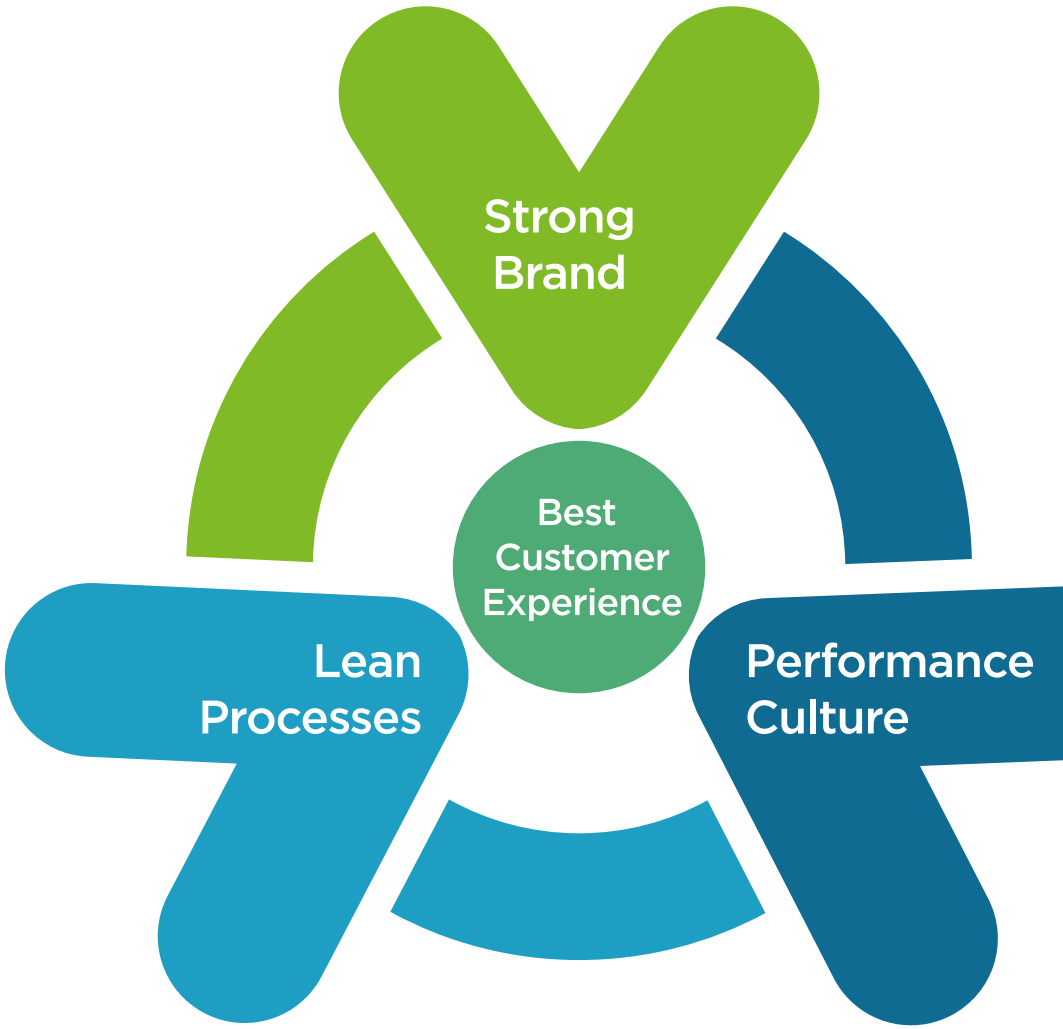
بنك ظفار
BankDhofar

ANNUAL REPORT 2015



بنك ظفار
BankDhofar

His Majesty Sultan Qaboos Bin Said

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The Board of Directors' report for the financial year ended **31st December 2015**

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present you the Bank's Financial Statements and the Auditors' Report for the financial year ended 31st December 2015.

Financial overview in 2015

Amid the challenging economic and financial situation marked by volatile oil prices in 2015, the Bank continued to grow in all key areas in the year 2015. The net Loans, Advances and Financing to customers reached RO 2.73 billion (USD 7.09 billion) at December 2015, showing a significant growth of 21.33% from RO 2.25 billion (USD 5.84 billion) at the end of December 2014. The customer deposits mobilized by the bank achieved a prudent growth of 4.43% from RO 2.48 billion (USD 6.44 billion) at the end of 2014 to reach RO 2.59 billion (USD 6.73 billion) at the end of 2015.

The key profitability indicators also showed positive growths with net interest and financing income achieving a solid growth of 17.47% to reach RO 90.21 million (USD 234.31 million) for the year 2015 as compared to RO 76.79 million (USD 199.45 million) achieved in 2014. Non-interest and non-financing income such as fees and commission, foreign exchange profit, investment and other income have grown 13.39% to reach RO 25.02 million (USD 64.98 million) in 2015 as compared to RO 22.06 million (USD 57.29 million) achieved in the previous year.

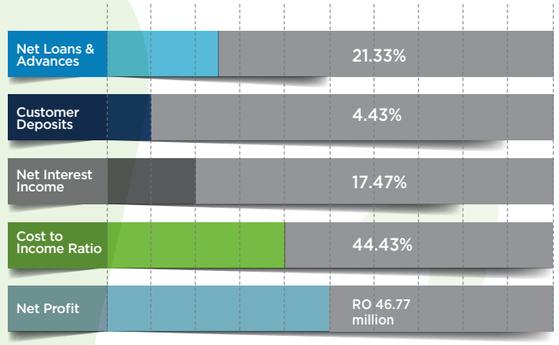
The Cost to Income ratio during the year 2015 improved to 44.43% as compared to 46.69% in 2014. In line with loan growth and regulatory requirement, the provision for loan impairment, net of recovery, during the year 2015 stood at RO 8.78 million (USD 22.8 million), as against RO 6.93 million (USD 18 million) during the previous year 2014. The impairment of investments due to downward market movements during the year is RO 2.74 million. (USD 7.12 million) Non-performing loans to gross loans improved from 2.55% at 31st December 2014 to 2.30% at 31st December 2015, year-on-year; Non-performing loans, net of interest suspense, to gross loans improved from 1.24 % at 31st December 2014 to 1.11 % at 31st December 2015 year on year.

The net profit for the year 2015 achieved by the Bank is RO 46.77 million (USD 121.48 million) as against RO 40.45 million (USD 105.06 million), showing a strong growth of 15.62% year on year.

Maisarah- Islamic Banking Services

Key Financial Highlights

Maisarah achieved very good results during 2015 and continued its trend of strong growth in assets, financing, customer deposits and profitability. The total assets increased by 56% to RO 299.40 million at Dec 2015 from RO 191.79 million at Dec 2014. The gross financing portfolio has grown from RO 133.03 million at Dec 2014 to RO 209.92 million at Dec 2015, recording a growth of 58%. Non-performing financing continued to stand at nil. Customer deposits showed a remarkable growth and increased from RO 97.01 million at Dec 2014 to RO 192.16 million at Dec 2015 recording an impressive growth of 98.08%.



The net financing income increased to RO 5.73 million during 2015 compared to RO 3.21 million achieved in the previous year, a growth of 79%.

For the year 2015 Maisarah Islamic Banking Services reported net profit before tax of RO 2.57 million compared to a net profit before tax of RO 0.23 million in 2014 , showing year on year growth of 11.17 times. Furthermore in third year of its operations Maisarah's has recouped its accumulated losses from start-up and recorded positive retained earnings.

Maisarah-Capital Increase in 2015 & Expansion in Branch Network

Capital was increased by RO 15 million taking the total paid-up-capital to RO 40 million, to support significant growth in Maisarah business volumes. Maisarah also continued its branch network expansion in 2015 and opened a Al Hail branch in North Muscat region thus increasing its branch network to total of five branches as at 31st December 2015.

Maisarah-Key Activities

Maisarah enhanced its product and service offerings by adding relevant solutions that customers need, including Maisarah Personal Finance for pre-owned vehicle or property financing using the Diminishing Musharakah structure; Education Finance, Travel Finance products. As addition to the liability product suite, Ameen Term Deposit and Ameen Investment Account products were launched Maisarah actively participated in the Oman's first Sovereign Sukuk, by investing RO 16.36 million. Continued focused training sessions for Maisarah staffs to further enhance their skills, knowledge and enable them to deliver high quality Islamic banking services to its customers.

Maisarah - Future Outlook:

The key areas and initiatives for 2016 include:

- Expanding the retail network by opening more branches across Oman to increase customer and market reach
- Rolling out new products and services to fulfil customers' needs
- Strengthen service offering
- Continue to increase awareness on Islamic Finance through seminars, workshops and corporate events

Major deals

Major deals amounting to RO 125 million (USD 324.67 million) were bagged by the Bank during the year and these deals include large project finances of national importance, in addition to continued growth in Retail customer base.

Funding and Capital Raising initiatives

In continuation of its capital augmentation plan, the Bank raised capital of USD 300 million (RO 115.5 million) in the form of Tier 1 (including Additional Tier 1 capital) in 2015, the successful debut issuance of Basel III compliant Tier 1 instrument in the country. This would be used to support the growth of the Bank.

As part of the planned funding program and strengthening the liquidity base, Bank successfully completed a Syndicated borrowing of USD 250 million at competitive rates, with encouraging participation from major banks in the region. This facility demonstrates the confidence of the global markets in the financial strength of BankDhofar.

Top Management Changes

As part of Bank's long term strategy, the following senior management changes took place during the year 2015 to focus more on these business areas.

- Mr. Sohail Niazi has been promoted as AGM & Chief Islamic Banking Officer
- Mr. Osama Fathi Abdullah Al Mansoor joined the bank as DGM – Transformation
- Mr. Hussain Ali Ibrahim Al Lawati has been promoted as AGM & Head of Business Banking
- Mr. Issam Mohsin Khudabakhsh Al Balushi has taken over responsibilities of Head of Compliance

Corporate Governance

The Bank has fully complied with all directives of the Code of Corporate Governance issued by the Capital Market Authority. The Bank has also assessed and reviewed the internal control procedures of the Bank during the year 2015.
In compliance with Article (101) of the Commercial Companies Law No. 4/1974 and its amendments, the Board of Directors would like to disclose that the total amount received in 2015 as sitting fees was RO 81,200 and the proposed remuneration is RO 118,800, complying with total cap of RO 200,000.

Strategic Initiatives

In September 2014, Bank raised Capital in the form of Tier 2 Sub-ordinated Loan of USD 75 million (RO 28.88 million). In continuation of capital augmentation plan, the Board of Directors in its meeting in December 2014 recommended to raise capital of OMR 115.5 million (USD 300 million) in the form of Tier 1 (including Additional Tier 1 capital) in 2015, subject to Regulatory Approval. Extra-ordinary General Meeting of the Shareholders would be called seeking necessary approvals.

To fund the growth of Bank's Islamic Window, the paid up capital of "Maisarah" Islamic Banking Services has been increased from RO 12.5 million to RO 25 million from the core capital of the Bank.

Proposed Dividends

The Board of Directors recommends cash dividend of 15% amounting to RO 23.17 million and a Bonus share issue of 10%, aggregating to 154.47 million shares of RO 0.100 each, of the Share capital of the Bank, subject to Regulatory Approvals.
The percentage of dividends distributed to the Shareholders in the last five years is as below:

Year	2010	2011	2012	2013	2014
Cash Dividends	12.5%	7%	15%	14%	5%
Bonus Shares	12.5%	20.2%*	10%	11%	15%

*Bonus shares for 2011 was distributed from Share Premium Account

Corporate Social Responsibility (CSR) initiatives

Bank Dhofar initiated several CSR initiatives during the year 2015 including supporting communities during inclement weather conditions at Dhofar Governorate, associations with Assistive Technology and Rehabilitation centers, Technical Seminars on Social Insurance organized by PASI, arranging visits to hospital during Eid celebrations and distributing gifts to admitted children, procurement of Food supplies for low income families during Ramadan in association with Dar Al Atta besides supporting the World Food Day 2015.

Also Bank Dhofar participated in the 12th Annual Walkathon organized by Oman Cancer Association, supporting Schools Charity Day, building shades for protection of school children during summers, supporting Quran Recitation Competition among Seeb Schools, Training of local women in Salalah to set up SME business.

Awards and Accolades during 2015

Our Bank won several awards during the year 2015 with some of them listed here:

- Best Banking Strategy 2015 by The Banker Middle East
- Best Islamic Window – Maisarah, Oman 2015 by International Finance Magazine (IFM)
- Best SME Bank Oman 2015 by Global Banking & Finance Review
- Best Mobile E-Commerce Bank 2015 by Global Banking & Finance Review
- Best Branch Automation Project in Middle East 2015 by The Asian Banker
- Internal research on attitudes and perceptions of CSR & Sustainability
- Oman Domestic Project Finance Bank of the Year in the Asian Banking & Finance Wholesale Banking Awards 2015

- Website of the Year - Oman in the Asian Banking & Finance Retail Banking Awards 2015.
- Straight-Through-Processing Award 2014 for financial payments in Euro by Commerzbank, Germany.
- Top 20 Oman's Largest Corporates Award at the OER Finance Summit & Top 20 Awards.
- Customer Delight Award by MENAA Awards 2015.
- Best Business Leader Award by MENAA Awards 2015.

The Year Ahead (2016)

The government forecasts a deficit of RO 3.3 billion or 13 percent of gross domestic product (GDP) in 2016, a reduction from the previous deficit of RO 4.5 billion for 2015. It plans to adopt a combination of approaches to cover the fiscal gap, namely from reserves, grants, borrowings (local & international). The government plans to rationalize current operational and general spending but will maintain capital spending. The government has said it will also privatize companies and develop the private sector. This matter would be included in the government's new five-year economic plan for 2016-2020.

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Board of Directors and the Executive Management. Also I thank the shareholders for their continuous support and Chairman, members of Sharia Supervisory Board of Maisarah Islamic Banking Services, Management and Staff for their efforts and contributions in the year 2015.

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

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

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Members of the Board of Directors

Name of Director:
Eng. Abdul Hafidh Salim Rajab Al-Aujaili

Basis of Membership:
Chairman Non-executive Non-Independent Shareholder Director

No. of other Directorships held: –

Name of Director:
Sheikh Hamoud Mustahail Ahmed Al Mashani

Basis of Membership:
Vice-Chairman Non-executive Independent Non-shareholder Director

No. of other Directorships held: 3

Name of Director:
Sheikh Qais Mustahail Ahmed Al Mashani

Basis of Membership:
Member Non-executive Non-Independent Shareholder Director

No. of other Directorships held: 3

Name of Director:
Mr. Ahmed Said Mohammed Al Mahrezi

Basis of Membership:
Member Non-executive Independent Non-shareholder Director

No. of other Directorships held: 1

Name of Director:
Mr. Saleh Nasser Juma Al Araimi

Basis of Membership:
Member Non-executive Independent Shareholder Director

No. of other Directorships held: 3

Name of Director:
Mr. Mohammed Yousuf Alawi Al Ibrahim

Basis of Membership:
Member Non-executive Independent Non-shareholder Director

No. of other Directorships held: 2

Name of Director:
Mr. Tariq Abdul Hafidh Salim Al-Aujaili

Basis of Membership:
Member Non-executive Non-Independent Non-shareholder Director

No. of other Directorships held: 3

Name of Director:
Eng. Abdul Sattar Mohammed Abdullah Al Murshidi

Basis of Membership:
Member Non-executive Independent Shareholder Director

No. of other Directorships held: -

Name of Director:
Zakariya Bin Mubarak Bin Ismail Al-Zidjali

Basis of Membership:
Member Non-executive Independent Shareholder Director

No. of other Directorships held: -

Executive Team

Abdul Hakeem Omar Al Ojaili
Acting Chief Executive Officer

Hani Macki
AGM & Head of Strategy & Planning

Tariq Taha
AGM & Chief Information Officer

Mohammed Al Riyami
AGM & Head of Internal Audit

Kamal Al Murazza
Chief Wholesale Banking Officer

Faisal Al Wahaibi
Chief Retail Banking Officer

Ahmed Al Ibrahim
Chief Corporate Services Officer

Mohammed Iqbal Al Balushi
AGM & Head of Operations & Support Services

Shaleen Chugh
AGM & Corporate Banking

Bashir Al Subhi
AGM & Head of Treasury & Financial Institution

Shankar Sharma
Chief Financial Officer

Nasser Said Al Bahantah
Cheif Human Resource Officer

Osama Fathi Al Mansoor
DGM & Head of Transformation

Hussain Ali Ibrahim Al Lawati
AGM & Head of Business Banking

Issam Mohsin Al Balushi
Head of Compliance

P.M. Ranganathan
Head of Risk Management

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED

31 December 2015

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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 Dhofar SAOG and its application of the corporate governance practices in accordance with the CMA code of corporate governance

TO THE SHAREHOLDERS OF BANK DHOFAR SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of Bank Dhofar SAOG ('the bank') and its application of corporate governance practices in accordance with the CMA code of corporate governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA 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 the bank to be included in its annual report for the year ended 31 December 2015 and does not extend to any financial statements of the Bank Dhofar SAOG, taken as a whole.

Ernst & Young LLC

31 January 2016
Muscat

إرنست ويونغ ش م م
ص.ب: ١٢٧٥٠ روي - ١١٢ ، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

A member firm of Ernst & Young Global Limited

Report on Corporate Governance

Part One

1 - Corporate Governance Philosophy:

Corporate governance is an essential element in attaining, enhancing and retaining confidence of the bank's stakeholders. Corporate governance lays down the relationship and responsibilities between shareholders, board of directors and senior management of the bank through the structure of setting objectives, formulating strategies, controlling and monitoring performance while ensuring compliance with regulations in letter and spirit and promoting a culture of transparency through disclosures and commitment to highest ethical standards.

The Board of Directors of Bank Dhofar SAOG (the Bank) bear the principal responsibility of fashioning the Corporate Governance as appropriate to the Bank within the broad framework enunciated by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

Decision-making within the Bank has been broadly divided into two levels. The Board of Directors (the Board) at the apex level, as trustees of the shareholders, bear the responsibility of strategic supervision of the Bank, apart from fulfilling statutory obligations. Some of the major responsibilities of the Board are discharged through five sub-committees, viz. the Board Credit Committee, Board Audit Committee, Board Risk Management Committee, Board HR Committee and Board Investment Committee. These sub-committees which operate under the Board approved charters have been meeting regularly and have contributed significantly to the effective functioning of the code of corporate governance. The charters of these committees meet with all the requirements as laid down in the Code of Corporate Governance enunciated by the CBO and the CMA. In addition, the Board carries the responsibility of approving the strategic plans and internal policies to institute adequate controls for achievement of the set objectives and compliance with rules and regulations. The executive management of the Bank comprises the Senior Members headed by the Chief Executive Officer.

Through this two-tiered interlinked governance process, a wholesome balance has been created between the need for focus and executive freedom, and the need for supervision, control and checks and balances of all activities and transactions.

The formal Code of Corporate Governance prescribes the highest ethical standards in the conduct of the Bank's business. The Senior Members of the Bank are fully cognizant of their responsibilities in setting personal examples so that the code is internalized within the Bank and becomes part of its culture.

2. Board of Directors

The Responsibilities of the Board of Directors

The Board has the full authority to perform all acts required for managing the Bank and protecting and growing the shareholders' interests pursuant to its objectives besides securing the interests of other stakeholders.

Such authority is not limited or restricted except as provided by the law, the Articles of Association or resolutions of the General Meetings. However, such authority is not extended to the operational matters and day-to-day affairs of the bank which remains a responsibility of the Senior Management.

The responsibilities and functions of the Board include the following:

1. Charting the overall strategic direction of the Bank and reviewing and approving the annual business and strategic plans.
2. Monitoring the Bank's performance and evaluating whether the business is properly managed in accordance with the Bank's set plans.
3. Approving the interim and annual financial statements and providing accurate information at the right time to the shareholders, in accordance with the instructions of the Capital Market Authority.
4. Forming various Board sub-committees, approving their charters and reviewing the functions of these committees.
5. Reviewing all audit reports submitted by internal and external auditors and statutory agencies.
6. Ensuring that the Bank conducts its operations in an ethical and transparent manner.
7. Assessing and approving the proper delegation of authorities to executive management.
8. Evaluating the functions and the performance of the Chief Executive Officer and other key employees.

Further, the Board exercises objective independent judgment on corporate affairs after having access to accurate, relevant and timely information.

Size and Terms of the Board

The Board consists of nine (9) non-executive directors who are elected by the shareholders at the Annual General Meeting. The term of office of the Board of Directors is three years and each Director can be re-elected for a similar period. The term of the current Board expires in March 2016.

Composition and Selection of the Board

Members of the Board of Directors are elected from among the Bank's shareholders or non-shareholders provided that a shareholder candidate owns not less than 50,000 shares of the Bank. All members of the Board of Directors shall be non-executive Directors.

A minimum of one-third of the Board members shall be independent Directors, meeting the amended definition of independent director by Capital Market Authority vide its Circular No.E/14/2012 dated 24 October 2012 which states that a director shall be deemed non-independent in the following cases:

1. If he holds ten percent or more of the company shares or the shares of parent company or subsidiary or fellow company
2. If he is representing a juristic person who holds ten percent or more of the company shares or the shares of parent company or subsidiary or fellow company.
3. If he is a senior executive, during the past two years, of the company or parent company or subsidiary or fellow company.
4. If he is a first degree relative of any of the directors of the company or parent company or subsidiary or fellow company.
5. If he is a first degree relative of any of the senior executives of the company or parent company or subsidiary or fellow company.
6. If he is a director of the parent company or subsidiary or fellow company of the company to which he stands as candidate for its board.
7. If he is an employee, during the past two years, of any of associated parties of the company or parent company or subsidiary or fellow company including chartered accountants and major suppliers or if holds controlling share in any of such parties during the past two years.

Please note that CMA has temporarily suspended the application of above definition by their circular E/9/2013 dated 20/11/2013. However, our Bank is complying with more stringent provisions of E/14/2012 dated 24 October 2012.

