$'000		RO'000	RO'000
		Assets:		
72,548	**72,548**	Due from banks	**27,931**	**27,931**
78,326	**78,326**	Murabaha and other receivables	**30,156**	**30,156**
1,444,845	**1,444,845**	Musharaka	**556,266**	**556,266**
125,471	**125,471**	Ijarah Muntahia Bittamleek	**48,306**	**48,306**
162,696	**162,696**	Investments	**62,638**	**62,638**
3,265	**3,265**	Other assets	**1,257**	**1,257**
1,887,151	**1,887,151**	**Total**	**726,554**	**726,554**
:		**Liabilities**		
127,987	**127,987**	Due to banks under Wakala	**49,275**	**49,275**
299,712	**299,712**	Current accounts	**115,389**	**115,389**
46,573	**46,573**	Other liabilities	**17,931**	**17,931**
1,326,437	**1,326,437**	Equity of Investment Account Holders	**510,678**	**510,678**
1,800,709	**1,800,709**	**Total**	**693,273**	**693,273**

31 December 2014

Carrying amount	Fair value		Carrying amount	Fair value
US$'000	US$'000		RO'000	RO'000
		Assets:		
11,226	11,226	Due from banks	4,322	4,322
67,054	67,054	Murabaha and other receivables	25,816	25,816
972,660	972,660	Musharaka	374,474	374,474
20,442	20,442	Investments	7,870	7,870
1,644	1,644	Other assets	633	633
1,073,026	1,073,026	Total	413,115	413,115
		Liabilities:		
168,961	168,961	Due to banks under Wakala	65,050	65,050
57,636	57,636	Current accounts	22,190	22,190
20,693	20,693	Other liabilities	7,967	7,967
743,107	743,107	Equity of Investment Account Holders	286,096	286,096
990,397	990,397	Total	381,303	381,303

Fair value hierarchy
Fair values of quoted securities/sukuks are derived from quoted market prices in active markets, if available. For unquoted securities/sukuks, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Meethaq uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2015:

31 December 2015	Level 1	Level 3	Total
	RO'000	RO'000	RO'000
Investments carried at fair value through equity			
Quoted equity	**3,630**	**-**	**3,630**
Unquoted equity	**-**	**3,372**	**3,372**
Investments carried at fair value through P&L			
Quoted bonds	**51,227**	**-**	**51,227**
	54,857	**3,372**	**58,229**

31 December 2014	Level 1	Level 3	Total
	RO'000	RO'000	RO'000
Investments carried at fair value through equity			
Quoted equity	490	-	490
Unquoted equity	-	2,372	2,372
Investments carried at fair value through P&L			
Quoted bonds	-	-	-
	490	2,372	2,862

Transfers between Level 1, Level 2 and Level 3
During the year ended 31 December 2015 and 2014 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

25. COMPARATIVE FIGURES
Certain corresponding figures for 2014 have been reclassified in order to conform with the presentation for the current year. Such reclassifications are not considered material and do not affect previously reported net profit or shareholders' equity.

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