The nomination of Board members is within rules and condition of the election of directors as issued by CMA. The election process is through direct secret ballot whereby each sharerholder shall have a number of vote's equivalent to the number of shares he/she holds. Every shareholder shall have the right to vote for one candidate or more provided the total number of votes in the voting form is equivalent to the number of shares he/she holds.

At present all the directors of the Board are non-executive, three are dependent and six are Independent within the scope of the definitions laid down by the Capital Market Authority.

Board Committees

The Board has the following five permanent Board Committees, whose objectives, powers and procedures are governed by the terms of reference of the respective Committees as enshrined in their Charters, approved by the Board:

- Board Credit Committee
- Board Audit Committee
- Board Risk Management Committee
- Board HR Committee
- Board Investment Committee

Additional committees may be established from time to time based on business needs. Each committee has access to the information and resources it requires, including direct access to staff and consultants. The Board has selected the committee members based on their professional backgrounds, skills and other qualities they bring to the committees.

Sharia Supervisory Board

Sharia Supervisory Board was formulated in the year 2012 for guiding the Islamic Banking operations of the Bank, (Maisarah).

3. Board of Directors and Senior Executive Profiles

H.E. Engr. Abdul Hafidh Salim Rajab Al Aujaili

H.E. Engr. Abdul Hafidh Salim Rajab Al Aujaili is currently the Chairman of Bank Dhofar. He is promoter shareholder of well-established institutions in Oman such as Bank Dhofar, DIDIC, Dhofar Power Company and Oman Aviation.

Sheikh Hamoud bin Mustahail Al Mashani – Vice Chairman

Sheikh Hamoud bin Mustahail Al Mashani is the Vice Chairman of the Board of Directors. He is also a member of the Credit Committee of the Board. He is currently holding senior positions in various corporations in Oman and has undertaken leading roles. Other positions held by him include Chief Executive Officer of Muscat Overseas Group, Manager - Qais Omani Establishment, Chairman of Dhofar Cattle Feed Co. and Director of Ports Services Corporation, Sheikh Hamoud holds a Diploma in Finance.

Sheikh Qais bin Mustahail Al Mashani - Director

Shaikh Qais bin Mustahail Al Mashani is a member of the Board of Directors. He is also a member of the Audit Committee and Human Resources Committee of the Board. Other positions held by him within his diverse portfolio include Vice Chairman of Dhofar Insurance Co, Vice Chairman of Ports Services Corporation and Director of Dhofar Int. Development & Investment Holding Co (DIDIC). Shaikh Qais holds a Bachelor Degree from University of Yarmouk and Higher Qualification from Oxford Academy.

Mr. Saleh bin Nasser Al Araimi- Director

Mr. Saleh bin Nasser Al Araimi is a member of the Board of Directors. He is also the Chairman of the Audit Committee and a member of the Risk Committee of the Board. He has diverse experience in the civil service spanning more than thirty five years.

His experience includes holding senior positions in Ministry of Social Affairs & Labour. Presently he holds the position of Director General of Public Authority for Social Insurance. He has been a Director of Shell Marketing Oman.Director of Oman Fisheries Co and Director of Sharqia University. Mr. Saleh holds a Master Degree in Business Administration a Higher Diploma in Business Administration and a Bachelor of Business Administration.

Mr. Ahmed bin Said Al Mahrezi- Director

Mr. Ahmed Said Al Mahrezi is a member of the Board of Directors. He is also the Chairman of the Risk Committee and a member of the Audit Committee of the Board. He has extensive experience in the public sector in Law, Finance, Investment & Administration, extending over a period of more than 25 years. He has been a Director of International Company for Hotels Management. Mr. Ahmed holds a Master of International Commercial Law and a Bachelor of Law.

Mr. Mohammed bin Yousuf Al Ibrahim - Director

Mr. Mohammed bin Yousuf Al Ibrahim is a member of the Board of Directors. He is also a member of the Credit Committee and a member of the Risk Committee of the Board. He has extensive experience in Directorship of private and public companies. His diverse portfolio includes being Shareholder, Executive & Managing Director of various private companies & Establishments. He has been a Director of Dhofar University. Mr. Mohammed holds a Bachelor of Business Administration.

Mr. Tariq Abdul Hafidh Al Aujaili- Director

Mr. Tariq Abdul Hafidh Al Aujaili is a member of the Board of Directors. He is also the Chairman of the Human Resource Committee and member of the Risk Committee of the Board. Mr. Tariq is also an observer member of the Investment Committee of the Board. He has extensive experience of public companies' directorship. He has been a Chairman of Financial Services Co, Vice Chairman of Dhofar Int. Development & Investment Holding Co (DIDIC) and Director of Oman International & Finance Co. Mr. Tariq holds Bachelor of Accountancy & Finance.

Eng. Abdul Sattar bin Mohammed Al Murshidi - Director

Eng. Abdul Sattar bin Mohammed Al Murshidi is a member of the Board of Directors. He is the Chairman of the Investment Committee of the Board, a member of the Credit Committee and a member of the Human Resource Committee of the Board. He has a successful career with Petroleum Development Oman (PDO) over the past 25 years in the fields of Well Drilling, Corporate Appraisal & Management Information, Corporate Technology Management and Business Support Management. Presently he holds the position of Oil Director – North. Eng. Abdul Sattar holds a Bachelor of Civil Engineering.

Mr. Zakariya bin Mubarak Al Zadjali - Director

Mr. Zakariya bin Mubaraq Al Zadjali has joined the Board in April 2015. He is also a member of the Audit Committee, the Risk Management Committee and the Human Resources Committee. Mr. Zakariya has an extensive experience and successful career with Sultan Armed Forces in the fields of Budget Control, Financial Management and Contracts & Procurement Management. Mr. Zakariya holds a Bachelor of Military Science.

Part Two

1. Members of the Board of Directors

The Board of Directors of Bank Dhofar (SAOG) consists of the following:

S. No.	Name of Director	Basis of Membership			No. of Other Directorships Held
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	Chairman Non-executive	Non- independent	Shareholder Director	-
2	Sheikh Hamoud Mustahail Ahmed Al Mashani	Vice-Chairman Non-executive	Independent	Non Shareholder Director	2
3	Sheikh Qais Mustahail Ahmed Al Mashani	Member Non-executive	Non- independent	Shareholder Director	3
4	Mr. Ahmed Said Mohammed Al Mahrezi	Member Non-executive	Independent	Non-shareholder Director	1
5	Mr. Saleh Nasser Juma Al Araimi	Member Non-executive	Independent	Shareholder Director	3
6	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member Non-executive	Independent	Non-shareholder Director	1
7	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	Member Non-executive	Non- independent	Non-shareholder Director	3
8	Eng. Abdul Sattar Mohammed Abdullah Al Murshdi	Member Non-executive	Independent	Shareholder Director	-
9	Mr. Zakariya Mubarak Al Zadjali	Member Non-executive	Independent	Shareholder Director	-
10	Mr. Majid Said Sulaiman Al Bahry*	Member Non-executive	Independent	Shareholder Director	-

*Mr. Majid Said Sulaiman Al Bahry has been replaced by Mr. Zakariya bin Mubarak Al Zadjali on April 2015.

The Board of Directors held 10 meetings during 2015 as follows:

19 January 2015	27 January 2015	10 February 2015	26 February 2015
29 March 2015	28 April 2015	30 June 2015	27 July 2015
26 October 2015	28 December 2015		

Details of meetings and remuneration of the Board of Directors of Bank Dhofar (SAOG) are as follows:

S. No.	Name of Director	Capacity of Membership	No. of Meetings Attended	Directors' Benefits (Amount in RO)	
				Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	In Personal Capacity	9	10,000	15,701
2	Sheikh. Hamoud Mustahail Ahmed Al Mashani	In Personal Capacity	5	5,200	14,196
3	Sheikh. Qais Mustahail Ahmed Al Mashani	Representative of Dhofar International Development & Investment Holding Company (SAOG)	5	6,200	12,696
4	Mr. Ahmed Said Mohammed Al Mahrezi	In Personal Capacity	9	10,000	14,195
5	Mr. Saleh Nasser Juma Al Araimi	Representative of Public Authority for Social Insurance	8	10,000	14,195
6	Mr. Mohammed Yousuf Alawi Al Ibrahim	In Personal Capacity	7	10,000	12,696
7	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	In Personal Capacity	9	10,000	14,196
8	Eng. Abdul Sattar Mohammed Abdullah Al Murshidi	Representative of Malatan Trading and Contracting LLC	8	10,000	14,196
9	Mr. Majid Said Sulaiman Al Bahry* (replaced by Mr. Zakaria bin Mubark Al Zadjali)	Representative of Ministry of Defence Pension Fund	4	3,800	-
10	Mr. Zakaria bin Mubarak Al Zadjali**	Representative of Ministry of Defence Pension Fund	4	6,000	6,729
TOTAL				**81,200**	**118,800**

*Mr. Majid resigned during the year 2015 on 13th April 2015, replaced by Zakariya Al Zadjali

2. Sharia Supervisory Board (SSB)

The SSB consists of five members. The objectives of SSB include:

- To Provide the Sharia rulings in all activities of the Islamic Banking Window (IBW)
- To supervise the compliance of the IBW with Islamic Sharia rules
- To enhance the IBW contribution in spreading the awareness and contribute in development of the Islamic banking

Name of Director	Designation	No. of Meetings Attended	Honorarium (Amount in RO)	
			Fees Paid	Remuneration Proposed
Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman	7	2,800	6,000
Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member	6	1,800	4,000
Sheikh. Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member	7	2,100	4,000
Sheikh Dr. Abdullah bin Mubarak Al Abri	Member	6	1,800	4,000
Sheikh Dr. Mohammad Ameen Ali Qattan	Member (Non-Voting)	4	1,200	4,000
			9,700	**22,000**

The Sharia Supervisory Board has held 7 meetings (Including one meeting with The Board of Directors) in 2015.

3. Board Credit Committee

The Board Credit Committee consists of members with proper experience, skills and initiative. The objectives of the Board Credit Committee is to discharge responsibilities on behalf of the Board in deciding on specific policy/Credit matters demanding in-depth study and analysis, deliberation and interactive consideration and decisions on micro matters of business beyond the powers delegated to the management, but considered less important to receive the full Board's attention and time. The Board members of the Board Credit Committee are:

Name of Director	Designation	No. of Meetings Attended
Eng. Abdul Hafidh Salim Rajab Al Aujaili	Chairman of the Board Credit Committee	14
Sheikh. Hamoud Mustahail Ahmed Al Mashani	Member	4
Eng. Abdul Sattar Mohd Abdullah Al Marshidi	Member	13
Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	11

The Board Credit Committee held 14 meetings during 2015.

4. Board Audit Committee

The Audit Committee was formed by the Board of Directors with the following main objectives and responsibilities:

- To focus the attention of the Board and top management of the Bank on the importance of strong internal controls over financial reporting and sound risk management and governance practices.
- To review the adequacy and effectiveness of internal controls in the Bank and to recommend appropriate steps to improve them where required.
- To review the effectiveness of the system for monitoring the Bank's compliance with legal and regulatory provisions, Bank's articles of association, charters, by-laws and internal policies and procedures established by the Board of Directors.
- To review the effectiveness of the internal audit function and approve the risk based internal audit plan as well as the availability of adequate resources) and informational access.

- To recommend the Board of Directors for appointment of the external auditors, their termination and remuneration and determine and review their terms of engagement.
- To meet the External Auditors and hear their views before forwarding the annual financial statements to the Board for approval.
- To report and bring to the attention of the Board any matters of concern with regard to the fore-going and any material accounting or auditing concerns identified as a result of the external or internal audits, or examination by supervisory authorities.

The Members of the Board Audit Committee are:

Name of Director	Designation	No. of Meetings Attended
1. Mr. Saleh Nasser Juma Al Araimi	Chairman of the Audit Committee	7
2. Mr. Ahmed Said Mohammed Al Mahrezi	Member	7
3. Sheikh. Qais Mustahail Al Mashani	Member	3
4.Zakariya Mubarak Al Zadjali	Member	3
5. Mr. Majid Said Sulaiman Al Bahry*	Member	2

The Board Audit Committee held 7 meetings in 2015.

*Mr. Majid Said Sulaiman Al Bahri has resigned as a member of the Audit Committee on 13th April 2015, and was replaced by Mr. Zakariya Al Zadjali effective from 29th April 2015

5. Board Risk Management Committee:

The Risk Management Committee of the Board was formed by the Board of Directors to focus on issues relating to Risk Management policies and procedures on a Bank-wide basis by arriving at a judicious policy decision collectively.

Roles and Responsibilities:

- To understand the risks undertaken by the Bank and ensure that they are appropriately managed.
- To develop risk policies, limits and procedures after assessment of the Bank's risk bearing capacity.
- To identify, monitor and measure the overall risk profile of the Bank.
- To verify models used for pricing complex products and transfer pricing.
- To review the risk models as development takes place in the markets and also identify new risks.
- To ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of Bank's operations.
- To build stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and those predicted by the risk measures.
- To monitor compliance with various risk parameters by business lines.
- To hold the line management accountable for the risks under their control.
- Apprise the Board of Directors on significant issues affecting Risk Management in a timely manner.
- To oversee and ensure the implementation of CBO's guidelines on risk management systems in Banks.

The members of the Board Risk Management Committee are:

Name of Director	Designation	No. of Meetings Attended
1.Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Board Risk Management Committee	5
2. Mr. Tariq Abdul Hafidh Salim Al Aujaili	Member	5
3. Mr. Saleh Nasser Juma Al Araimi	Member	5
4.Zakariya Al Zadjali	Member	3
5.Mr. Majid Said Sulaiman Al Bahry*	Member	0

The Board Risk Management Committee held 5 meetings in 2015.

Mr. Majid Said Sulaiman Al Bahry vacated the directorship in April 2015 and before that only one meeting took place. Mr. Zakariya Al Zadjali has been nominated in his place.

6. Board Human Resources Committee:

The Human Resources Committee of the Board of Directors was formed by the Board to ensure that the overall human resources developments at Bank level are as per the strategic direction of the Bank.

At a strategic level, the Committee is responsible for reviewing and monitoring the following:

- Ensure manpower plans take into account, the strategic and specific resources requirements at the Bank to achieve strategic plans
- Review the Omanisation plans and ensure certain defined positions are ear-marked for prospective Omanis within a prescribed period of time
- Review exit interviews and note any dismissals or resignations for middle management and top management
- Review the recruitment policy adopted by the Human Resources Department
- Review the qualifications and experience of specific candidates for the positions at the top management levels
- Review and monitor compensation and reward policy and procedures
- Review and monitor training and development policy and process

The members of the Board Human Resources Committee are:

Name of Director	Designation	No. of Meetings Attended
1. Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili	Chairman of the Board HR Committee	5
2. Sheikh Qais Mustahail Ahmed Al Mashani	Member	5
3. Eng. Abdul Sattar Mohammed Abdullah Al Marshidi	Member	2
4.Mr.Zakariya Mubarak Al Zadjali	Member	3

The Board Human Resources Committee held 5 meetings in 2015.

7. Board Investment Committee

The Board Investment Committee is a newly formed Board committee on 19 March 2013.The Committee oversees management practices on investment matters. The Committee, on behalf of the Board, monitors investment activities, as well as compliance with policies and regulatory requirements. The Committee ensures that the management undertakes appropriate measures to recognize adverse trends, to identify problems in investment portfolio. The Committee also approves investments (in accordance with the authorities granted by the Board and as specified in the Authority Matrix) and wherever relevant, investment matters in business activities.

The members of the Board Investment Committee are:

Name of Director	Designation	No. of Meetings Attended
1.Eng. Abdul Sattar Mohammed Abdullah Al Marshidi	Chairman of the Board Investment Committee	6
2. Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili	Member	3
3. Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	6

The Board Investment Committee held 6 meetings in 2015.

8. Directors' Remuneration and Executives Pay

As all members of the Board are non-executive directors, no fixed salary or performance-linked incentives are applicable. The non-executive directors are paid an annual remuneration and sitting fees for attending the Board / Committee meetings. Directors' proposed remuneration and sitting fees paid during 2015are as follows:

	Proposed Remuneration RO	Sitting Fees Paid RO	Total RO
Chairman of the Board	15,701	10,000	25,701
Board Members	103,099	71,200	174,299
Total	**118,800**	**81,200**	**200,000**

The Bank's top five executives are Acting Chief Executive Officer, Chief Retail Banking Officer, Chief Wholesale Banking Officer, Chief Corporate Services Officer and Chief Human Resources Officer have received the following in 2015:

	Salaries , Performance Bonus & Others (OMR)
Top five Executives	1,234,598

Incentives other than the fixed payments are linked to the performance. Performance is measured against the preset objective for contribution towards achievement of Bank's overall goals. The period of services contract for expatriate executives is two years while the notice period for the top executives is three months.

Profiles of the Top 5 Executives:

Abdul Hakeem Al Ojaili,
Acting Chief Executive Officer

Abdul Hakeem Omar Al Ojaili is a veteran banker with over 25 years of progressive banking experience. He assumed the leadership of BankDhofar in 2013 with a proven track record of vast experience in Corporate & Retail Banking, Operations Management, Technology and Corporate Support Services - all gained while navigating through the organisation from its embryonic inception to aiding development of BankDhofar to become one of the leading banks in Oman.

Prior to his current role, Abdul Hakeem was the General Manager of Corporate Services where he led the restructuring and transformation of the bank's entire support functions including Operations, Technology, Support Services and Human Resources. Before that he headed the Retail Banking and Marketing Division, during which the bank had achieved strong growth, performance and network expansion.

Abdul Hakeem started his career in wholesale banking for a number of years where he managed a diverse corporate portfolio in businesses and industries. Gaining exposure in the international banking environment, he was also cross posted on a number of assignments with JP Morgan and Lloyds TSB.

Abdul Hakeem holds a BA and MBA from Exeter University in the UK and is also an alumnus of both Harvard and London Business Schools Executive Education Programs.

Kamal Hassan Al Murazza

Chief Wholesale Banking Officer

Kamal Hassan Al Murazza is the Chief Wholesale Banking Officer at BankDhofar. The Whole Sale Banking Group consists of Large Corporates, Project Finance & Syndications, Mid Sector Corporates, Business Banking, Payments and Cash Management, MIS/Projects and the Advisory & Investment Banking Division.

Kamal has more than 16 years of experience in Corporate Banking, Relationship Management, Sales & Marketing, Risk Management and Business Strategies.

Kamal is an astute Corporate Banker who has served BankDhofar in various positions, after which he joined HSBC Oman as Unit Head, followed by the position of AGM Corporate Banking at Bank Sohar before returning to BankDhofar in 2010.

He is a member of the Bank's Asset & Liability Committee, the Technology Committee and sits as Deputy Chairman of the Management Credit Committee, Deputy Chairman of Management Risk Committee, Deputy Chairman of the Management Committee and is the Chairman of the Human Resources Committee.

Kamal holds a Bachelor's degree from Saint Louis University, USA and attended several specialized banking programs in Oman and internationally.

Faisal Hamad Al Wahaibi

Chief Retail Banking Officer

Faisal Hamad Al-Wahaibi is the Chief Retail Banking Officer at BankDhofar. The Retail Banking Division comprises of Retail Credit, Electronic Banking, Retail Products, Segments and Services, Branch Network, Branch Support, Institutional Sales, Customer Relationship Management and Projects Management Departments.

Faisal joined the Bank in 2009 as Assistant General Manager of Retail Banking and is a member of the Bank's Asset & Liability Committee, Executive Committee, Management Credit Committee, Management Risk Committee, Purchase Committee, Disciplinary Committee, Human Resources Management Committee and is the Chairman of Staff Recognition Panel.

Faisal has more than 21years of experience in Strategic Planning, Relationship Management, Customer Experience, Budgeting / Planning / Funding, Regulatory Affairs, Outsourcing and Restructuring, Cost Control and Reduction, Sales/ Marketing/ Distribution, Staff Development, Customer retention strategies, telecommunications, Operations, Retail and Accounts with organisations like Bank Muscat, MENA Business Services in Dubai and Omantel.

He holds a Bachelor's degree in Marketing from the University of Missouri, USA.

Ahmed Said Al Ibrahim

Chief Corporate Services Officer

Ahmed Said Al Ibrahim serves BankDhofar in the capacity of Chief Corporate Services Officer and has been with the bank since 1996 in a variety of rolls across the business.

Ahmed has more than 23years of experience which includes Management, Sales and Marketing, Government Banking, Quality Assurance, Investment Banking and Priority Banking with various organisations.

Ahmed sits on the Bank's Asset & Liability Committee, Executive Management Committee, Investment Management Committee and is the Chairman of the Purchase Committee. He holds an MBA from University of Hull UK, and a Bachelor's Degree in Mass Communication from Sultan Qaboos University. He has also attended the Executive Leadership Programme at the London Business School and several other programs in Management, Business and Banking.

Nasser Said Al Bahantah

Chief Human Resources Officer

Nasser is a seasoned entrepreneurial business and HR professional with over 23 years of experience in the field during which he led major restructuring and transformations of HR functions in the Financial Services (Conventional & Islamic Banking), Telecommunications and Oil & Gas industries across the GCC.

Nasser brings a diverse experience across industries in leadership roles in leading local, regional and multinational companies, including Shell, Schlumberger, Omantel, Bank Al Jazira, National Bank of Oman and Aon Hewitt prior to joining BankDhofar.

Nasser is responsible for the strategic leadership of the Human Resources functions of the Bank. he has a wealth of experience particularly in the financial services sector where he served as DGM & Chief Human Resources Officer (CHRO) of National Bank of Oman and AGM & Chief Human Resources Officer of Bank Al Jazzira, based in Jeddah,KSA.

Nasser has a Bachelor's Degree in Business Administration from Yarmouk University in Jordan and Global Executive Graduate Certificate in Human Resources Leadership from Rutgers University, USA.

9. Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years except two cases in 2014 when the Bank was penalized for RO 15,000 by one of its regulators. The Bank has taken all corrective and necessary measures to avoid similar instance in future.

Also the Bank complied with all provisions of the Code of Corporate Governance issued by the Capital Market Authority.

10. Communication with Shareholders and Investors

All financial and non-financial information are disseminated in a timely manner and a cost efficient access is provided to the users. The management provides regular updates to the market on the Bank's performance and new developments. The management discussion and Analysis Report form part of the annual report besides detailed disclosures in accordance with regulatory requirements and international standards.

The Bank publishes its quarterly interim financial statements and also hosts these and other relevant information at its website (www.bankdhofar.com) and Muscat Securities Market (MSM) website (www.msm.gov.om). The quarterly results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders from the Bank. Bank's all official news releases are displayed on the Bank's website.

11. Market Price Data

a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2015 compared with Muscat Securities Market Financial Sector Index is as follows:

2015	Bank Dhofar Share Price (RO)			MSM Financial Sector Index
Month	**High**	**Low**	**Closing**	**Closing**
January	0.366	0.340	0.356	8,021.540
February	0.370	0.354	0.360	8,181.720
March	0.370	0.284	0.285	7,704.640
April	0.285	0.276	0.284	7,733.370
May	0.286	0.272	0.275	7,713.490
June	0.295	0.275	0.280	7,740.250
July	0.283	0.270	0.281	8,021.050
August	0.280	0.240	0.241	7,068.410
September	0.241	0.230	0.235	6.893.940
October	0.250	0.232	0.244	7,298.580
November	0.244	0.220	0.223	6,645.790
December	0.220	0.206	0.214	6,477.270

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2015:

Sr.No.	Shareholder	Percentage of Ownership
1	Dhofar International Development & Investment Holding Company (SAOG)	28.00%
2	Eng. Abdul Hafidh Salim Rajab Al Aujaili & his companies	20.84%
3	Civil Service Pension Fund	10.21%
4	Ministry of Defense Pension Fund	8.73%
5	Public Authority of Social Insurance	8.36%
6	H.E. Yousuf bin Alawi bin Abdullah & his Companies	6.85%
7	Qais Omani Establishment LLC	6.27%
8	Others	10.74%
	Total	**100%**

12. Profile of the Statutory Auditors

The shareholders of the Bank appointed Ernst & Young (EY) as the Bank's external auditors for the year 2015. 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.

13. Acknowledgment

The Board of Directors acknowledges confirmation of:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of the bank and that it complies with rules and regulations and internal policies.
- There are no material matters that affect the continuation of the bank and its ability to continue its operations during the next financial year.

14. Other Matters

- During 2015, the Bank has fully complied with all directives of the Code of Corporate Governance issued by the CMA.
- The Statutory Auditors of the Bank are Ernst & Young. The Professional fees paid or payable to auditors for 2015 is RO 86.725. This amount represents RO 40,000 paid for audit services and RO 46,725 paid for non-audit services. In addition, the professional fees paid or payable for Islamic Banking Window is RO 10,000 (both for Audit fees and Sharia fees).
- The last Annual General Meeting was held on 20 March 2015. The meeting was conducted as per statutory requirements and attended by Eng. Abdul Hafidh Salim Rajab Al Aujaill, Sheikh. Hamoud Mustahail Ahmed Al Mashani , Mr. Saleh Nasser Juma Al Araimi , Mr. Mohammed Yousuf Alawi Al Ibrahim , Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili , Eng. Abdul Sattar Mohammed Abdullah Al Murshidi , Mr. Zakariya Al Zadjali

15. Subordinated Loan of USD 75 Million

The Bank has raised USD 75 Million on 16 September 2014 by way of sub-ordinated loan (which is a Tier II Capital Instrument for Capital Adequacy purposes) to meet the banks growth and the Basel III Capital Adequacy requirements as stipulated by the Central Bank of Oman on a timely basis. The loan agreement of the subordinated debt facility has been executed as per guidelines set out at Para 12 of the Guidelines on Regulatory Capital under Basel III under CBO circular BM 1114 dated 17 November 2013. The tenor of the subordinated loan is 66 months without a call or put option. The interest shall be payable half yearly and the principal will be paid on maturity as a bullet payment.

16. Irish Stock Exchange

Perpetual Tier 1 Capital Securities

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

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

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

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

Engineer Abdul Hafidh Salim Rajab Al Aujaili
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS REPORT FOR THE YEAR ENDED 31ST DECEMBER 2015

• Strategy and Planning

BankDhofar's strategy 'The BiG Plan 2012-2016' has materialised in a sophisticated systems-and-processes infrastructure that is conducive to further advanced and pioneering technology, product and service adoptions. The bank is now formulating the next long-term strategy taking into account the region's economic scenario. The organisation's efforts in designing integrated and flexible solutions have helped in delivering one of the best-amongst-peers customer experiences. The application of effective and efficient processes has given the bank the ability to circumvent and adapt to challenging market circumstances. Overall the Big Plan has maneuvered the bank to a position where it is able to capitalise on capabilities and competencies built to take the organisation onto an era that is characterised by heightened personalisation of products and services and enhanced interaction.

• Economic Scenario and Outlook

Gross domestic product (GDP) registered a decline of 14.2 percent during the first nine months of 2015, mainly due to the decline in oil prices. At the same time, value of non-petroleum activities registered a 4.7 percent increase during the nine months of the year. Expansion has been witnessed in segments such as real estate, mining and quarrying, Transport, storage and communication activities etc.

The growth outlook for 2016 is cautiously optimistic, as the key risk would be the probability of a prolonged dip in oil price. The government has set the 2016 budget on conservative assumptions, as the oil revenue has been forecasted assuming US$45 a barrel. The total revenue estimated for 2016 is RO8.6 bn, based on an oil price of US$45 per barrel and average 990,000 barrels per day of production. Non-oil revenues are estimated at RO2.45bn.

The focus is also on diversification of the economy and to maximize non-oil revenue. The government is expected to continue the spending on development projects that are of economic and social importance in order to enhance the investment climate in the country. The private sector is also expected to play a key role in implementing crucial and revenue generating projects.

• Wholesale Banking Group

BankDhofar Corporate Banking endeavours to be the most preferred, professional and reliable corporate bank, delivering superior service to target customers through a team of motivated and skilled personnel in a cost-effective manner through building and strengthening corporate relationships with an acceptable risk and reward policy. Wholesale Banking Group (WBG) consists of the following departments:

(i) Corporate Banking
(ii) Business Banking
(iii) Payment and Cash Management Services
(iv) Corporate Advisory and Investment Banking
(v) Treasury and Financial Institutions Banking
(vi) Government Relations
(vii) Wholesale Banking Projects and MIS

The business strategy for Wholesale Banking Group helped with the group's all-round business growth with quality portfolio by adhering to various statutory and regulatory guidelines. Different departments within Wholesale Banking Group complement each other in extending timely and efficient service to customers and facilitate better internal controls and process efficiencies. Wholesale Banking Group has undertaken many initiatives in consolidation of operations and also integration of different activities with customer centric approach. The relationship managers focus more towards customer service and turnaround time for various deals and service requests supported by an efficient back office.

(i) Corporate Banking:

Corporate Banking continues to play a vital role in WBG by concentrating on top-end customers, growing corporates, and project finance and syndication for infrastructure projects. The customer base is well spread out in large spectrum of various industries that include trading, manufacturing, services and contracting. The various and dynamic credit requirements of these high-end customers are catered to by WSB through Corporate Banking department who maintains a strong relationship with customers to understand their business cycle, needs and requirements. BankDhofar is also adopting a sectoral approach in marketing new offers, products and services that are costume-designed for growing corporates.

WSB is confident that private investment in the country will witness growth in tandem with the growth of the Sultanate's economy, providing new opportunities for corporate banking. WSB's strategy concentrates on the growing companies that have potential to further growth.

Oman has identified the tourism sector as a major thrust area in order to diversify its national economy and reduce the dependency on the hydrocarbon sector. To this end the Sultanate has been working on a series of initiatives over the years and has laid a platform for exploitation of this sector. Some of these initiatives include investment in developing a modern road network throughout the Sultanate, construction of new airports in Sohar, Ras Al Hadd, Duqm and other parts of the country to facilitate rapid movement of passengers, linking Oman Air (the national flag carrier) to various destinations in Europe and Asia.

WSB have a dedicated team of professionals in the project finance and syndications area to arrange syndicates and participate in various infrastructure and industrial projects promoted by the Omani government, quasi-government and private sector organisations. The strategy is to increase the mix of working capital, project finance and syndication exposure for such customers in order to optimise the return on the portfolio under this segment. The team is tapping the opportunities generated through government supported initiatives.

WSB emphasis continues to be on the development of tailor-made financial solutions that are suited to meet the particular needs of the customers. Regular coordination and cooperation meetings among various departments of the bank are held to ensure prompt delivery/sale of different products - such as retail banking, treasury and personal banking products - to customers irrespective of the banking segment they belong to. The department also strengthened the Relationship Team by providing dedicated credit analysts for the back office support functions, which has improved the control mechanism and turnaround time for customers.

(ii) Business Banking Department

With the growing importance of the Small and Medium Enterprises (SME) to the development of a vibrant economy, BankDhofar has embarked on the strategic initiatives to participate in further development of SME sector in the Sultanate. This comes in line with the country's need and the government's approach to diversify the economy and provide various business opportunities in different industries. BankDhofar has a dedicated Business Banking Department whose sole function is to cater to the needs and requirements of entrepreneurs and SME owners. The SME sector has particular requirements that are specific in nature and credit exposure to

this segment is associated with peculiar risk characteristics. The customers in this segment need to be handled by skilled and experienced agents who understand their specific business requirements and provide timely and adequate credit delivery. Dedicated business relationship officers are deployed to handle customers in this segment and provide appropriate financing solutions to the entrepreneurs. BankDhofar is extending the services by spreading out its delivery channels by leveraging the technology so as to reach out to customers across the Sultanate. In the coming years the focus on this segment will be in line with the governmental initiatives and the bank's endeavour to play an active role in the promotion, development and financing of SME sector across Oman.

(iii) Payment and Cash Management Department

In 2015, Bank Dhofar launched Payments & Cash Management product suit in order to enhance the corporate customer experience and to generate additional revenue. Such products & services are adding value on day-to-day business activities at corporate level in terms of receivable management, payable management, customized MIS & liquidity management. During the year, PCM has started offering following products:

- Remote Cheque Capture & Deposit (RCCD)
- Corporate collection at branches using customized deposit Slips
- Customized MIS for collection (receivable management)
- Business Debit Card
- Corporate Internet Banking with additional enhanced features

In addition, PCM also got engaged in specialized projects where technologically advanced tailor-made solutions were offered to corporate clientele i.e. Haya Water, OIFC etc. The above services also helped PCM to generate a low cost liquidity of approx. OMR. 14 million as average balances in 2015.

(iv) Corporate Advisory and Investment Banking Services

Corporate Advisory and Investment Banking department offers specialised services of strategic advisory to various sectors including oil and gas, telecom and financial institutions by providing tailor-made solutions and products such as mergers and acquisitions, divestitures, capital planning, capital structures, private placement, start-ups, joint ventures, business re-engineering, feasibility studies, financial structuring, raising equity and raising debt, etc. The department is directing all its efforts to further strengthen the Corporate Advisory team in order to provide seamless services to corporate customers as a one-stop-shop.

(v) Treasury and Financial Institutions Banking

• Treasury

BankDhofar Treasury is one of the key players in the domestic financial markets. It actively provides prices on all permitted instruments to both the customers and the market players. It offers end-to-end solutions to customers on various products that include risk mitigation of foreign exchange, interest rates and cash flow management.

The department comprises of a mixed team of young talented professionals and seasoned and well-experienced staff to manage their day-to-day operations. The bank publishes its daily market update which is widely read in addition to its occasional reports to customers. Treasury offers customers various products - both plain and derivatives - such as plain remittances, forward contract, forward rate agreements and FX derivatives with combination of call and put options. The bank also offers structured solutions within the Central Bank of Oman guidelines for risk mitigation of foreign exchange and/or interest rates. Customised solutions are also offered to various customers within the framework of Central Bank of Oman. The bank has ambitious plans to move the product cycle to include commodities. The bank has active investment desk which manages the local bond portfolio as well as international bond portfolio. The bank is market player in the local Omani spot-and-swap market.

The bank has active Balance Sheet hedging desk. The asset and liability are proactively managed to strict adherence of CBO regulations in a timely manner. It lends its market information on continuous basis both internally and externally. The bank has active Treasury bill desk to manage the liquidity ratios as well as the REPO requirements.

The Treasury successfully manages sub-ordinated bond issuances. Most of the top Oman Corporates - both listed companies and SMEs - deal with the bank. BankDhofar has a strong long-term relationship with the top rated global banks. It has robust system in place both at Front Office, Middle Office and the Back Office.

• Financial Institutions Banking

Financial Institutions division establishes and maintains all international correspondent banking relationships of BankDhofar. The division ensures that the bank's corporate and retail customers have access to the world through a wide network of leading correspondent banks. Capitalising on the excellent relationship with leading regional and global banks, the division actively assists the bank's corporate customers with their global trade finance requirements.

The substantial credit lines available from financial institutions around the globe have helped BankDhofar increase its ability to support the increasing business needs and customer requirements. The bank continues to be cautious in its appetite towards cross-border risks and has been able to identify a select group of businesses that have a sensible credit approach in terms of risk and tenor.

The division will continue to identify opportunities in Treasury and self-liquidating trade finance transactions within the GCC and regional markets to build a sustainable long-term relationship that would benefit both BankDhofar and its customers.

(vi) Government Banking

Government Banking is one of the key departments in BankDhofar, with a focus on forging and maintaining strong business ties with all government and quasi government organisations. The department facilitates all the government banking requirements by extending all products and services such as deposits, loans, trade finance, remittances, points of sale (PoS) facilities as well as retail products to the mutual benefit of both the bank and the government customers. With dedicated relationship managers, the department coordinates with all BankDhofar branches and other units of the bank to ensure customer satisfaction is achieved.

(vii) Wholesale Banking Projects and MIS Department

Wholesale Banking Projects and MIS Department is involved in streamlining of new initiatives and projects for enhancing existing systems and processes within the Wholesale Banking Group. The dedicated team of this department ensures accurate and timely reporting system to various stakeholders and carries out portfolio monitoring functions. They support the business teams in enhancing the features of existing software applications and acts as a coordinating unit between various departments within the bank.

• Retail Banking Division

The Retail Banking Division (RBD) of BankDhofar continued its focus on providing value-added products and services to the customers.

• Retail Segments

During 2015, the Retail Segments team worked to develop several segments that cater to the needs of different customer segments, ensuring maximum customer satisfaction as well as aiding in the growth of the bank's assets and liabilities portfolios. Retail Segments enhanced the bank's product and services as well as benefits

for each of its customer segments. BankDhofar strongly believes in the need for bringing about a positive change in the lives of different segments of society and focuses on all types of products that fall within the development of the key segments and their importance and overall benefit, both to individuals and to society.

• Branch Network

With 62 BankDhofar branches, 142 ATMs and 52 CDMs, as well as 5 Maisarah branches, 5 ATMs and 1 CDM, distributed across the Sultanate, the network continued to drive retail banking business growth in the overall assets and liabilities portfolios in 2015.

• Priority Banking 'Al Riadah'

The Al Riadah segment boasts 4 fully equipped centres in Muscat (Ghala and Muscat Grand Mall), Salalah and Sohar. These centres have qualified relationship managers to oversee Priority customers' needs and ensure that all their banking requirements are met. The services and benefits are tailor-made to cater to each individual's requirements and to ensure that their banking needs are taken care of as per their sub-segment.

• Retail Products, Business and Segments

During 2015, the Retail Products, Business and Segments team has worked on enhancing existing products as well as designing, developing and implementing new products and offerings.

• Retail Assets Products

In 2015, to drive growth in the overall asset portfolio, several best-in-class personal loan and housing loan product offers and campaigns were launched, providing an exclusive banking experience for different customer segments by making these loans the most competitive products in the market. The housing loan campaign continued for the third year, providing best customer service in Oman, allowing customers to own a new home within 5 days at most competitive and affordable pricing. The bank also launched a special package to target large corporate employees. With focused effort in a number of key areas, BankDhofar saw a healthy growth in the personal lending (by 20%) and housing loan (by 63%) segments.

• Retail Liabilities Products

In January 2015, the new savings scheme was launched. BankDhofar offered a daily prize of OMR 2,000 and weekly prize of OMR 20,000. Due to the enhanced scheme, the Savings product showed considerable growth (by 11%) in the bank's liabilities portfolio.

• Credit Card Business

The cash-back and summer campaigns launched during the year resulted in developing a long term strategy for the bank's credit cards portfolio with clear business objectives and expectations in terms of contributions from the portfolio.

• Bancassurance Products

BankDhofar continued to offer a diverse selection of insurance packages such as domestic help insurance, family protection insurance and motor insurance. The bank functions here as an insurance agency and provides these services to meet customers' needs. The insurance covers all kinds of policies and offers the lowest no claim bonus discount in the market.

• Customer Relationship Management (CRM)

The CRM strategy implementation continued to help BankDhofar focus on:

- Customer acquisition
- Customer satisfaction
- Customer retention
- Enhance the effectiveness of communications to customers, improving response rates and returns on marketing investment
- Prepare for launch of more products and services

• E-Banking

As part of the distribution plan for 2015, the electronic channels witnessed a remarkable development which improved service levels in Mobile Banking Services where the number of transactions in 2015 has been increased 260 % from 2014 transaction

• Call Centre

New services were added in the Call Centre such as:

a. Debit card PIN re-issuance service.
b. Debit card international unblocking
c. Modification of mobile number and email for Online Banking users.
d. 14 additional services for Maisarah Islamic Banking Services customers:
   - Debit card hotlist.
   - Debit card limit increase.
   - Debit card replacement.
   - New debit card request.
   - Request to add second account to debit card.
   - Debit card temporary deactivation.
   - Debit card international unblocking.
   - Debit card PIN reset.
   - Debit card activation.
   - SMS banking service.
   - CDM activation in Maisarah SMS service.
   - Chequebook request
   - ATM/CDM dispute complains
   - Customer information update.
e. Additional details in LOS system.
f. Monitoring of ATM and CDM statues.

The Call Centre helped in generating more business through inbound and outbound campaigns. To ensure customer satisfaction, a strict quality control procedure has been implemented. Furthermore, the Call Centre team members have been put through periodic training programmes on products and customer handling skills. By the end of December 2015, the Call Centre has received 191,787 calls translating into an increase of 13% compared to the same period in 2014 which stood at 167,613 calls.

• Self-Services

BankDhofar ATM total network in 2015 has reached to 142 ATMs and 52 CDMs in addition to 4 Full-Function-Machines. Additionally, a new service has been added to BankDhofar ATMs to allow customers to transfer funds to local banks in Oman as a part of the national switch of Oman.

• Online Banking

More services were added to internet banking such as:

- 'Debit Card International unblocking service: this feature allows customer to unblock their debit cards for international use when travelling outside the Sultanate.
- Scheduled payment: This service allows customers to initiate recurring utility payments for GSM, landline and internet for both Omantel and Ooredoo service providers, in addition to water and electricity payments and American Express.

• Mobile Banking

Striving to provide further customer convenience and best customer experience, BankDhofar launched the 'Debit Card International Unblocking' service via Mobile Banking. This control function enables customers to unblock their debit cards for international use when travelling outside the Sultanate. Furthermore, the bank introduced "Standing Order" service where customers can initiate recurring instructions as per frequency

selected “Daily/Weekly/Monthly/Yearly” and the number of transfers for the following transfer/payment types:
a. Transfer to self.
b. Transfer a third party within BankDhofar.
c. Transfer to a third party within Oman.
d. Bill payment.

Moreover, BankDhofar has introduced “operation history” which allows customers to view their transactions and payments history and to edit the details of such transitions and repeat them. A new “Drawing Power” feature has also been added under Account Details to allow customers to display the overdraft details for Savings and Current accounts.

In addition, the following new features have been added to the pre login page:

- Concierge Service: This service allows customers holding VISA INFINITE and Master Platinum cards to enjoy 24/7 personal assistance when arranging dinner reservations, chauffeurs and taxis, theatre tickets, gifts and other services needed to enhance leisure and business trips. Infinite Card holders also have the option to click on a toll free number link or to email link for concierge assistance.
- Accounts Icon in Pre-Login: This Icon will enable customers to view their account summery before logging in. This will be configurable by customers under settings module “My Accounts.”
- Touch ID Access: This security feature has been enhanced to include the “Touch ID Access” with smartphones and tabs where users can be authenticated using their fingerprints that enables them to locally login or transact from Mobile Banking. Users can choose to enable this service under the settings module.
- User ID capture if device is tagged: In the secure login mode, new change has been added; the User ID is displayed in the login screen by default when the user logs in.
- Exchange Rate Icon: The existing Exchange rate graph has been enhanced. The currency dropdown list now displays all the currencies for users to check the transfer and cash rates.
- ‘Contact Us’ icon: Call Centre and bank email ID are both displayed as links that enable users to directly place the call or email. The screen will also show the banking hours for users.

In addition to the above, new feature included insurance, PIN re-issue and card replacement under service request. The Mobile Banking application is now available for Windows device users where they can download the application from windows phone store. With this BankDhofar now caters to customers using any of the mobile operating systems platforms including iOS®, Android® and MS-Windows®.

• Retail Projects and Customer Experience

In 2015, Retail Project and Customer Experience Unit worked in conceptualising transformational projects and plan systems and processing enhancements to improve customer experience delivery. Additionally, the unit identified the existing non value adding processes at branches, deployed and initiated process changes to increase efficiency and streamline service delivery at branches.

BankDhofar was the first conventional bank in the Omani market to launch personalised and instant debit card issuance at branches. The unit worked successfully to introduce issuance of cards for all market segments (regular customers, ladies and priority banking customers). In line with the Central Bank of Oman’s directives, BankDhofar also introduced instant issuance of chip-based debit cards for customer to secure local and international transactions in Oman and abroad (credit card were fully converted to EMV compliant chip based cards much earlier).

To achieve BankDhofar’s vision of providing the best customer experience in the banking sector, as well as to provide better turnaround time, mitigate possible risks and reduce time and efforts required, the unit worked on maximising the use of Business Process Management system by continuing to rebuilding and reengineering existing lending and operational processes on the bank’s system that are related to customer services. The unit has also worked on enhancing the evening banking operational module to assure customers visiting branches during the evenings get the same service level and that all their requirements are fully met.

The unit has worked on the design and implementation of enhancements to the banking systems in order to improve the users experience and eliminate possible chances of errors. The unit continued to provide post implementation support to end users in order to ensure that positive outcomes are achieved.

• Information Technology Division

In 2015 the Information Technology Division took up a number of new initiatives, further re-enforcing the bank’s technology leadership in the market. Some of the pioneering initiatives include implementation of Mobile Banking, e-Banking and Call centre services to enable international debit card transactions from specific countries to prevent the rising fraud attempts and to provide customers with enhanced security features and convenience.

The bank introduced chip-based debit cards with EMV technology during the year in line with the global standards and all customers are now being provided with the new chip cards. The Mobile Banking services have been further enhanced by the introduction of new services including login and transaction authentication through Touch ID (iOS®), view account and balance without login, introduction of standing instructions for payments and transfers, etc.

A host of new process automation has been rolled out on business process management platform including outward remittance and staff personal loan process automation. Various customer service processes were further enhanced such as auto disbursement of personal loans at branches.

BankDhofar continued to leverage its state-of-the-art virtual environment for consolidations of databases and application servers for cost reduction, increased agility, reduced complexity and higher service level.
The bank has introduced a comprehensive wireless network within the Head office, a powerful tool for boosting productivity and encouraging information sharing. By implementing wireless networks the bank has achieved increased mobility and collaboration, improved responsiveness, better access to information, easier network expansion, enhanced customer and partners’ access.

BankDhofar continues to put significant efforts to maintain high uptime of its ATM network. Multiple uptime initiatives taken this year include enhancement to the monitoring tool and processes and continued customer education through screens and notices that apprise customers on how to make successful cash deposits in CDMs.

• Central Operation Division (COD)

BankDhofar’s Central Operations Division’s (COD) maintains high operational standards through process re-engineering, automation and efficient use of resources. COD continues to play a major role by expanding its functional scope and relieving branches and business units from back-end functions, thus enable them to focus on customer service and business development. The volume of transactions processed at COD continues to grow in line with Bank’s overall growth and by effective utilisation of technological solutions, productivity of the team has increased by maintaining the same staff count compared to previous year.

• Key Projects Completed by COD in 2015:

1. Process Review, Simplification and Automation:
   - Sending transmitted Telegraphic Transfer copies to branches through electronic mode.
   - Streamlining Oman National Switch reconciliation process.
   - Streamlining the process of teller cash balancing.
   - Processing of bank-to-bank local transfers eliminating duplicate processing through two different systems.

- Streamlining the process of Outward Remittances through a new front-end system with simplification and more operational controls.
- Process improvement in reporting ATM and teller cash differences.
- Review and strengthen of branch process based on audit recommendations.
- Introduction of Straight-Through-Process in Society for Worldwide Interbank Financial Telecommunication SWIFT for confirmation of Demand Draft Issuance.
- Recovery of the bank's charges for Standing Instructions on the date of execution.
- Checking customers' caution-list status subsequent to order of cheque books.
- Automation of Cash Requisitions between Branches and Cash Centres.
- Introduction of automated reports on 'List of Failed Standing Instructions', 'Branch Expenses', 'Cheque Deposited Thru CDMs', 'Outstanding Foreign Currency Cheques' and 'Direct Facilities Secured Against Cash'.

2. For ready reference of branch users, 'Quick Guide to Daily Branch Operations' and 'Cash Operations' have been made available to all branches.
3. Terms and Conditions used to govern customer accounts have been updated.
4. Refresher training on cash operations was conducted for all branches in coordination with the Learning and Development Department.
5. Internal talent is being developed to take on higher organisational responsibilities.

• Branch Operations Department

Branch Operations Department has played a major role in supporting branches in all regions and the Head Office as well in order to ensure efficiency and effectiveness in operations. Throughout 2015, several achievements were made, including:

- Maintaining 98% overall ATM update throughout the year, which is one of the highest in the market.
- Improvement in follow-up on defaulted accounts and ensuring minimum provision on the retail accounts through Remedial Team.
- Successful coordination between branches and Head Office during exceptional weather conditions.
- Monitoring the Business Continuity Management in all regions taking into consideration the Disaster Recovery Drill.
- Managing and following up during live BCP.
- Conducting staff induction-training programmes for new joiners.
- Supporting branches to improve their operation performance through Regional Operation Manager's.

• Card Services Centre

During 2015 the following new products and services, and enhancement of existing products and services, have been launched in various debit/ credit facilities and Point of Sale (POS) business:

- EMV: debit card conversion from M. stripe cards to CHIP based cards. This is to enhance the security level of BankDhofar debit cards besides credit cards which are already CHIP based.
- International block: this is a unique service introduced by BankDhofar to protect customers' cards from any fraud attempts on their cards.
- LOS: all credit card new applications, upgrade systems and limit enhancement process are implemented under this system which has increased and improved the card turnaround time.
- Cash-back: during summer 2015 the cash-back campaign ran for all credit cards, increasing all credit card use and spends.
- Merchant tie-ups: various merchants joined this tie-up and significant growth showed on customer card spends. Based on the feedback, this campaign will continue in 2016.
- Lounge facility: the bank has signed a new agreement with Oman Air to allow BankDhofar premium credit card holders Oman Air lounge facility at Bangkok airport. This service is in addition to the lounge access at Muscat and Salalah airport.
- Credit card validity: the validity of all credit cards has changed from 2 years to 5 years. This feature will reduce the operational load for the bank and it will enhance the service level for credit card holders.
- POS: implemented multi connectivity (dial-up & GPRS based) on existing terminal model of VeriFone terminals. This feature will allow merchants to use the terminals based on their needs and business requirements.

Risk Management

• Risk Management Structure

The primary responsibility of understanding the risks assumed by the bank and ensuring that these risks are appropriately managed is vested with the Board of Directors of BankDhofar. The Board has set risk policies, limits and procedures by assessing the risk-bearing capacity of the bank.

The overall risk management has been delegated to an independent Risk Management Committee (RMC) of the Board of Directors of the bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The RMC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the bank. In this task, RMC relies on an independent Risk Management Division within the bank.

The bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the bank's Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions and in ensuring that policies and procedures are tailored to the defined tolerance levels.

The Bank's risk management strategy statement is expressed as follows:

- Compliance with regulatory capital requirements;
- Ensuring balanced performance across business units;
- Placing emphasis on the diversity, quality and stability of earnings;
- Making disciplined and selective strategic investments;
- Maintaining adequate capital adequacy;
- Providing qualitative and quantitative benchmarks to gauge broad alignment between initiatives and risk appetite;
- Stable funding and strategic liquidity management allowing for business planning within the liquidity risk tolerance and regulatory requirements.

The Bank defines risk strategy and risk appetite on the basis of the strategic plan to ensure alignment of risk, capital and performance targets. The risk strategy of the Bank includes the Risk and Capital Plan and risk appetite, which allow the Bank to:

- Review the capital adequacy requirement goals with respect to risk, considering Bank's strategic focus and business plans;
- Assess risk-bearing capacity with regard to internal and external requirements;
- Apply stress testing to assess the impact on the capital demand, capital base and liquidity position.

• Management of various Risks

A brief account on the various identifiable risks and their risk management process is given below:

i) Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty may fail to meet its obligation in accordance with agreed terms in relation to lending, trading, hedging, settlement and other financial transactions. This risk is primarily managed by proper assessment of inherent risks in credit proposals and ensuring a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing,

a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts. The Bank has taken the following measures to mitigate credit risk:

- Credit Risk Policy addresses credit risk emanating from lending to corporates and individuals. The policy also provides broad criteria for retail loans in a structured manner and is reviewed / updated on regular basis. The policy has been defined for both Conventional Banking and Islamic Banking separately. The policies of the Bank encompasses organizational responsibilities, prudential limits, credit risk rating standards, risk pricing standards, loan review mechanism, delinquent account management and portfolio management.
- Policy on exposure to non-resident borrowers including banks addresses credit risk emanating from exposure to banks as counterparties. The maximum exposure that can be taken on a counterparty bank is specified by an internally developed model in conventional banking and through judgmental approach in Islamic Banking.
- The Bank has a credit risk rating system and a risk grade is assigned objectively to a borrower based on the single point score provided by the rating model. The grade is assigned to the Standard category of borrowers on a scale of 7.
- Various credit risk models are used to assess the obligor risk as well as the facility risk in conventional banking. Thus, while assessing the credit risk of the borrower, both probability of default and loss given default is estimated. In the case of Maisarah, obligor rating is undertaken.
- Risk Adjusted Return on Capital (RAROC) is computed to assess the risk based pricing of each facility, which facilitates in informed decision making.
- The Bank conducts stress tests to assess the impact of credit risk on capital adequacy and profitability under stress situations.
- All the corporate credit proposals from both conventional banking and Maisarah are reviewed by the RMD to assess the risk factors and suggest mitigants. The observations of RMD form an important input in credit decision making.

The Bank employs experienced and competent staff in the areas of corporate banking and provides them with regular training to upgrade and hone their credit skills. Detailed credit policies and procedures, strict adherence to the segregation of duties, elaborate and well defined authority levels, periodical audit and examination by the internal auditors ensure that the culture of risk permeates through the business divisions supported by a rigorous environment of checks and balances.

• Liquidity Risk

Liquidity Risk is the potential inability of the Bank to meet its maturing obligations to the counterparty. Liquidity planning and management are necessary to ensure that the Bank has the ability to fund its liquidity requirement effectively and to meet current and future potential obligations such as loan commitments, contingent liquidity commitments and unexpected deposit outflows.

The Bank has constituted an Asset-Liability Management Committee (ALCO), which is responsible for setting the broad framework for managing the liquidity risk effectively for both the conventional banking and Maisarah Islamic Banking Services (Bank's Islamic Banking Window). The responsibility of managing the liquidity risk of the Bank, within this framework, lies with the Treasury Department of both the entities; conventional banking and Maisarah, which discharges this function with the assistance of other business divisions of the Bank.

The Bank has Board approved policy for both the entities on liquidity management which encompasses assessment of liquidity gaps through cash flow and static approach, reserve against deposits, lending ratio, mitigation of liquidity risk and contingency measures. The Bank has set up Middle office within RMD to ensure that the Treasury Departments of both the entities operate within these guidelines.

The Middle office regularly monitors the liquidity position of the Bank and helps in managing the liquidity gaps, well in time. It also conducts liquidity risk stress test periodically and Treasury Department ensures that sufficient liquid assets are available with the Bank all the time, to meet any business exigency.

• Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices arising out of changes in interest rates, exchange rates, bonds, equity and commodity prices. The Bank has major exposure in currency, equity and interest rate risk.

ALM Policy and Investment Management Policy of the conventional banking address all the aspects of the market risk. The ALM Policy addresses foreign exchange risk and interest rate risk whereas the Investment Management Policy addresses the equity risk.

The major foreign currency in which the Bank deals on a regular basis is United States Dollar (USD). The established parity between US Dollar and Omani Rial (OMR) substantially reduces this risk. However, in order to control currency exposure risk, limits for intraday and overnight positions have been set up in addition to currency wise stop loss limits. Limit on net open position has been placed to restrict the Treasury department to take undue currency exposure as per prudential norm set by the Central Bank of Oman (CBO). All these limits are monitored by the Middle office of the Bank.

BankDhofar manages the interest rate risk by matching the re-pricing of assets and liabilities and operating within the set gap limits. The Middle office in RMD regularly monitors the impact of adverse movement in interest rate on profitability and economic value of equity in conventional banking.

Maisarah is also vulnerable to rate of return risk (profit rate risk) and Treasury Risk Policy of Maisarah addresses this risk. Rate of Return risk arises because of unexpected changes in the market rate of return, which adversely affect a firm's earnings. The profit distribution to Investment Account Holders (IAHs) is based on profit sharing agreements and thus, Maisarah should not be subject to any significant rate of return risk. However, in order to meet customer's expectations and to remain competitive with the market, Maisarah may forego part or its entire Mudarib share of profit on funds managed on behalf of IAHs, in order to increase return to the IAHs. This absorption of additional risk by the Mudarib is known as Displaced Commercial Risk. Maisarah seeks to mitigate this risk through prudential reserve accounts such as Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR).

Middle office monitors equity portfolio through daily reporting and assess the risk inherent in the quoted domestic equity portfolio through Value at Risk (VaR) approach. Various limits like stop loss limit, transaction deal limit and realized loss limit are in place to manage the equity risk. All the investment proposals categorized under Available for Sale (AFS) or Held Till Maturity (HTM) are reviewed by RMD to provide independent view on the risks associated with them.

Middle office also conducts stress tests periodically to assess the impact of adverse movement of market variables on profitability and capital adequacy and places the same to the RMC.

• Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal systems, processes, people or external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Management Risk Committee (MRC), comprising of the Executive Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2014, the Bank's operational risks were well controlled and losses

from operational risks were kept at low level. Trained and competent staff oversee the various operational functions of the Bank.

Taking the New Capital Accord Implementation as an opportunity, the Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. Continuing the task of improvement in existing systems and processes, the management system and tools for operational risks were further strengthened during the year.

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

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

Operational Risk Management Unit in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division conducts regular training programmes culture' in the Bank. Professional training in diversified forms is also imparted to improve the employees' risk management skills.

• Country Risk

Country risk arises from changes in the value of foreign exposure due to country specific conditions, which may result from economic, social, political or natural events and may relate to factors such as exchange controls, currency devaluations, nationalization or expropriation of assets among others.

Country risk policy addresses the country risk that may arise due to cross border exposure in a structured manner. The Bank has in place a country risk assessment methodology which grades each country based on their risk profile. Suitable limits are assigned to undertake the business based on the internal risk rating grade of the countries.
The Middle office in association with the Treasury department monitors the country risk and takes suitable steps in event of any downgrade or change in the economic activity of any country.

3) Internal Capital Adequacy Assessment process
The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is an integrated enterprise-wide process that encompasses the governance, management, and control of risk and capital functions within the Bank. It provides a framework for ensuring an appropriate relationship between the risk profile and the capital held by the Bank, both in absolute terms and in terms of composition (Tier I and Tier II). This alignment between the capital and risks makes for better risk management.

The ICAAP cover assessment of risks under Pillar 1 and Pillar 2 risks viz. interest rate risk in the banking book, concentration risk, business risk, reputation and strategic risk. The ICAAP is facilitated by Risk Management and is supported by numerous functional areas who together help determine the Bank's internal capital adequacy assessment.

A Separate Working Group on Capital Planning under ALCO, monitors the overall adequacy of the Bank's available capital in relation to both internal and regulatory capital requirements.

• Business Continuity Management (BCM)

The Bank has adopted a sound Business Continuity/Disaster Recovery Plan with a view to continue business operations and critical customers services at all times. The plan is designed to address employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in case of an emergency or disaster.
The Business continuity plan of the bank is regularly reviewed and maintained to integrate any changes to technology, people and environment. Business Impact Analysis, Business Continuity/Disaster Recovery testing, Awareness Programmes etc. are conducted in tune with the regulatory guidelines. The key initiatives undertaken on the business continuity readiness include the following:

- During the year, with a more focus on comprehensive Business Continuity Management Programme and with a view to strengthen emergency response, crisis management and business resilience capabilities, the Bank has established an independent Business Continuity Management Department.
- At the management level, Business Continuity Management steering Committee has been setup which is comprised of senior executive management of the Bank representing all primary functional and support areas. BCM Steering Committee is tasked with making strategic recovery and continuity planning decisions for the bank and sign off on each stage of the programme. The committee ensures that the bank's Business Continuity plans are regularly considered, reviewed, tested and updated whenever a change occurs and oversees the annual BCM strategy and road map.

The Bank maintains an alternate Business Continuity Site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP /Back Up site seating capacity and other infrastructure considering resuming critical operations in various worst case scenarios.

- The bank-wide BCM testing exercise and Information Technology Disaster Recovery Drill is conducted to test/check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipment, coordination of business units / branches etc. The testing results along with the gaps and action taken are appraised to the Management Committees and Board of Directors.
- To meet the human safety and security requirements, assess the ongoing effectiveness of the emergency procedures under different fire scenario conditions, and to develop staff competencies and give them practice in carrying out their roles in the plans, fire drill exercises are conducted in the Head Office building to test the preparedness and recovery capabilities of the coordinators/floor leaders/fire wardens and security procedures are reinforced.
- To ensure that staff have necessary knowledge, skills, and attitudes and are competent to play their role in BCM arrangements, a staff development programme was provided during the year by conducting BCM training for all regions that covered Regional and Branch Managers. Induction Programme included BCM module for the new staff. BCM Training Programme focusing BS ISO 22301:2012 was organized to benefit the Senior Management. Also BCM Training Programme for Head Office BCM Leaders was conducted.
- Part of BCM awareness campaign to engage the staff with vital awareness of the bank's BCM Programme, awareness materials such as screen savers , posters, wallet cards mouse pads etc. were designed to educate stakeholders and keep them informed about BCM programme goals and objectives.
- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency. The contact detail of key officials are provided below:

	Position	Contact Information (+968 prefix)
1.	Head of BCM Steering Committee – AGM and Head of Ops and Support Services	24788578; 99315453
2.	Head of BCM Department	24703645; 9932 6879
3.	Senior Manager - BCM	24790466 Ext. 754; 95763521 / 99625323

• Credit Control Department

Credit Control Department primary objective includes strengthening the credit risk management processes through independent review of loan portfolio so as to bring about the qualitative improvement in loan administration and controls on an ongoing basis.

The Department is entrusted with the responsibility of implementation of Loan Review Mechanism (LRM), approved by the Bank's Board. LRM is a comprehensive and independent credit review process, distinct from Risk Management and Internal Audit functions. The scope of LRM covers evaluation of credit risk assessment and approval processes, adherence to loan policies/ procedures, sufficiency of loan documentation, overall quality of post-disbursement follow up / loan administration, identification of early warning signals, independent review of risk grading, loan loss provisioning etc in respect of large and critical borrower accounts handled by various business units in the Bank's Wholesale Banking Division. Loan reviews are conducted within 3 months from the grant / release of credit facilities. Such review mechanism facilitates taking timely corrective measures for any deficiencies observed in specific reviews and also to improve upon any weaknesses / irregularities observed in various credit management processes. All major findings which remain pending for a long time, are reported to the Risk Management Committee of the Board. In terms of regulatory guidelines, at least 30-40% of the corporate loan portfolio has to be subjected to LRM in a year. During the year 2015, CCD has also conducted loan reviews in respect of corporate accounts handled by the Bank's Islamic Banking Window (Maisarah).

During the year, CCD has also periodically conducted various portfolio reviews to ensure adherence with various sectoral ceilings defined in Credit Risk Policy. As per Risk Classification, Provisioning and Write off Policy of the Bank, proposals / exercise of Business divisions involving downgrade / classification and upgrade / declassification of Corporate and Retail accounts, are also independently reviewed by CCD. The impairment provisioning exercise of Recovery Department for ascertaining adequacy of loan loss provisions, is also periodically reviewed by CCD. The Department is also involved in continuous review, development and modification of various MIS on loans and advances with the objective of improving the quality of monitoring and controls.

In line with the given objectives, CCD will continue to play an important role in reviewing and strengthening various credit control measures in credit management processes.

• Credit Administration Department

The key element toward ensuring proper credit discipline in the bank is the development of a strong centralized credit administration department (CAD). During the year 2015 many efficient procedural improvements are introduced in order to enhance the centralized credit administrative functions, which allowed Business divisions to devote more time towards developing a sales culture and concentrate more on exploring opportunities in the competitive market.

CAD was transformed to an internal customer service centre during 2015 by focusing more on accurate and timely delivery to meet the perceived level of service by its internal customers, mainly Whole Sale Banking department and Retail Banking department. However, the transformation of internal customer orientation was not at the expense of compromising the control functions associate with CAD from its inception.

The credit administration department took charge of many of the issues that affect the focus of the bank. For instance, CAD was able to Implement sound credit administration procedures in the fields of retail loan processing, retail loan and corporate loan disbursements, throughout the bank to ensure full and appropriate use of bank resources, while being consistent with controls stipulated by regulatory authorities, Risk Management Division and other concern departments.

CAD took the responsibility for frequent periodic notification and follow-up for pending security documents, covenants imposed on borrowers, suspending limits due to non-submission of financial statements, reporting of senior member borrowings, follow up with insurance and valuation renewals, maintaining safe custody for security documents for wholesale banking facilities and housing loans.

• Compliance Management

Compliance is regarded as core risk management activity in the Bank. Compliance Division strives to promote compliance culture based on ethics and honesty in Bank's activities. The Division is responsible for identifying and advising on compliance risk, which is over looked by the Board of Directors of the Bank. In performing its role, Compliance division establish and review policies and procedures to mitigate compliance risk, conduct training and awareness programmes, communicate regulatory guidelines and independently monitor, tests and reports on compliance risk related matters.

The Bank is listed in Muscat Security Market (MSM) and regulated by the Central Bank of Oman (CBO). The Bank is committed to comply with all applicable rules and regulations as well as guidelines prescribed by international bodies as best accepted practices. During the year, Bank issued Tier 1 Perpetual Bonds and listed them in Irish Stock Exchange (ISE).

BankDhofar is registered with Internal Revenue Service (IRS) of US Treasury for Foreign Account Tax Compliance Act (FATCA) compliance. During 2015, the bank strengthened its FATCA compliance systems by developing policies and procedures.

• Recovery Department

In keeping with the department mission statement of recovering maximum NPAs in order to maximize the augmentation of bank's working funds, the department ensures the proactive monitoring of all NPAs to maximize the recoveries by adopting the following methods

- Effective monitoring of all legal cases with our external law firms by having regular meetings with them to review the progress made in each case

- Coordinating with Royal Oman Police / Regulatory Bodies in order to expedite the filed / pending cases of recovery
- Gathering / Maintaining market information to identify assets / investments of the defaulters to seek attachment and decree from courts.
- Rescheduling of NPAs and monitoring regular repayments
- Negotiating with customers for settlement of classified loans on mutually acceptable terms
- Maintaining effective MIS system

• Trade Finance Support Department

The Trade Finance Support Department is a full-fledged specialised department of the Bank handling specific trade requirements of the Bank's Corporate, Institutional and Retail customers. The Department liaises closely with the Bank's Wholesale Banking, Retail Banking, Government Relations and Treasury and International Departments in providing various fund based credit facilities like Export Bills discounting and Import financing and non-fund based credit facilities like Letters of Credit, Guarantees, Availisation, Export and Import Bill collection for local and overseas transactions to the Bank's Corporate, Retail and FI customers.

During the year 2015, the Bank continued to perform strongly in its non-fund business in an extremely competitive and challenging market. The non-fund business increased by strong 32% in 2015 as compared to previous year. The Bank could achieve this by leveraging teamwork and relationship across divisions within the back and by providing innovative solutions, quality customer service and guidance in commendable turnaround time.

To meet the challenges in a turbulent international market, the Bank's Trade Finance team is continuously trained internally and updated with the latest developments in the local and international markets. The team has continuously guided our customers with their valuable advices and placed necessary checks and balances to avoid fraudulent claims by overseas traders.

• Key Achievements in the year 2015:

- 32% increase in non-fund exposure over 2014.
- 30% increase in non-fund based fee over 2014.

• Future Plans:

- Continue the development of skills and expertise of local staff by providing cross functional training to staff
- Provide quality guidance and training to Customers on Trade Finance related issues

• Policies and Procedures Department

Policies and Procedures Department (PPD) continues to maintain an integrated model for linking strategies with everyday business processes and decision making at every level.
The maintenance of above stated integrated model brought together standardized and systematized all risk, control, compliance and governance processes. Further, it helped in improving efficiency of the operational framework.

PPD mainly undertakes following activities:

- Act as nodal department and work closely with Management, Business, Operations, and Others to maintain and improvise internal governance and control framework of the Bank.
- Ensure that documents are designed to support business strategy and operations and promote sound working practices.
- Ensure that documents are accurate, clear-cut, presented consistently and uniformly, and easily identifiable and accessible.
- Ensure that documents are periodically reviewed for accuracy and applicability to address changing business dynamics.
- Ensure proper review mechanism/approvals are obtained and kept on record.
- Ensure that respective staff units are provided with updated document through common shared folders which updated regularly and on timely manner as ongoing process.

Apart from the core activities of developing and reviewing policies and procedures; PPD serves as member to Management Risk Committee, and continues to contribute significantly in successful implementation of various projects assigned time to time.

• Human Resources Division (HRD)

Human Resources Division provides overall strategic direction of the human capital management functions of BankDhofar. The mission of the department is to serve the business by attracting, recruiting, developing and retaining the best and the brightest talent in the market, in addition to nurturing a competent and engaged workforce who effectively deliver on the bank's business strategy. The Human Resources Division is responsible for the various HR functions, including: staffing, learning and development, performance appraisal and incentives, employee engagement and staff benefits and services.

Currently, the bank employs more than 1370 employees while maintaining a high Omanisation rate. BankDhofar is committed to continue investing in equipment of local talent with the necessary professional tools and opportunities to pave the way for long-term stability and continuity, resulting in sustained business performance.

The Human Resources Division aims to align the HR strategy with the corporate business strategy to ensure that the bank continues to deliver a strong performance in a sustainable manner, aimed at founding a lasting performance culture in an environment that gets the best out of human potential by creating a positive environment in which there is no room for complacency.

• 2015 Achievements and Initiatives

2015 was a year of notable achievements by (and for) the human capital of BankDhofar. Building on the successes of the previous year, the HR department continued in stride by introducing new initiatives while streamlining existing ones. All in the spirit to offer the best possible experience to customers and employees, the efforts remained focused on offering constant support to all divisions of the bank through various services and incentives aimed to drive the business towards achieving their goals.

While BankDhofar's focus to deliver a distinguished customer experience remained a priority, the Human Resources Division aimed to mirror the experience internally. To deliver on this, the Division embarked on an ambitious transformation initiative designed to shift an environment that traditionally leans towards processing to an environment defined by proactivity. People, processes and systems are aligned to work together in synergy to achieve this objective. Substantial efforts were directed at selecting an appropriate Human Resources Management System that can deliver on this vision. The new system is set to be fully operational in the first half of 2016 and to be ready to enable higher levels of automation, workflow, and integration across the various functions within the Human Resources Division. The system will also allow the HR Division to extend its services directly to the desktop of the employee through a self-service functionality.

While the right system forms one side of the triangle, attention has also been given to the people aspect through a combination of targeted development and attractive benefits. The Human Resources Division understands the significance of providing the employees with relevant benefits which would have a direct impact on their personal and professional lives. While the Division is constantly exploring new ways to retain the employee base through incentives, benefits, and rewards; it is has proudly delivered on a number of such programmes in 2015.

The Higher Education Programme, for example, opens the doors for a large number of employees to pursue their educational careers through sponsorships and scholarships offered by the bank. The HR Division was also able to interact extensively with employees through Employee-Relations events throughout the year. Through these interactions, the department has identified and delivered on requests such as the Employee Wellness Programme and an affordable dental plan to complement the existing health coverage.

While the Corporate Master Class programmes is running and available for business staff, the Learning and Development unit of HRD also witnessed a shift in focus by substantially increasing certification-based programmes as well introducing a number of structured programmes aimed solely to serve on a specific business or operational requirement. Since our branches make up a significant portion of our workforce, we found it necessary to design programmes that can directly address their unique business needs and challenges. Starting with Branch Managers, the department introduced the Certification in Branch Management in collaboration with the College of Banking and Financial Studies. This programme was later endorsed by the Central Bank of Oman and has now been rolled out nationwide. A comprehensive Assistant Branch Manager Programme has also been designed and to be delivered through workshops and on the job-assignments. The new entrants to the branch network must also embark on newly introduced Injaz programme. This extensive programme lays the foundation they need to succeed in delivering on the bank's vision.

Additionally, HRD has also continued to improve the employee awareness and understanding of the bank's whistle-blowing policy, which enables staff to confidentially report concerns about misconduct, as part of the organisation's focus on ensuring fair and sustainable employee relations.

Moreover, one of the notable achievements in 2015 was the formation of BankDhofar Labour Union. The main drive for supporting the establishment of BankDhofar Labour Union was to assist HRD in resolving and identifying issues such as creating a good working environment, benefits and all staff related matters through a representative cluster of staff that acts as a link between the management and the employee.
Overall, considerable progress has been achieved in consolidating and reforming human resources management within the organisation. These efforts will continue into 2016, and will build on this year's accomplishments. HRD looks forward to see a streamlined environment where no boundaries exist between the bank's employees and the Human Resources Department, and instead see the rise of a collaborative environment built through people, processes, and systems working together in unison towards one goal.

• Marketing and Corporate Communications (MCC)

Marketing and Corporate Communications (M&CC) is one of the vital departments in the bank. It deals with all departments and branches on a daily basis and utilises various marketing and communication channels to promote BankDhofar products and services. The department also promotes BankDhofar as a leading brand in the local and regional banking sector. M&CC organises and participates in various events and activities inside and outside the bank and it continuously works to boost BankDhofar presence in the community through several CSR and philanthropy initiatives.

In 2015 M&CC launched various initiatives and undertook a number of projects across the Sultanate. The department focused on new mediums and high exposure marketing channels rather than conventional channels. M&CC has optimised its spending verses exposure and focused on being visible on a larger scale in 2015, focusing on hotspots across high traffic areas, main highways, most visited spots and populated areas nationwide. Aiming to expand BankDhofar outreach as one of the leading banks in the Sultanate, M&CC has successfully closed an exclusive strategic partnership agreement global leading outdoor advertising company to reserve strategic advertising and media spaces at Muscat and Salalah international airports. This partnership agreement will allow the bank to further amplify its communication channels in order to share its organisational values with a wider customer base, and it emphasises the bank's commitment to excel in all areas of business Additionally, M&CC intensified BankDhofar's presence across all social media platforms in order to communicate with customers directly and to promote products and services offered by the bank. Through these channels BankDhofar also keeps customers and the general public on different offers and promotions, as well as the bank's news and updates.

In addition to the campaigns related to products and services, the bank has continued supporting community related social initiatives such as Muscat Festival, Salalah Tourism Festival, Sports events and supporting SME exhibitions and workshops. One of the key initiatives that M&CC conceptualised and led across units was the '#We_Love_Qaboos' exhibition and social media context to celebrate the 45th National Day. The initiative consisted of an Instagram competition, BankDhofar's yearly calendar and a public exhibition of the artwork generated from the competition.

• Corporate Social Responsibility (CSR)

Taking proactive steps on the path of the Sultanate's social development and prosperity, BankDhofar puts corporate social responsibility (CSR) at the forefront of its commitments. Community and social awareness campaigns, as well as a strong focus on engaging staff, are being promoted across the BankDhofar through various channels. The bank works towards supporting sustainable CSR initiatives and investing in long term objectives of all its CSR activities. External partnerships with various public and private sector organisations, as well as non-profit and charitable organisations, help BankDhofar extend its outreach and play a proactive role in the community, realising its weight as an integral part of the community. More than just financial support and fund-raising,

BankDhofar is dedicated to sustainable philanthropy causes, participating in events and activities across the Sultanate, collaborating with various organisations and non-profit associations to reinforce its social responsibility and community outreach programmes. In 2015 BankDhofar concentrated its focus on community service and social awareness campaigns, boosting staff engagement and sustainability in all its CSR initiatives which have been promoted through various channels and campaigns. Main 2015 initiatives included:

- Community support during the unexpected weather conditions in Dhofar Governorate, and wide participation of BankDhofar employees in volunteer teams.
- Supporting the White Hands Canter for Assistive Technology and Rehabilitation. The centre provides complementary therapies to serve people with all kinds of disabilities.
- Supporting the technical seminar on social insurance that was organised by the Public Authority for Social Insurance.
- Visits of inpatient children at different hospitals in Muscat during Ramadan, Eid Al Fitr and Eid Al Adha and distribution of toys and gifts to bring joy and celebrate such occasion with these children.
- Distribution of food items to low income families during the holy month Ramadan in collaboration with the Dar Al Atta Association and supporting World Food Day 2015.
- Participation in 12th annual cancer awareness walkathon that was organised by Oman Cancer Association.
- Promoting proactive pro bono initiatives among children by supporting Azzan bin Qais School Charity Day.
- Enhancing the facilities conditions at Noor Al Quran School in Salalah by building sun shade in the school premises.

- Supporting the 3rd edition of the Quran recitation competition among public schools in the Wilayat of Seeb.
- Empowering Omani women by supporting the training of 50 ladies in Salalah to help them start their own SME business.

• Financial Performance

Amid the challenging economic and financial situation marked by volatile oil prices in 2015, the Bank continued to grow in all key areas in the year 2015. The net Loans, Advances and Financing to customers reached RO 2.73 billion (USD 7.09 billion) at December 2015, showing a significant growth of 21.33% from RO 2.25 billion (USD 5.84 billion) at the end of December 2014.

Non-Performing Loans (NPL) on the Bank balance sheet is OMR 64.933M at end Dec-15, compared to OMR 59.762M at Dec -14. However, NPL to Gross loans improved/reduced to 2.30% consolidated position at end of Dec-15 compared to 2.55% as of Dec-14.

An analysis of our key gross loan portfolio by segement is tabulated below:

Description (RO M)	2015A	2014A	Growth %
Gross Loans/Financing	2,827.97	2,342.31	20.73%
Retail Loans/ Financing	1,362.62	1,048.12	30.01%
WSB Loans/Financing	1,465.35	1,294.19	13.23%

Analysis of our Loan portfolio by product is tabulated below:

Loans, advances and financing to customers (RO 000)	2015	2014
Overdrafts	**149,261**	130,591
Loans	**2,299,290**	1,953,070
Loans against trust receipts	**111,700**	79,484
Bills discounted	**6,867**	10,445
Advance against credit cards	**7,684**	7,705
Others	**43,207**	27,980
Islamic Banking Window financing	**209,915**	133,034
Gross loans, advances and financing	**2,827,924**	2,342,309
Less: Impairment allowance	**(98,618)**	(87,604)
Net loans, advances and financing	**2,729,306**	2,254,705

The customer deposits mobilized by the bank achieved a prudent growth of 4.43% from RO 2.48 billion (USD 6.44 billion) at the end of 2014 to reach RO 2.59 billion (USD 6.73 billion) at the end of 2015. The analysis of our Key deposits by product is given below

Deposits from customers (RO 000)	2015	2014
Current accounts	715,302	686,095
Savings accounts	435,759	402,433
Time deposits	1,227,648	1,274,542
Margin accounts	21,504	22,101
Islamic Banking Window deposits	192,158	97,008
Grand total	2,592,371	2,482,179

The key profitability indicators also showed positive growths with net interest and financing income achieving a solid growth of 17.47% to reach RO 90.21 million (USD 234.31 million) for the year 2015 as compared to RO 76.79 million (USD 199.45 million) achieved in 2014. Non-interest and non-financing income such as fees and commission, foreign exchange profit, investment and other income have grown 13.39% to reach RO 25.02 million (USD 64.98 million) in 2015 as compared to RO 22.06 million (USD 57.29 million) achieved in the previous year. The Cost to Income ratio during the year 2015 improved to 44.43% as compared to 46.69% in 2014. In line with loan growth and regulatory requirement, the provision for loan impairment, net of recovery, during the year 2015 stood at RO 8.78 million (USD 22.8 million), as against RO 6.93 million (USD 18 million) during the previous year 2014. The impairment of investments due to downward market movements during the year is RO 2.74 million.

(USD 7.12 million) Non-performing loans to gross loans improved from 2.55% at 31st December 2014 to 2.30% at 31st December 2015, year-on-year; Non-performing loans, net of interest suspense, to gross loans improved from 1.24 % at 31st December 2014 to 1.11 % at 31st December 2015 year on year.
The net profit for the year 2015 achieved by the Bank is RO 46.77 million (USD 121.48 million) as against RO 40.45 million (USD 105.06 million), showing a strong growth of 15.62% year on year.

• Funding and Capital Raising initiatives

In continuation of its capital augmentation plan, the Bank raised capital of USD 300 million (RO 115.5 million) in the form of Tier 1 (including Additional Tier 1 capital) in 2015, the successful debut issuance of Basel III compliant Tier 1 instrument in the country. This would be used to support the growth of the Bank.
As part of the planned funding program and strengthening the liquidity base, Bank successfully completed a Syndicated borrowing of USD 250 million at competitive rates, with encouraging participation from major banks in the region. This facility demonstrates the confidence of the global markets in the financial strength of BankDhofar.

• Proposed Dividends

The Board of Directors recommends cash dividend of 15% amounting to RO 23.17 million and a Bonus share issue of 10%, aggregating to 154.47 million shares of RO 0.100 each, of the Share capital of the Bank, subject to Regulatory Approvals.
The percentage of dividends distributed to the Shareholders in the last five years is as follows:

Year	2010	2011	2012	2013	2014
Cash Dividends	12.5%	7%	15%	14%	5%
Bonus Shares	12.5%	20.2%*	10%	11%	15%

• Way-forward; Future Outlook

The government forecasts a deficit of RO 3.3 billion or 13 percent of gross domestic product (GDP) in 2016, a reduction from the previous deficit of RO 4.5 billion for 2015. It plans to adopt a combination of approaches to cover the fiscal gap, namely from reserves, grants, borrowings (local & international). The government plans to rationalize current operational and general spending but will maintain capital spending. The government has said it will also privatize companies and develop the private sector. This matter would be included in the government's new five-year economic plan for 2016-2020.

Oman's current economic focus is on long-term planning. In January 2016, Oman announced its ninth five-year economic development plan and strategy for the period 2016-2020. Since 1996, the five-year plans have been designed to achieve "Vision 2020" (adopted in June 1995), which is the Government's economic planning strategy outlining Oman's long term target of economic diversification, away from reliance on hydrocarbons, and towards, among other strategies, labour sector development (source: OBG's 2015Oman Report).

To achieve Vision 2020, the Government has launched and sponsored a series of infrastructure projects such as a 2,135 km long national railway project and a number of light manufacturing plants. There has also been increased spending by the Government in the tourism sector in a bid to meet its diversification goals. The ninth five year plan will focus on, among other issues, social development and the creation of employment opportunities.
Bank Dhofar as part of its five year rolling strategy of the Bank, has a robust plan in place for 2016, after carefully considering the 2016 Oman Government budget.

The Bank had won innumerable awards from several regional and international institutions for excelling in various categories in Banking in the year 2015, including the Best Islamic Window. The Bank has prudently grown, from strength to strength with strong fundamentals, in terms of both sustainable credit growth and deposits mobilization in the year 2015. Maisarah Islamic banking also progressed well in 2015 being the third year of operation, with lots of potential opportunities in the pipeline already for the year 2016. The Bank moving into the fifth year of its' challenging 5-year plan, will continue to emerge strongly within the local financial market. The Bank has carefully planned the launch of a series of attractive products, services and other initiatives besides streamlining its processes in 2015 to improve the turnaround time for customers and to fully engage and develop its people to maximize efficiencies and reward its Shareholders. The bank is also continuing to invest heavily in advanced technology to provide "Best in Class" banking experience to its customers.

The Bank is strategically well placed to achieve robust growth in 2016 and in the coming years to support the strong economic development of the Sultanate of Oman and is always grateful for the great Wisdom and Leadership provided by His Majesty Sultan Qaboos Bin Said Al Said.

FINANCIAL HIGHLIGHTS OF LAST FIVE YEARS

Financial highlights of last five years

(OMR) For the year	2015	2014	2013	2012	2011
Net interest income	84,478	73,580	66,341	64,369	60,318
Net income from Islamic Financing and investment activities	5,729	3,208	173	-	-
Non-Funded income	25,019	22,063	23,044	19,724	18,273
Operating costs	51,199	46,163	45,316	37,047	33,444
Operating profit (before Impairment losses)	64,027	52,688	44,242	47,046	45,147
Profit from operations	52,501	45,754	66,137	42,900	15,859
Net profit for the year	46,765	40,453	58,407	37,745	13,976
At year-end					
Total assets	3,593,061	3,194,127	2,605,379	2,143,830	1,960,591
Net loan portfolio	2,729,306	2,254,705	1,901,910	1,672,508	1,495,661
Customer deposits	2,592,371	2,482,179	2,031,746	1,634,628	1,519,318
Shareholders' equity	476,529	325,318	303,607	261,504	229,237
Share capital	154,473	134,324	121,013	110,012	91,524
Full service branches	67	68	65	62	59
ATMs / CDMs / FFMs	187	197	187	171	157
Staff	1,371	1,340	1,350	1,266	1,202

FINANCIAL RATIOS OF LAST FIVE YEARS

Financial Ratios of Last Five Years

	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011
I. PROFITABILITY					
Return on Weighted Average Total Equity (including AT1)	11.66%	12.86%	20.67%	15.38%	6.13%
Return on Weighted Average Shareholders Equity	13.63%	12.86%	20.67%	15.38%	6.13%
Return on Weighted Average Paid-up Capital	32.39%	31.69%	50.56%	37.46%	16.17%
Return on Average Assets	1.38%	1.40%	2.46%	1.84%	0.77%
Non-Funded Income to Operating Income	21.71%	22.32%	25.73%	23.45%	23.25%
Operating Expenses to Operating Income	44.43%	46.70%	50.60%	44.05%	42.55%
II. LIQUIDITY					
Net Loans to Total Deposits	94.07%	84.84%	88.95%	97.05%	94.76%
Total Customer Deposits to Total Deposits	89.35%	93.41%	95.03%	94.85%	96.26%
III. ASSET QUALITY RATIOS					
Loan Loss Provisions to Total Loans	3.49%	3.74%	4.07%	4.32%	4.93%
Non-Performing Loans to Total Loans	2.30%	2.55%	2.95%	3.18%	3.79%
Loan Loss Provisions to Total Non-Performing Loans	151.88%	146.59%	137.91%	135.58%	129.33%
IV. CAPITAL ADEQUACY					
BIS Risk Asset Ratio	14.70%	14.05%	14.09%	14.96%	14.79%
BIS Risk Asset Ratio on Tier one Capital	12.68%	10.76%	11.07%	10.92%	11.16%
Shareholder's Equity/ Total Assets	10.05%	10.18%	11.65%	12.20%	11.69%

Branch Network

BRANCH	TEL. NO.	FAX NO.	P.O. BOX
Ghala	24216001 - 24216002	24216006	468, P.C 115 MSQ
MGM	24216666	24216600	1507 PC 112 Ruwi
Al Khuwair Ministry	24694710-24694725-24694715	24694730	1591, PC 130 Aziba
Bausher Polyclinic	24502606 - 24596994	24595323	568, PC 115 MSQ
Khoudh	24536132 -24545026	24545268	761, PC 132 Khoudh
Mabellah	24451520-24451540-24451539	24451542	1507, PC 112 Ruwi
Muscat International Airport	24510537-24510101- 24 510102	24510468	56, PC 111 CPO
Seeb Town	24425851 - 24425852 - 24424434 - 24423373	24425627	347, PC 121 Seeb
New Bausher	24614768 - 24614786	24614764	895, PC 115 MSQ
MOD	24316038	24316196	
Amarat	24877838-24876580 - 24876120	24875829	346 PC 119 Amerat
Muscat	24737865 - 24736614 - 24736606 -24 737066	24739166	1613, PC 114 Muttrah
Muttrah	24712970 -24714452 -24 714279	24713556	1441, PC 112 Ruwi
MBD	24750516 - 24790466	24798621	1507, PC 112 Ruwi
Qurum	24568351 - 24567671 - 24567673	24567679	994, PC 116 Mina Al Fahal
Quriyat	24845195-24845193-24845192	24845173	145, PC 120 Quriyat
Ruwi	24831090- 24835854	24831892	1442, PC 112 Ruwi
Wadi Kabir	24814127 - 24814126	24814128	1507, PC 112 Ruwi
Buraimi	25651696 - 25651989	25651115	278, PC 512 Buraimi
Buraimi Industrial Area	25669821 – 25669822 – 25669823 - 25669824	25669825	867, PC 512 Buraimi
Barka	26884423 - 26884428	26884451	751, PC 320 Barka
Falaj Al Qabail	26750156-26750928-26751378	26750891	209,PC 322 Falaj Al Qabail
Hafeet	26817646 - 26817991 - 26817992	26817993	596 PC 319 Saham
Khadhra	26714164 - 26714162	26714163	505, PC 315 Suwaiq
Khaboura	26801028-26801686	26805130	423, PC 326 Khaboura
Suwaiq	26862001- 26862010	26862102	585, PC 315 Suwaiq
Saham	26854400 - 26856699	26855277	92, PC 319 Saham
Sohar Al Ghail	26943400 – 26943401-26943402	26943444	21, PC 311 Sohar
Shinas	26748302-26748306-26748308	26748304	434,PC 324 Shinas
Muladdah	26868544 - 26868553	26868549	106 PC 341 Muladdah
Rustaq	26876039 - 26875117	26875591	25, PC 318 Rustaq
Bahla	25420021-25420292	25420387	661, PC 612 Bahla
Bid Bid	25369044-25369033	25369055	307, PC 613 Bid Bid
Izki	25340089-25341016	25340204	412, PC 614 Izki
Ibri	25689341-25689685	25690341	28, PC 511 Ibri
Nizwa	25410234-25411370	25411234	83, PC 611 Nizwa
Sumail	25350543-25351188	25350094	199, PC 620 Samail
Yanqul	25672018-25672031	25672041	440,PC500 Yanqul
Adam	25215001	25215050	222, PC 618, Adam
Ibra	25571632 -25571631 - 25571632 - 25571631-25571658	25570646	514, PC 413 Ibra

Branch Network

BRANCH	TEL. NO.	FAX NO.	P.O. BOX
J. B. B. Ali	25553414 - 25553440	25553446	10 PC416 Jalan
J. B. B. Hassan	25551020 - 25551025	25551181	222, PC 415 JBBH
kamil Al Wafi	25557134 - 25557501	25411234	83, PC 611 Nizwa
Al Muntrib	25583853- 25584049	25583510	154, PC 421 Mintrib
Sinaw	25524663 - 25524367	25524823	296, PC 418 Sinaw
Sur	25546677- 25541255 - 25540256	25540615	75, PC 411 Sur
Samad A'Shan	25526736 - 25526529	25526574	123, PC 423 Samad Al Shan
Mudhaibi	25578110 - 25578113	25578114	454,PC 420 Mudhaibi
Al Duqum	25215801 -25215800	25215888	1507,PC 112 Ruwi
Salalah Gardens Mall	233818200 - 23381201	23381222	2334, PC 211 Salalah
Saada	23227177 - 23 225463 - 23225409	23225179	2334, PC 211 Salalah
Dhofar University Booth	23237789-23237785-23237782	23237745	2334, PC 211 Salalah
Salalah	23290644 - 23292299 - 23294863 - 23291631	23295291	2334, PC 211 Salalah
Salalah-Al Gharbiah	23298046-23297526-23297536	23295084	2334, PC 211 Salalah
Raysut	23219219-23219262-23219216	23219197	2334, PC 211 Salalah,
Taqa	23258108 - 23258113	23258366	43 , PC 218 Salalah
Mirbat	23268007 - 23268038	23268080	199, PC 220 Salalah
Salalah commercial District	23380700-23380719-23380721	23202761	2334, PC 211Salalah

Maisarah Islamic Banking Services Branch Network

BRANCH	TEL. NO.	FAX NO.	P.O. BOX
Azaiba	24212544	24212521	1792, PC 130, Azaiba
Salalah	23211100	23211186	2352, PC 211, Salalah
Sohar	26840929	26840818	1148, PC 311, Sohar
Birkat Al Mouz	25443365	25443462	97, PC 616, Birkat Al Mouz
Al Hail Branch	24287777	24287788	1792, PC 130, Al Hail
Greater Mutrah	24793297/24707959	24706103	1831, Ruwi 112, Matrah
Al Khuwair Centre	24484880 / 24480 008	24483366	2717, Ruwi 112, Al Khuwair
Sur Branch	25 545 867/ 25 541 912	25 543 710	323,Sur 411, Sur
Araqi Branch	25694126 / 25695071	25 695 047	90, Iraqi 515
New Salalah	23297492 / 23296158	23 294 263	2334,Salalah 211,

DISCLOSURE REQUIREMENTS UNDER PILLAR-III OF BASEL II

31ST DECEMBER 2015

EY
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 Dhofar 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 Dhofar SAOG (the bank) set out on pages 1 to 53 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

28 February 2016
Muscat

إرنست ويونغ ش م م
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

A member firm of Ernst & Young Global Limited

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

1. Introduction:

The following detailed qualitative and quantitative public disclosures are provided in accordance with Central Bank of Oman (CBO) rules and regulations on capital adequacy standards issued through circular BM 1009 on Guidelines on Basel II, Islamic Banking Regulatory Framework and BM 1114 on Regulatory Capital and Composition of Capital Disclosure Requirement under Basel III. The purpose of these requirements is to complement the capital adequacy requirements and the Pillar II – Supervisory review process. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market.

The major highlights of the Central Bank of Oman (CBO) regulations on capital adequacy are:

As per Basel II:

a. To maintain capital adequacy ratio (CAR) at a minimum of 12%;
b. To adopt the standardized approach for credit risk for implementing Basel II, using national discretion for:
   - Adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and Banks;
   - Adopting simple/comprehensive approach for Credit Risk Mitigants (CRM)
   - Treating all corporate exposures as unrated and assign 100% risk weight.
c. To adopt standardized approach for market risk and basic indicator approach for operational risk.
d. Capital Adequacy returns must be submitted to CBO on a quarterly basis; and
e. The Bank's external auditors must review capital adequacy returns.

As per Basel III

a. The predominant form of capital shall be Tier 1 capital of which Common Equity Tier (CET1) will form the major component.
b. To maintain capital adequacy ratio (CAR) at a minimum of 12.625% (including the capital conservation buffer and the minimum of 12% under Basel II).
c. The capital conservation buffer shall be further enforced in phases with 0.625% increase every year from 2017 to 2019. The Bank is required to maintain at all times, the following minimum capital adequacy ratios: .
   - Within the overall requirement of 12.625% CAR, Tier 1 ratio is to be maintained at a minimum of 9.625%,
   - Within the minimum Tier 1 ratio of 9.625%, minimum CET 1 ratio is to be maintained at 7.625%,
   - Further, within the minimum overall capital ratio of 12.625%, Tier 2 capital can be admitted up to a maximum of 3% of RWA of the Bank.
   - The above requirement will change correspondingly with the implementation of capital conservation buffer of 0.625% each year from 2017 to 2019.

As per Islamic Banking Regulatory Framework:

Islamic Windows of domestic conventional banks shall maintain a minimum allocated capital of OMR 40 million.

2. Scope of Application:

The Bank has no subsidiaries or significant investments. However, Bank has introduced Islamic Banking through an Islamic window named as "Maisarah". Accordingly, the information in the document pertains to the consolidated entity i.e., for both conventional banking & Islamic window (Maisarah). The disclosure pertaining to Maisarah is provided separately at the end of this document.

3. Basel II Disclosures:

3.1. Capital Structure:

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into three categories – Tier I, Tier II and Tier III. BankDhofar's capital structure consists of Tier I capital and Tier II capital.

Tier I capital includes paid up capital, share premium, Additional Tier I capital instruments, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non-cumulative perpetual preferred stocks and retained earnings (available on a long term basis) less regulatory adjustments like cumulative losses of financial instruments classified as available for sale, goodwill & other intangibles.

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on available for sale instruments, general loan loss provision/ general loan loss reserve in capitaland subordinated term debt subject to certain conditions. Tier II capital of the Bank also includes 45% of Investment revaluation reserve and general provisions to the extent of 1.25% of total risk weighted assets.

The details of capital structure are provided as under:

CAPITAL STRUCTURE:	RO'000 Amount
Paid up capital	154,473
Legal reserve	40,214
Share premium	40,018
Special reserve	18,488
Subordinated loan reserve	62,025
Retained earnings	6,866
Proposed bonus shares	15,447
Common Equity Tier (CET) I capital	**337,531**
Deferred Tax Assets	(62)
Less Goodwill	(1,986)
Cumulative unrealized losses recognized directly in equity	(804)
CET I Capital – Regulatory Adjustments	**(2,852)**
Total CET I capital	**334,679**
Additional Tier I Capital	**115,500**
Total Tier I Capital	450,179
Investment revaluation reserve (45% only)	444
General provision (Max of 1.25% of total risk weighted assets)	38,201
Subordinated loans	33,100
Total Tier II capital	**71,745**
Total eligible capital (Tier I + Tier II Capital)	**521,924**

3.2 Capital Adequacy:

The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings of external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

The Bank's capital adequacy ratio is 14.70% as against the CBO requirement of 12.625%. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks the Bank is exposed to and provides market return to the shareholders. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors and senior creditors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times.

The Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing Bank's capital adequacy in relation to the risk profiles as well as a strategy for maintaining the capital level. The objective of ICAAP document is to explain the Risk policies adopted, Target risk structure and Capital planning, the process of assessing the capital adequacy for credit, market and operational risk, Specific assessment procedures for risks not covered under Pillar I, process of Internal Control Mechanism and stress testing methodologies adopted by the Bank.

Bank has also formed working group on capital planning which regularly meets and assess the capital adequacy to support projected asset growth. The capital adequacy ratio is periodically assessed and reported to the Risk Management Committee (RMC) of the Board of Directors. The composition of capital in terms of Common Equity Tier I, Additional Tier I, Total Tier I and Tier II are also analyzed to ensure capital stability and to reduce volatility in the capital structure.

i) Position of various Risk weighted Assets is presented as under:

Sl. No	Details	Gross Balances (Book Value) RO'000	Net Balances (Book Value)* RO'000	Risk Weighted Assets RO'000
1	On balance sheet items	3,820,967	3,739,004	2,898,410
2	Off balance sheet items	467,698	413,450	337,853
3	Derivatives	316,370	316,370	3,639
4	**Total Credit Risk**	**4,605,035**	**4,468,824**	**3,239,902**
5	**Market Risk**			**111,079**
6	**Operational Risk**			**198,703**
7	**Total Risk Weighted Assets**			**3,549,684**

* Net of provisions and, reserve interest

ii) Detail of Capital Adequacy:

Sl. No	Details	RO'000
1	Common Equity Capital	334,679
	Tier 1 Capital	450,179
2	Tier 2 Capital	71,745
3	Tier 3 Capital	-
4	**Total eligible capital**	**521,924**
5	Capital Requirement for Credit Risk	388,788
6	Capital Requirement for Market Risk	13,329
7	Capital Requirement for Operational Risk	23,845
8	**Total Required Capital**	**425,982**
9	Common Equity Capital Ratio	9.43%
10	Tier 1 Capital Ratio	12.68%
	Total Capital Adequacy Ratio	14.70%

3.3 Risk Exposure and Assessment:

The risks to which banks are exposed to and the techniques that banks use to identify, measure, monitor and control those risks are important factors that market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk in the banking book and operational risk. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk) the Bank describes its risk management objectives and policies, including scope and nature of risk reporting and/or measurement systems and risk mitigation strategies.

3.3.1 Credit Risk:

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the Bank's dealings with or lending to a corporate, individual, another bank, financial institution or a country. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

The Bank has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent bench marks, limits for management of credit risks. Continuous review of the credit risk policy is done to adapt to the business environment and regulatory requirements at all times.

The Board of Directors delegate credit approval powers for Wholesale Banking and Retail Banking functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Board Credit Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain loan approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the Corporate, Mid sector and Small and Medium Enterprise credit proposals before they are considered by the appropriate approving authorities. The borrowers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the borrower and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition RMD reviews grading of obligors and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category); reviews are conducted at higher frequency.

The Bank has also established Credit Control department which looks after Loan Review Mechanism (LRM). LRM helps in ensuring credit compliance with the post-sanction processes/ procedures laid down by the Bank from time to time. It involves taking up independent account-specific reviews of individual credit exposures as per the Board approved LRM Policy. Credit Control department also monitors various credit concentration limits. Counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior approval of CBO is obtained. The credit control department also undertakes monitoring of the retail loans.

Retail lending is strictly in accordance with the CBO guidelines. The Bank uses a score card as a selection tool for the personal loans in conventional banking. Bank has also implemented Loan Origination System (LOS) which has automated the workflow of retail loan credit proposals in conventional banking. In Maisarah, retail financing is mainly in auto and housing finance category.

In addition to these, the Bank also undertakes business with other banks. The maximum exposures to these banks are defined through internally developed model and the total exposure to such counterparty banks is linked to the net worth of the Bank. The Bank has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed on half yearly basis. In addition to the internal limits, the Bank also adheres to the limits for countries and counterparty banks prescribed by CBO strictly.

In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention has also been applied to Maisarah financing.

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Specific and general provisions are computed periodically in accordance with the CBO regulations as well as other applicable accounting standards. General loan loss provisions equivalent to 1% of the loans categorized as Standard and Special Mention for meeting the latent loan losses are provided for. However, a general loss provision of 2% of the Standard and Special Mention personal loans is created considering the heightened risk inherent in personal loans. Furthermore, all housing finance, other than that occupied by customer, is subject to a 2% general loss provision.

All lending decisions are made after giving due consideration to credit risk policy requirements.

Credit Risk exposure of the Consolidated entity (i.e. both Conventional banking & Maisarah)

i) Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure:

Sl. No.	Type of Credit Exposure	Average Gross exposure RO'000 2015	Average Gross exposure RO'000 2014	Total Gross exposures RO'000 2015	Total Gross exposures RO'000 2014
	Conventional				
1	Overdrafts	**138,275**	119,691	**149,261**	130,591
2	Loans	**2,170,684**	1,887,113	**2,299,290**	1,953,070
3	Loans against trust receipts	**94,955**	91,232	**111,700**	79,484
4	Other	**35,434**	22,715	**43,207**	27,980
5	Bills purchased /discounted	**3,671**	10,776	**6,867**	10,445
6	Advance against credit cards	**7,623**	7,599	**7,684**	7,705
	TOTAL	**2,450,642**	2,139,126	**2,618,009**	2,209,275
	Islamic				
7	Murabaha Receivables	**16,341**	15,685	**13,052**	20,562
8	Mudaraba Financing	**5,281**	1,781	**11,767**	2,284
9	Ijarah Assets	**30,480**	42,853	**32,841**	29,455
10	Diminishing Musharaka Financing	**119,611**	24,675	**152,255**	80,733
	Total Islamic	**171,713**	84,994	**209,915**	133,034
	TOTAL	**2,622,355**	2,224,120	**2,827,924**	2,342,309

ii) Geographic distribution of exposures, broken down in significant areas by major types of credit exposure:

Sl. No	Type of Credit Exposure	Oman RO'000	Other GCC Countries RO'000	*OECD Countries RO'000	India RO'000	Pakistan RO'000	Other RO'000	Total RO'000
		1	2	3	4	5	6	7
1	Overdrafts	145,332	-	-	-	-	-	145,332
2	Personal Loans	1,268,717	-	-	-	-	-	1,,268,717
3	Loans against trust Receipts	111,670	30	-	-	-	-	111,700
4	Other Loans	1,036,865	5,121	-	-	-	-	1,041,986
5	Bills Purchased / negotiated	4,077	2,790	-	-	-	-	6,867
6	Any other	43,407	-	-	-	-	-	43,407
	Total	**2,610,068**	**7,941**	**-**	**-**	**-**	**-**	**2,618,009**
	Islamic							
7	Murabaha Receivables	13,052	-	-	-	-	-	13,052
8	Mudaraba Financing	11,767	-	-	-	-	-	11,767
9	Ijarah Assets	32,841	-	-	-	-	-	32,841
10	Diminishing Musharakah Financing	152,255	-	-	-	-	-	152,255
	Total Islamic	**209,915**	**-**	**-**	**-**	**-**	**-**	**209,915**
11	**Total**	**2,819,983**	**7,941**	**-**	**-**	**-**	**-**	**2,827,924**

Overdrafts and others includes in Personal loans and others
*excluding countries included in column 2

iii) Industry or counterparty type distribution of exposures broken down by major types of credit exposures:

Sl. No	Economic Sector	Overdraft RO'000	Loans & Financing RO'000	Bills purchased RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
1	Import Trade	11,107	84,823	599	15,212	111,741	48,667
2	Export Trade	185	37	-	15	237	2,725
3	Wholesale & Retail trade	8,514	19,628	-	2,719	30,861	33,622
4	Mining & Quarrying	4,166	22,501	388	18	27,073	1,291
5	Construction	72,622	303,019	318	77,588	453,547	506,845
6	Manufacturing	11,580	153,141	2,164	54,265	221,150	46,780
7	Electricity, gas & water	7	33,130	-	-	33,137	305
8	Transport & Communication	113	44,460	-	-	44,573	4,794
9	Fin. Institutions	6,286	130,560	608	-	137,454	70,294
10	Services	20,505	127,705	-	1,383	149,593	80,751
11	Personal	3,929	1,351,212	-	7,484	1,362,625	445
12	Agriculture & Allied	3,490	9,695	-	93	13,278	1,695
13	Government	-	81,523	-	-	81,523	22,927
14	Non Resident lending	-	5,151	2,790	-	7,941	22,811
15	All others	6,757	142,620	-	3,814	153,191	366
16	Total (1 to 15)	149,261	2,509,205	6,867	162,591	2,827,924	844,318

iv) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

Sl. No.	Time Band	Overdrafts RO'000	Loans & Financing RO'000	Bills purchased/ Discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exp. RO'000
1	Up to 1 month	**7,463**	**49,766**	**6,867**	**4,276**	**68,372**	**382,814**
2	1-3 months	**7,463**	**86,512**	**-**	**3,489**	**97,464**	**49,263**
3	3-6 months	**7,463**	**30,638**	**-**	**4,605**	**42,706**	**43,513**
4	6-9 months	**7,463**	**3,914**	**-**	**6,740**	**18,117**	**28,831**
5	9–12 months	**7,463**	**11,750**	**-**	**10,316**	**29,529**	**17,297**
6	1-3 years	**37,315**	**143,185**	**-**	**71,395**	**251,895**	**176,540**
7	3–5 years	**37,315**	**149,363**	**-**	**18,199**	**204,877**	**112,296**
8	Over 5 years	**37,316**	**2,034,077**	**-**	**43,571**	**2,114,964**	**33,764**
	TOTAL	**149,261**	**2,509,205**	**6,867**	**162,591**	**2,827,924**	**844,318**

v) Analysis of loan & financing book by major industry or counterparty type:

Sl. No.	Economic Sector	Gross loans & Financing RO'000	Of which NPLs / NPAs * RO'000	General provision held RO'000	Specific prov. Held RO'000	Reserve Interest / Profit RO'000	Specific Prov. Made during the year RO'000	Adv. Written off during year** RO'000
1	Import Trade	111,741	8,335	1,241	1,260	6,674	8	32
2	Export Trade	237	5	2	3	1	-	-
3	Wholesale & Retail	30,861	21,057	98	4,934	16,254	2	27
4	Mining & Quarrying	27,073	4	271	580	2	578	2
5	Construction	453,547	2,742	4,508	528	2,180	18	21
6	Manufacturing	221,150	416	2,208	182	235	1	7
7	Electricity, gas & water	33,137	7	331	-	5	-	1
8	Transport& Communications	44,573	-	446	-	-	-	1
9	Financial Institutions	137,453	-	1,367	-	-	-	-
10	Services	149,593	231	1,494	86	131	2	63
11	Personal	1,362,625	26,679	23,215	14,848	7,478	8,073	730
12	Agriculture & Allied	13,278	10	133	7	3	-	-
13	Government	81,523	-	815	-	-	-	-
14	Non-Resident lending	7,941	5,121	28	4,429	696	-	-
15	All Others	153,192	324	1,635	161	149	40	6
16	**TOTAL (1 to 15)**	**2,827,924**	**64,931**	**37,792**	**27,018**	**33,808**	**8,722**	**890**

* Represents only on balance sheet NPLs.

vi) Geographical distribution of amount of impaired loans:

Sl. No	Countries	Gross loans / financing RO'000	Of which NPLs / NPAs RO'000	General provisions held 25 RO'000	Specific provisions Held RO'000	Reserve Interest / Profit RO'000	Specific Provisions Made during the year RO'000	Advances Written off during year ** RO'000
1	Oman	2,819,983	59,810	37,764	22,589	33,112	8,722	890
2	Other GCC countries	7,941	5,121	28	4,429	696	-	-
3	OECD countries*	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**TOTAL**	**2,827,924**	**64,931**	**37,792**	**27,018**	**33,808**	**8,722**	**890**

*excluding countries included in row 2

vii) Movement of Gross Loans/Financing:

(OR in 000's)

Movement of Gross Loans/Financing during the year

Sl No	Details	Performing Loans		Non-performing Loans			
		Standard RO'000	S.M. RO'000	Substandard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
1	Opening Balance	2,207,288	75,259	2,999	3,608	53,155	2,342,309
2	Migration/changes (+/-)	(136,139)	130,379	195	1,617	3,948	-
3	New Loans	1,109,840	13,924	108	254	5,115	1,129,241
4	Recovery Loans	(578,491)	(59,067)	(233)	(222)	(3,210)	(641,223)
5	Loans written off	-	-	-	-	(2,403)	(2,403)
6	**Closing Balance**	**2,602,498**	**160,495**	**3,069**	**5,257**	**56,605**	**2,827,924**
7	Provisions held*	39,503	1,643	724	2,182	22,772	65,219
8	Reserve Interest	0	0	178	412	33,218	33,808

*Indicate the general provisions held under performing loans and specific provisions under non-performing loans .At 31December 2015 performing restructured rescheduled loan provided Specific provision as per CBO OMR 1,340Mio

3.3.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach:

i) The Bank has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. Similar convention has been applied for Maisarah as well.

ii) The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is RO 118,088 million All other credit exposures of Corporate and Retail are assigned 100% risk weight (except mortgage loans, where valuation of the mortgaged house property is not older than 3 years, are assigned 35% risk weight).

iii) The Bank also conducts stress tests on portfolio basis at regular intervals to assess the impact of credit risk on its profitability and capital adequacy. The same is placed before the Risk Management Committee of Board of Directors.

3.3.3 Credit Risk Mitigation (CRM): Disclosures for Standardized approaches:

The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties, shares listed on the Muscat Securities Market (MSM), government bonds, unlisted shares and Bank fixed deposits. However, the Bank's predominant form of eligible collateral as defined by CBO in its guidelines and for capital adequacy computation purposes is in the form of cash, acceptable Bank guarantees and shares listed on the MSM main index.

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Borrower and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing loan grades (including special mention) and 3 non-performing loan grades. The rating grade indicates the default probability of the borrower's obligation. The Bank has also implemented the facility rating system for conventional banking based on Basel II foundation approach which considers the collateral support, seniority and other structural aspects of the facilities provided.

Bank has also implemented model on Risk Adjusted Return on Capital (RAROC) for conventional banking which provides the risk based pricing, which refers to a process of identifying risks, understanding them and subsequently pricing them appropriately. It is an important aspect of prudent credit risk management and is essential for maintaining financial discipline while giving loans. It helps in not only identifying, but also understanding the risk and pricing it appropriately. The RAROC system provides a competitive edge to the Bank in improving the quality of the portfolio and also covers the cost of doing business in the form of pricing.

The Bank has strengthened its existing credit risk management systems and is committed to improve it further.

3.3.4 Market Risk:

Market Risk is the risk to the Bank's earnings and capital due to changes in the interest rates, profit rates or prices of securities, foreign exchange and equities. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into interest rate risk, profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

Bank has a comprehensive Asset Liability Management (ALM) Policy for conventional entity and Treasury Risk Policy for Islamic banking and Investment Management Policy for conventional banking which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per Standardized approach of Basel II.

Details of various market risks faced by the Bank are set out below:

i) Interest Rate Risk (IRR) for conventional banking: Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. The immediate impact (up to one year) of changes in interest rates is on the Net Interest Income (NII) and a long term impact (more than one year) of changing interest rates is on the Bank's networth.

The responsibility of interest rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Bank periodically computes the IRR on the Banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. The impact of IRR on the earnings of the Bank is computed and placed to ALCO on monthly basis. An internal limit has been set up to monitor the impact of Interest rate risk on NII. Similarly, Bank has developed a model to assess the impact of IRR on the Bank's net worth based on duration gap analysis method and an internal limit has also been fixed for the same.

Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO and also to the Risk Management Committee of the Board on periodic basis. In addition, scenario analysis assuming a 200 basis point parallel shift in interest rates and its impact on the interest income and net profit of the Bank are assessed on a quarterly basis and placed to Risk Management Committee of the Board with proposals for corrective action if necessary.

Impact on earnings and economic value of equity due to adverse movement of 100 bps and 200 bps in interest rate in conventional banking is provided as under:

(RO in 000's)

Position as at 31.12.2015 Impact on	+ or – 1%	+ or – 2%
Earnings	**10,731**	**21.462**
Economic Value of Equity	**28.041**	**56.083**
Impact on earning as a % of NII	**12.10%**	**14.20%**
Impact as a % of Bank's Net worth	**5.76%**	**11.52%**

iii) Profit Rate Risk (PRR):

Profit rate risk is the risk that Maisarah will incur a financial loss as a result of mismatch in the Profit rates on assets & Investment Account Holder (IAH). The profit distribution to IAH is based on Profit Sharing Agreements. Therefore, Maisarah is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when a Maisarah result does not allow it to distribute profits in line with the market rates.

Maisarah has a Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Maisarah periodically computes the PRR on the Banking book.

iv) Foreign Exchange Risk:

Foreign Exchange Risk maybe defined as the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

The responsibility of management of foreign exchange risk rests with the Treasury department. The Bank has set up internal limit to monitor foreign exchange open positions. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. Bank has also defined various limits for foreign currency borrowing and lending.

The Bank also conducts stress tests to assess the impact of foreign exchange risk on its profitability and capital adequacy and the same is placed to Risk Management Committee of Board of Directors on regular basis.

v) Commodity Risk:

Commodity Risk occurs due to volatility in the prices of the commodities. Presently the Bank has no exposure to the commodity market.

vi) Equity Position Risk:

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Investment Management Department of the Bank. The Bank does not hold trading position in equities in conventional banking and does not hold any position in equities in Maisarah. The Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Bank has introduced the Value at Risk (VaR) method in conventional banking for the domestic quoted equity portfolio. Out of total quoted equity portfolio of OMR 14.19 million as on 31.12.2015, VaR works out to OMR 328K at 95% confidence level and 2.31% of the domestic quoted equity portfolio.

vii) The Capital Charges: The capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. The Bank does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

The capital charge for various components of market risk is presented below:

Type of risk	RO'000 Amount
Interest Rate Risk	-
Equity Position Risk	-
Commodities Position risk	-
Foreign Exchange position risk	8,886
TOTAL	**8,886**

3.3.5 Liquidity Risk

Liquidity risk is the potential inability to meet the liabilities as they become due. It arises when the banks are unable to generate cash to cope with a decline in deposits or increase in assets.

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

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

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provides the liquidity gap positions to Treasury Department to manage it.

Middle office also undertakes regular stress test that provides the requirement of liquidity over a given time horizon at a certain confidence level.

The Bank has reconciled the statement of Maturity of Assets and Liabilities with the discussions under IFRS (Refer item no. 35 of the Notes to financial statements).

3.3.6 Operational Risk:

Basel Committee on Banking Supervision has defined operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

Bank has a well-defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk losses and ORM process. Business and Functional units are primarily responsible for

taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process. Bank has set up Operational Risk Management Committee to identify, manage, measure, monitor, mitigate and report operational risks. Bank has also formulated a framework for reporting red flags to the Management and to the Board.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

Bank uses various operational risk tools like loss data management (LDM), Key Risk Indicators (KRI), Risk Control and Self-Assessment (RCSA) for effective operational risk management. The system of collecting and collating data on operational risk events has been improved further to build a strong loss data base and to improve control effectiveness. The loss data are being captured using Operational Risk Management System and complete history of the loss data is maintained.

Bank undertakes Risk Control and Self-Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (i.e. inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

Bank is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has a defined threshold limit and an escalation criterion is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.

4. Basel III Disclosures:

Capital Adequacy Norms

The Bank has calculated its Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratios in the following manner:

i. CET1 Capital Ratio = Common Equity Tier 1 Capital/ Total RWA
ii. Tier 1 Capital Ratio= Tier 1 Capital/ Total RWA
iii. Total Capital Ratio = Total Capital/ Total RWA

Tier 1 Capital is the sum of CET1 Capital and Additional Tier 1 Capital (AT1) and Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

The denominator, viz., Total risk-weighted assets (RWA) is calculated as the sum of credit risk weighted assets, market risk-weighted assets, and operational risk-weighted assets, as provided for in BM-1009 and Islamic Banking Regulatory Framework. In the case of Islamic banks, CBO has provided an adjustment factor of alpha at 30% in the RWA in the manner stipulated under Article 2.3.1 of title 5 of IBRF relating to Capital adequacy. However, as per communication received from CBO, for the time being no adjustment is applicable in the computation of RWA.

Based on the presently prescribed level of capital adequacy, banks operating in the Sultanate will be required to maintain at all times, the following minimum capital adequacy ratios:

CET 1 Capital Ratio: 7.625% of risk weighted assets
Tier 1 Capital Ratio: 9.625% of risk weighted assets (Going concern capital)
Total Capital Ratio: 12.625% of risk weighted assets (Gone concern capital)

Within the minimum overall capital of 12%, Tier 2 capital will be admitted up to a maximum of 3% of Risk Weighted Assets of the Bank.

With effect from 01-01-2015, Capital Conservation Buffer (CCB) has been implemented in a phased manner. The CCB shall be 2.5% of the total RWA and every year the buffer will be enhanced by 0.625% from 2017 to 2019, thereby reaching a level of 2.5% in 2019. Further, CBO has also finalised Countercyclical Capital Buffer, which is intended to protect the banking sector as a whole from systemic risk that is often developed during an economic upswing, when there is a tendency towards excessive aggregate credit growth. The Countercyclical Capital Buffer lies between 0% and 2.5% of the total RWA; however presently the countercyclical capital buffer is not imposed. The capital buffer requirements shall be imposed at consolidated level but will not be applied at the Islamic Banking Window level. Thus by the end of 2019, assuming a zero countercyclical capital buffer, banks shall operate above CET1, Tier 1 and Total Capital levels of 9.5%, 11.5% and 14.5% respectively.

Based on the Basel III requirement, the capital structure of the Bank (as a consolidated entity) is presented as per Annexure I. A reference is invited to paragraph 91 of the Basel III rules, which states that banks should disclose "a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements". The reconciliation process laid down is aimed at addressing the issues of disconnect between the numbers disclosed for the calculation of regulatory capital and the numbers used in the published financial statements. However, there is no difference between the regulatory consolidation and the accounting consolidation. The components used in the definition of capital disclosure template are provided as per Annexure IIa and the same are mapped to the composition of capital disclosure template as per Annexure IIb.

Basel II, Pillar 3 guidance note states that banks should provide qualitative disclosure that sets out "Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments." Banks are required to disclose a description of the main features of regulatory capital instruments along with the full terms and conditions of the regulatory capital instruments issued by them. Bank presently has three types of capital instruments viz., Common Shares, Perpetual bonds in the form of Additional Tier 1 Capital and Subordinated Debt. The summary disclosure for these regulatory capital instrument issued by the Bank is provided at Annexure III.

Liquidity Standards:

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2014.

Liquidity Coverage Ratio (LCR):

This ratio aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. The ratio is calculated as follows –

LCR = Stock of High Quality Liquid Assets / Total Net Cash Outflows over the next 30 calendar days
As per guidelines, the value of the LCR should be minimum 60% on an ongoing basis with effect from 01.01.2015. Thereafter the ratio will gradually increase by 10% every year till it reaches 100% by 2019. The Bank is already meeting the regulatory limit of LCR as at 31st December 2015 on a consolidated basis.

Net Stable Funding Ratio (NSFR):

The net stable funding ratio is designed to ensure that banks rely more on long term funding and they maintain a sound funding structure over a horizon of one year to withstand Bank specific stress events. The ratio aims to reduce over-reliance on short term funding to create long term assets, especially during times of volatile liquidity conditions. The ratio is calculated as follows
Net Stable Funding Ratio = Available Stable Funding (ASF) / Required Stable Funding (RSF) *100
Presently, there is no threshold defined for NSFR, however the Bank endeavor to maintain the same in line with the LCR guidelines.

BankDhofar S.A.O.G

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II.

5. Disclosures of Maisarah:

Introduction:

Maisarah Islamic Banking Services (Maisarah) is an Islamic Window of BankDhofar S.A.O.G (the Bank), established after obtaining license from the Central Bank of Oman (CBO). The principal activities of the Maisarah include taking saving, investment accounts, providing Shari'a Compliant forms of financings as well as managing investor's money on the basis of Mudarabah or Wakala, providing commercial banking services and other investment activities.

The Public disclosures under this section have been prepared in accordance with the CBO requirements outlined in the Islamic Banking Regulatory Framework (IBRF), Title 5: Capital Adequacy, Pillar III – Market Discipline.

1) Capital Structure:

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into two categories – Tier I and Tier II. Maisarah's capital structure mainly consists of Tier I capital. Tier I capital includes paid up capital, share premium, Additional Tier 1 capital instruments, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non-cumulative perpetual preferred stocks and retained earnings (available on a long term basis).

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on available for sale instruments, general loan loss provision/ general loan loss reserve in capital and subordinated term debt subject to certain conditions.

Capital Adequacy determination for Islamic Finance Entities (IFE) differs from Conventional financial institutions (CFI) in that:

d. Its financing arrangements are either asset-based or profit and loss sharing (Musharakah) or Profit and loss bearing (Mudarabah)
e. Much of the funding is raised through Wakala deposits and unrestricted investment accounts that are, in principle, a form of liability and equity respectively.

Investment Account Holders (IAH) that impose no restrictions on investment of funds by the Bank are deemed Unrestricted Investment Account Holders (UIAH). Restricted Investment Account Holders (RIAH) imposes certain restrictions with regards to how and for what purpose the funds should be invested. Maisarah accepted deposits as Unrestricted Investments.

As such, the underlying assets involved under the Shari'a Compliant financing contracts may be exposed to Market (price) Risk, as well as to Credit Risk in respect of the amount due from the counterparty. Risk weighted assets (RWA) financed by Profit Sharing Investment Accounts (PSIA), in principle, are excluded in the calculation of the denominator of the capital ratio, insofar as the commercial risk of these assets do not affect the capital of the shareholders. However, as per communication received from CBO, RWA shall be computed in the same way as in conventional banking and therefore 100% risk weights have been assigned to all corporate borrowers.

The details of capital structure are provided as under:

COMMON EQUITY TIER I CAPITAL	RO'000 Amount
Paid up capital	40,000
Legal reserve	-
Retained earnings	597
Cumulative unrealized losses recognized directly in equity	-
COMMON EQUITY TIER I CAPITAL	**40,597**
ADDITIONAL TIER I CAPITAL	-
TOTAL TIER I CAPITAL	40,597
TIER II CAPITAL	
Investment revaluation Reserve (45% only)	-
General Provision (Max of 1.25% of total risk weighted assets)	2,430
PER & IRR	2
TOTAL TIER II CAPITAL	2,432
TOTAL ELIGIBLE CAPITAL (TIER I + TIER II)	**43,029**

Unrestricted IAH Funds	RO'000 Amount
PER (Shareholders Component)	0.668
PER (IAH Component)	1.001
IRR	0.496

2) Capital Adequacy

The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings from external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

Maisarah capital adequacy ratio is 18.28% as against the CBO requirement of 12%. The Bank's policy is to manage and maintain its window capital with the objective of maintaining strong capital ratio and high rating. Maisarah maintains capital levels that are sufficient to absorb all material risks to which it is exposed to and provides market return to the shareholders. Maisarah also ensures that the capital levels comply with regulatory requirements. The whole objective of the capital management process in Maisarah is to ensure that it remains adequately capitalized at all times.

i) Position of various Risk weighted Assets (RWA) is presented as under:

Sl. No	Details	Gross Balances (Book Value) RO'000	Net Balances (Book Value)* RO'000	Risk Weighted Assets RO'000
1	On balance sheet items	315,748	315,748	206,660
2	Off balance sheet items	15,161	15,161	9,431
3	Derivatives	30,032	30,032	300
4	**Total Credit Risk (RWA)**	**360,941**	**360,941**	**216,391**
5	Market Risk (RWA)			8,802
6	Operational Risk (RWA)			10,132
7	**Total Risk Weighted Assets**			**235,325**

* Net of specific provisions and reserve interest

ii) Detail of Capital Adequacy:

Sl. No	Details	RO'000
1	Tier 1 Capital	40,597
2	Tier 2 Capital	2,432
3	**Total Regulatory Capital**	**43,029**
4	Capital Requirement for Credit Risk	25,967
5	Capital Requirement for Market Risk	1,056
6	Capital Requirement for Operational Risk	1,216
7	**Total Required Capital**	**28,239**
8	**Tier 1 Capital Ratio**	**17.25%**
9	**Total Capital Adequacy Ratio**	**18.28%**

iii) Capital Requirement by Types of Islamic Financing Contracts:

Sl. No	Details	Gross Balances (Book Value) RO'000	Net Balances (Book Value)* RO'000	Risk Weighted Assets RO'000
1	Murabaha Receivables	13,052	12,854	19,458
2	Mudaraba Financings	11,767	11,642	37,087
3	Ijarah Assets	32,841	32,439	12,815
4	Diminishing Musharaka Financing	152,255	150,550	118,531

* Net of provisions and reserve profit

3) Risk Exposure and Assessment:

The risks to which banks are exposed to and the techniques that banks use to identify, measure, monitor and control those risks are important factors that market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk and operational risk. For each separate risk area (e.g. credit, market, operational) Maisarah describes its risk management objectives and policies, including scope and nature of risk reporting and/or measurement systems and risk mitigation strategies.

3.3.1 Credit Risk:-

Credit risk is defined as the possibility that a customer or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from Maisarah's dealings with or financing to a corporate, individual, another bank or financial institution. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

Maisarah has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent bench marks, limits for management of credit risks. The Board of Directors delegate credit approval powers for functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Board Credit Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain finance approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the credit corporate proposals before they are considered by the appropriate approving authorities. The customer in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the customer and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors, and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category accounts), reviews have been prescribed at higher frequency. However, the customers who do not publish audited financials are treated as unrated.

Retail financing is strictly in accordance with the CBO guidelines.

In addition to these, Maisarah also undertakes business with other banks. The maximum exposures to these banks are defined in the policy on exposure to non-resident borrowers and restrictions are put in place on the total exposure to such counterparty banks. Maisarah has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the external risk rating grades assigned to various countries and these limits are reviewed on half yearly basis.

In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention is used for Maisarah as well.

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Specific and general provisions are computed periodically in accordance with the CBO regulations as well as other applicable accounting standards. General loan loss provisions equivalent to 1% of the financing categorized as Standard and Special Mention for meeting the latent financing losses are provided for. However, a general loss provision of 2% of the Standard and Special Mention personal financing is created considering the heightened risk inherent in retail finance.

All financing decisions are made after giving due consideration to credit risk policy requirements.

i) Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure:

Sl. No.	Type of Credit Exposure	Average Gross exposure RO'000	Total Gross exposures RO'000	Percentage of total financing
1	Murabaha Receivables	16,341	13,052	6.22%
2	Mudaraba Financing	5,281	11,767	5.61%
3	Ijarah Assets	30,480	32,841	15.64%
4	Diminishing Musharaka Financing	119,611	152,255	72.53%
	TOTAL	**171,713**	**209,915**	**100.00%**

ii) Geographic distribution of exposures, broken down in significant areas by major types of credit exposure:

Sl. No	Type of Credit Exposure	Oman RO'000	Other GCC Countries RO'000	*OECD Countries RO'000	Other RO'000	Total RO'000
		1	2	3	4	5
1	Murabaha Receivables	13,052	-	-	-	**13,052**
2	Mudaraba Financing	11,767	-	-	-	**11,767**
3	Ijarah Assets	32,841	-	-	-	**32,841**
4	Diminishing Musharakah Financing	152,255	-	-	-	**152,255**
	Total	**209,915**	**-**	**-**	**-**	**209,915**

*excluding countries included in column 2

iii) Industry or counterparty type distribution of exposures broken down by major types of credit exposures:

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

iv) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

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

v) Analysis of asset book by major industry or counterparty type:

	Performing Murabaha receivables RO'000	Performing Mudaraba Financing RO'000	Performing Diminishing Musharaka Financing RO'000	Performing Ijarah Muntahia Bittamleek RO'000	General provisions made during the year RO'000
Import trade	9,448	4,035	51	-	(147)
Export trade	-	-	-	-	-
Wholesale/retail trade	-	350	550	-	(10)
Mining and quarrying	38	655	3,479	-	(46)
Construction	236	4,270	58,602	-	(688)
Manufacturing	-	-	1,582	-	(17)
Electricity, gas and water	-	-	-	-	-
Transport and communication	99	-	184	-	(3)
Financial institutions	-	-	-	-	-
Services	9	2,457	29,869	-	(353)
Personal finance	3,162	-	57,905	32,841	(1,165)
Agriculture and allied activities	-	-	-	-	-
Government	-	-	-	-	-
Non resident lending	-	-	-	-	-
Others	60	-	33	-	(1)
Total	**13,052**	**11,767**	**152,255**	**32,841**	**(2,430)**

vi) Financing by type of counterparty:

Segment	RO in 000's	%
Retail	93,908	44.74%
Corporate	116,007	55.26%

3.3.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach:

i) The Bank has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. The same convention has been adopted for Maisarah as well.

ii) The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is NIL. All other credit exposures of Corporate and Retail (except house finance, where valuation of the property is not older than 3 years, are assigned 35% risk weight) are assigned 100% risk weight.

3.3.3 Credit Risk Mitigation: Disclosures for Standardized approaches:

The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties.

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Customer and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing assets grades (including special mention) and 3 non-performing assets grades. The rating grade indicates the default probability of the customer's obligation. The same rating framework has been adopted by Maisarah as well.

3.3.4 Market Risk:

Market Risk is the risk to the Bank's earnings and capital due to changes in the profit rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

Maisarah has a comprehensive Treasury Risk Policy which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel II.

Details of various market risks faced by the Bank are set out below:

i) Profit Rate Risk (PRR):

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

Maisarah has a detailed Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Maisarah periodically computes the PRR on the Banking book.

ii) Foreign Exchange Risk:

The responsibility of management of foreign exchange risk rests with the Treasury department. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. Bank has defined various limits for foreign currency lending.

The Bank conducts stress tests to assess the impact of foreign exchange risk on its profitability and capital adequacy on the consolidated entity basis and the same is placed to Risk Management Committee of Board of Directors on regular basis.

iii) Commodity Risk:

Presently Maisarah has no exposure to the commodity market.

iv) Equity Position Risk:

Presently Maisarah has no exposure to the Equity market.

v) The Capital Charges:

The capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in IBRF. Maisarah does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. During the year risk weighted assets for market risk was RO 8,802k, thus the capital charge for various components of market risk in Maisarah is RO 1056K.

3.3.5 Liquidity Risk

Maisarah's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management.

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

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

3.3.6 Operational Risk:

Maisarah has a well-defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk losses and ORM process. Business and Functional units are primarily responsible for taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process. Bank has set up Operational Risk Management Committee to identify, manage, measure, monitor, mitigate and report operational risks.

Bank has started the process of collecting and collating data on operational risk events to build a strong loss data base and to improve the control effectiveness. The loss data are being captured using Operational Risk Management system; however Maisarah being a new entity, there are no loss events at present. Further, other operational risk tools like Risk Control & Self-Assessment (RCSA) and Key Risk Indicators (KRIs) are also implemented.

Maisarah has in place the policies and procedures to increase the banking as well as the Islamic financing knowledge within its staff. During the year, Maisarah has conducted 47 training programs including both in-house as well as external training programs. These programs were conducted mainly in the areas of concepts of Islamic banking and the products and services of Islamic banking.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires Maisarah to provide 15% of the average gross income for the last three years as capital charge for operational risk which amounts to OMR 1216K.

4) Investment Account Holders (IAH)

Maisarah manages and deploys the equity of IAH according to rules and regulations laid down in IBRF. Maisarah holds and maintains two separate pools of funds, one for its own funds and another for Equity of its IAH. Both of these pools are managed in accordance with Shari'a requirements and standard of prudence is applied in the context of managing the overall portfolio to enable Maisarah to exercise its fiduciary responsibilities. Maisarah is authorized by the IAH to invest the funds in the manner Maisarah deems fit without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in Maisarah's credit risk, liquidity risk, and other risks policies. The strategic objectives of the investments of the fund are:

1) Investments in Shari'a compliant opportunities
2) Targeted returns
3) Compliance with Credit risk policy & overall investment plan
4) Diversified Portfolio

Funds are invested in Shari'a Compliant commercial or Retail financing as short, medium or long term investments excluding strategic investments. Under all the aforesaid arrangement, Maisarah can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as self-financed. These self-financed assets are deducted from total assets to arrive at "Jointly Financed Assets (JFA)". To separate the JFA into Self-Financed and IAH, Maisarah applies formula to identify the proportional share of each fund's in the JFA.

Maisarah's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including Murabaha, Mudarabah, Musharakah and Ijarah. There are no separate designations for Portfolio Managers, Investment Advisors and trustee. IAH's accounts are managed at Head Office level by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "Mudarib Expenses". Mudarib expenses include all expenses incurred by Maisarah, including specific provisions, but excluding staff cost and depreciation. Maisarah's Mudarib Profit is deducted from Investors' share of income before distributing such income.

The basis applied by Maisarah in arriving at the IAH's share of income is [Total Investments income less Investment Pools Expenses] divided by [average funds generating income (shareholders & equity of IAH) times average funds of IAH]. Total administrative expenses for profit distribution purposes are borne by Maisarah.

Investment account holders by category:

Category	Amount RO in 000's
Saving Account	7,985
Term deposit	40

Profit Equalization Reserve (PER)

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

Investment Risk Reserve (IRR)

Maisarah deducts IRR as per approved policy from the profit distributable to equity of IAH, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

Displaced Commercial Risk (DCR)

Maisarah is exposed to DCR in the event of having equity of IAH profit rates that are lower than market rates. Maisarah has mitigated the risk through setting up of reserves that will be used in case of a drop in IAH profit rates.

4.1) Shari'a Compliance

The most distinct feature of any Islamic bank is its compliance with the principles of Shari'a in all its activities, operations, transactions and investments. To ensure compliance with the rules and principles of Shari'a, Maisarah has a fully independent setup of Shari'a Governance system.

The Shari'a Compliance and Audit Department have been setup with the purpose of examination and assessment of the extent to which the Institution is observing Shari'a Principles, Fatwas, guidelines and instructions issued by the Shari'a Supervisory Board of Maisarah. It also ensures a proper segregation exists between Maisarah and the parent bank with regards to services, products, funds and investments. During 2015, the department has conducted 10 audits as compared to the target of 16.

The Unit comes under the direct supervision of Shari'a Supervisory Board (SSB). The SSB met 7 times (including one meeting with Board of Directors) in the year 2015 and the remuneration paid for the year ended 31 December 2015 for SSB members are as follows:

	2015 RO'000	2014 RO'000
Remuneration paid to SSB members		
Chairman		
– remuneration proposed	**6**	6
– sitting fees paid	**3**	3
Other Members		
– remuneration proposed	**16**	16
– sitting fees paid	**7**	8

Non Shari'a Compliant Income

Maisarah is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

During the year, Maisarah recorded the Non Shari'a compliant income of RO 7k in respect of rebate received on nostro accounts.

Zakat

In accordance with the Policy of Maisarah, the responsibility to pay Zakat is on the shareholders & IAH.

4.2) Break up of PER and IRR

The following table summarized the breakdown of analysis of PER and IRR of IAH:

Sr. No	Details	%
1	PER to PSIA Ratio	0.021%
2	IRR to PSIA Ratio	0.006%

4.3) Movement in PER & IRR

The following table summarized the movement in PER & IRR during the year

	RO in '000 PER	RO in '000 IRR
Balance at January 1	0.300	0.089
Amount apportioned from income allocated equity of IAH	1.369	0.407
Amount utilized during the year	-	-
Balance at December 31	**1.669**	**0.496**

The PER & IRR will revert to IAH as per the terms and conditions of the Mudaraba Contract.

As IAH funds are commingled with Maisarah's funds for investments, no priority is granted to, neither the Mudarib nor the Rab ul maal, for the purpose of Investments and distribution of profits.

4.4) Break up of ROA and ROE

The following table summarized the position of Return on Assets (RoA) and Return on Equity (RoE) of IAH:

Sr. No	Details	%
1	Return on Assets (ROA) ie the amount of total net income (before distribution of profit to unrestricted IAH) / Total amount of assets financed by shareholders' equity and minority interests, Unrestricted IAH and current accounts and other liabilities	2.142
2	Return on Equity (ROE) ie Amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity	15.502

Statement I

Basel III Capital Disclosure Template

	Basel III common disclosure template to be used during the transition of regulatory adjustments 9i.e. from 1 January 2013 to 1 January 2018	(RO '000)	Amount Subject to Pre-Basel III treatment
Common Equity Tier 1 Capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	194,491.00	
2	Retained Earnings	22,313.00	
3	Accumulated other comprehensive income (and other reserves)	120,727.00	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)		
	Public Sector capital injections grandfathered until 1 january 2018		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)		
6	Common Equity Tier 1 Capital before regulatory adjustments	337,531.00	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)*	1,986.00	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)*	804.00	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	62.00	
11	Cash Flow hedge reserve	-	
12	Shortfall of provisions to expected loss	-	
13	Securitization gain on sale (as set out in para 14.9 of CP-1)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross holdings in common equity	-	
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold)	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
	Regulatory adjustments applied to common equity Tier 1 in respect of amount subject to pre-basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
27	Regulatory adjustments applied to common equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to common equity Tier 1	2,852.00	
29	Common Equity Tier 1 capital (CET 1)	334,679.00	
Additional Tier 1 Capital: Instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	115,500.00	
31	of which: classified as equity under applicable accounting standards	115,500.00	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 capital before regulatory adjustments	115,500.00	
Additional Tier 1 Capital: Regulatory Adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments	-	
	Regulatory adjustments applied to Additional Tier 1 in respect of amount subject to pre-basel III treatment	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
	of which: (insert name of adjustment)	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1	-	
44	Additional Tier 1 capital (CET 1)	115,500.00	

45	Tier 1 capital (T1 = CET 1 + AT 1)	450,179.00
Tier 2 capital: Instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	33,100.00
47	Directly issued capital instruments subject to phase out from Tier 2	
48	Tier 2 instruments (and CET 1 and AT 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions and Cumulative fair value gains on available for sale instruments	38,645.00
51	Tier 2 capital before regulatory adjustments	71,745.00
Tier 2 capital: Regulatory Adjustments		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
55	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
	Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-basel III treatment	-
	of which: (insert name of adjustment)	-
	of which: (insert name of adjustment)	-
	of which: (insert name of adjustment)	-
57	Total Regulatory Adjustments to Tier 2 capital	-
58	Tier 2 Capital (T 2)	71,745.00
59	Total Capital (TC = T 1 + T 2)	521,924.00
	Risk Weighted Assets in respect of amounts subject to pre-Basel III treatment	
	of which: (insert name of adjustment)	
	of which: (insert name of adjustment)	
60	Total Risk Weighted Assets (60a + 60b + 60c)	3,549,684.00
60a	of which: Credit Risk Weighted Assets	3,239,902.00
60b	of which: Market Risk Weighted Assets	111,079.00
60c	of which: Operational Risk Weighted Assets	198,703.00
Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	9.43%
62	Tier 1 (as a percentage of risk weighted assets)	12.68%
63	Total capital (as a percentage of risk weighted assets)	14.70%

64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets)	7.63%
65	of which: capital conservation buffer requirement	0.63%
66	of which: bank specific countercyclical buffer requirement	0.00%
67	of which: D-SIB/ G-SIB buffer requirements	0.00%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	1.80%
National Minima (if different from Basel III)		
69	National common equity Tier 1 minimum ratio (if different from Basel III minimum)	NA
70	National Tier 1 minimum ratio (if different from Basel III minimum)	NA
71	National total capital minimum ratio (if different from Basel III minimum)	NA
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	38,645.00
77	Cap on inclusion of provisions in Tier 2 under standardized approach	40,498.78
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET 1 instruments subject to phase out arrangements	NA
81	Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	NA
82	Current cap on AT 1 instruments subject to phase out arrangements	NA
83	Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	NA
84	Current cap on T 2 instruments subject to phase out arrangements	NA
85	Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities)	NA

Statement IIa

The components used in the definition of capital disclosure template are provided below:

Reconciliation of reported balance sheet and the regulatory scope of consolidation			
	Balance Sheet as in Published Financial Statement As at Period End	Under regulatory scope of consolidation As at Period end	Reference
Assets			
Cash & Balances with CBO	439,833.00		
Balances with bank and money at call and short notice	57,604.00		
Investments:	205,193.00		
Of which **Held to Maturity**	169,391.00		
Out of investments in Held to Maturity:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which **Available for Sale**	35,802.00		
Out of investments in Available for Sale:			
Investments in Subsidiaries			
Investments in Associates & Joint Ventures			
Of which **Held for Trading**			
Loans & Advances - Net	2,809,738.00		
Of which,			
Loans & Advances to domestic banks			
Loans & Advances to Non Resident Banks - Net	80,432.00		
Loans & Advances to domestic customers			
Loans & Advances to Non Resident Customers for domestic operations			
Loans & Advances to Non Resident Customers for operations abroad			
Loans & Advances to SMEs			
Financing from Islamic Banking Window			
Fixed Assets	8,795.00		
Other Asset	69,912.00		
Of which,			
Goodwill & Intangible Assets	1,986.00		a
Out of which			
Goodwill			
Other Intangibles (excluding MSRs)			
Deferred Tax Assets			
Goodwill on Consolidation			
Debit balance in Profit & Loss Account			
Total Assets	**3,593,061.00**		
Capital & Liabilities			
Paid up capital	269,973.00		
of which:			
Amount eligible for CET 1	154,473.00		h
Amount eligible for AT1	115,500.00		i
Reserves & Surplus	206,556.00		j
Share Premium	40,018.00		k
Legal Reserve & Special Reserve	58,702.00		l
Subordinated loan reserve	62,025.00		m
Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I)	327.00	(804.00)	n
Retained Earnings (The proposed dividend payment amount is excluded from retained earnings)	45,484.00	22,313.00	o
Total Capital			
Deposits			

Statement of financial position

as at 31 December 2015

2014 US$ '000	2015 US$ '000		Notes	2015 RO'000	2014 RO'000
		Assets			
1,517,844	**1,142,423**	Cash and balances with Central Bank of Oman	5	**439,833**	584,370
236,789	**358,535**	Loans, advances and financing to banks	7	**138,036**	91,164
5,856,377	**7,089,106**	Loans, advances and financing to customers	8	**2,729,306**	2,254,705
69,834	**92,992**	Available-for-sale investments	9	**35,802**	26,886
389,579	**439,977**	Held-to-maturity investments	10	**169,391**	149,988
6,190	**5,158**	Intangible asset	11	**1,986**	2,383
25,151	**22,844**	Property and equipment	12	**8,795**	9,683
194,670	**181,590**	Other assets	13	**69,912**	74,948
8,296,434	**9,332,625**	**Total assets**		**3,593,061**	3,194,127
		Liabilities			
454,579	**802,244**	Due to banks	14	**308,864**	175,013
6,447,218	**6,733,431**	Deposits from customers	15	**2,592,371**	2,482,179
279,849	**289,407**	Other liabilities	16	**111,422**	107,742
269,805	**269,805**	Subordinated loans	17	**103,875**	103,875
7,451,451	**8,094,887**	**Total liabilities**		**3,116,532**	2,868,809
		Shareholder's equity			
348,894	**401,229**	Share capital	18 (a)	**154,473**	134,324
103,943	**103,943**	Share premium	19	**40,018**	40,018
48,021	**48,021**	Special reserve	20 (d)	**18,488**	18,488
92,304	**104,452**	Legal reserve	20 (a)	**40,214**	35,537
107,143	**161,104**	Subordinated loan reserve	20 (b)	**62,025**	41,250
(119)	**849**	Investment revaluation reserve	20 (c)	**327**	(46)
144,797	**118,140**	Retained earnings	21	**45,484**	55,747
844,983	**937,738**	**Total equity attributable to the equity holders of the Bank**		**361,029**	325,318
-	**300,000**	Perpetual Tier 1 Capital Securities	18 (b)	**115,500**	-
844,983	**1,237,738**	**Total equity**		**476,529**	325,318
8,296,434	**9,332,625**	**Total liabilities and equity**		**3,593,061**	3,194,127
1,859,935	**2,193,034**	**Contingent liabilities and commitments**	32	**844,318**	716,075
0.63	**0.61**	**Net assets per share (Rial Omani)**	22	**0.234**	0.242

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

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Abdul Hakeem Omar Al Ojaili
Acting Chief Executive Officer

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

Statement of comprehensive income

for the year ended 31 December 2015

2015 US$ '000	2014 US$ '000		Notes	2015 RO'000	2014 RO'000
306,943	277,356	Interest income		**118,173**	106,782
(87,519)	(86,239)	Interest expense		**(33,695)**	(33,202)
219,424	191,117	**Net interest income**	23	**84,478**	73,580
19,955	9,415	Income from Islamic financing and investment activities		**7,683**	3,625
(5,075)	(1,083)	Unrestricted investment account holders' share of profit		**(1,954)**	(417)
14,880	8,332	**Net income from Islamic financing and investment activities**		**5,729**	3,208
44,205	35,021	Fees and commission income		**17,019**	13,483
(4,491)	(3,468)	Fees and commission expenses		**(1,729)**	(1,335)
39,714	31,553	**Net fees and commission income**		**15,290**	12,148
25,270	25,753	Other income	24	**9,729**	9,915
299,288	256,755	**Operating income**		**115,226**	98,851
(124,317)	(110,597)	Staff and administrative costs	25	**(47,862)**	(42,580)
(8,668)	(9,306)	Depreciation	12	**(3,337)**	(3,583)
(132,985)	(119,903)	**Operating expenses**		**(51,199)**	(46,163)
166,303	136,852	**Profit from operations**		**64,027**	52,688
(37,156)	(30,280)	Provision for loan impairment	26	**(14,305)**	(11,658)
14,343	12,270	Recoveries from allowance for loan impairment	26	**5,522**	4,724
(3)	-	Bad debts written-off		**(1)**	-
(7,122)	-	Impairment of available-for-sale investments	20	**(2,742)**	-
136,365	118,842	**Profit from operations after provision**		**52,501**	45,754
(14,898)	(13,769)	Income tax expense	27	**(5,736)**	(5,301)
121,467	105,073	**Profit for the year**		**46,765**	40,453
		Other comprehensive income:			
		Items that are or may be reclassified to statement of income:			
(5,813)	(3,010)	Net changes in fair value of available-for-sale investments	9	**(2,238)**	(1,159)
(340)	(1,665)	Reclassification adjustment on sale of available-for-sale investments	9	**(131)**	(641)
7,122	-	Impairment of available-for-sale investments	20	**2,742**	-
969	(4,675)	Other comprehensive (loss)/ income for the year, net of tax		**373**	(1,800)
122,436	100,398	**Total comprehensive income for the year**		**47,138**	38,653
0.07	0.07	**Earnings per share basic and diluted (Rials Omani)**	28	**0.027**	0.026

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

Statement of changes in equity

for the year ended 31 December 2015

	Notes	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier capital security RO'000	Total equity RO'000
Balances as at 1 January 2015		**134,324**	**40,018**	**18,488**	**35,537**	**41,250**	**(46)**	**55,747**	**325,318**	**-**	**325,318**
Total comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	46,765	46,765	-	46,765
Other comprehensive income for the year											
Net change in fair value of available-for-sale investments		-	-	-	-	-	(2,238)	-	(2,238)	-	(2,238)
Transfer to statement of income on sale of available-for-sale investments		-	-	-	-	-	(131)	-	(131)	-	(131)
Impairment of available-for-sale investments		-	-	-	-	-	2,742	-	2,742	-	2,742
Total comprehensive income for the year		-	-	-	-	-	373	46,765	47,138	-	47,138
Transfer to legal reserve	20	-	-	-	4,677	-	-	(4,677)	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	-	20,775		(20,775)	-	-	-
Proceeds from Perpetual Tier 1 capital securities		-	-	-	-	-		-	-	115,500	115,500
Perpetual Tier 1 issuance cost		-		-	-	-	-	(755)	(755)	-	(755)
Additional Tier 1 coupon		-	-	-	-	-	-	(3,956)	(3,956)	-	(3,956)
Transactions with owners recorded directly in equity											
Dividend paid for 2014	38	-	-	-	-	-	-	(6,716)	(6,716)	-	(6,716)
Bonus shares issued for 2014	38	20,149	-	-	-	-	-	(20,149)	-	-	-
Balances as at 31 December 2015		**154,473**	**40,018**	**18,488**	**40,214**	**62,025**	**327**	**45,484**	**361,029**	**115,500**	**476,529**
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balances as at 1 January 2015		348,894	103,943	48,021	92,304	107,143	(119)	144,797	844,983	-	844,983
Total comprehensive income for the year											-
Profit for the year								121,467	121,467		121,467
Other comprehensive income for the year											-
Net change in fair value of available-for-sale investments		-	-	-	-	-	(5,813)		(5,813)		(5,813)
Transfer to statement of income on sale of available-for-sale investments		-	-	-	-	-	(340)		(340)		(340)
Impairment of available-for-sale investments							7,122		7,122		7,122
Total comprehensive income for the year		-	-	-	-	-	969	121,467	122,436	-	122,436
Transfer to legal reserve	20	-	-	-	12,148	-	-	(12,148)	-	-	-
Transfer to subordinated loan reserve		-	-	-	-	53,961	-	(53,961)	-	-	-
Proceeds from Perpetual Tier 1 capital securities		-	-	-	-	-	-	-	-	300,000	300,000
Perpetual Tier 1 issuance cost		-	-	-	-	-	-	(1,961)	(1,961)	-	(1,961)
Additional Tier 1 coupon		-	-	-	-	-	-	(10,275)	(10,275)	-	(10,275)
Transactions with owners recorded directly in equity											-
Dividend paid for 2014	38	-	-	-	-	-	-	(17,444)	(17,444)	-	(17,444)
Bonus shares issued for 2014	38	52,335	-	-	-	-	-	(52,335)	-	-	-
Balances as at 31 December 2015		**401,229**	**103,943**	**48,021**	**104,452**	**161,104**	**850**	**118,140**	**937,739**	**300,000**	**1,237,739**

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2014

	Notes	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
Balances as at 1 January 2014		121,013	40,018	18,488	31,492	26,250	1,754	64,592	303,607
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	40,453	40,453
Other comprehensive income for the year									
Net change in fair value of available-for-sale investments		-	-	-	-	-	(1,159)	-	(1,159)
Transfer to statement of income on sale of available-for - sale of investments		-	-	-	-	-	(641)	-	(641)
Total comprehensive income for the year		-	-	-	-	-	(1,800)	40,453	38,653
Transfer to legal reserve	20	-	-	-	4,045	-	-	(4,045)	-
Transfer to subordinated loan reserve	20	-	-	-	-	15,000	-	(15,000)	-
Transactions with owners recorded directly in equity									
Dividend paid for 2013	38	-	-	-	-	-	-	(16,942)	(16,942)
Bonus shares issued for 2013	38	13,311	-	-	-	-	-	(13,311)	-
Balances as at 31 December 2014		134,324	40,018	18,488	35,537	41,250	(46)	55,747	325,318
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balances as at 1 January 2014		314,320	103,943	48,021	81,797	68,182	4,556	167,771	788,590
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	105,073	105,073
Other comprehensive income for the year									
Net change in fair value of available-for-sale investments		-	-	-	-	-	(3,010)	-	(3,010)
Transfer to statement of income on sale of available-for -sale of investments		-	-	-	-	-	(1,665)	-	(1,665)
Total comprehensive income for the year		-	-	-	-	-	(4,675)	105,073	100,398
Transfer to legal reserve	20	-	-	-	10,507	-	-	(10,507)	-
Transfer to subordinated loan reserve	20	-	-	-	-	38,961	-	(38,961)	-
Transactions with owners recorded directly in equity									
Dividend paid for 2013	38	-	-	-	-	-	-	(44,005)	(44,005)
Bonus shares issued for 2013	38	34,574	-	-	-	-	-	(34,574)	-
Balances as at 31 December 2014		348,894	103,943	48,021	92,304	107,143	(119)	144,797	844,983

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2015

2015 US$ '000	2014 US$ '000		2015 RO'000	2014 RO'000
		Cash flows from operating activities		
378,101	337,125	Interest, financing income, commission and other receipts	**145,569**	129,793
(93,950)	(87,374)	Interest payments, return on islamic banking deposits	**(36,171)**	(33,639)
(103,421)	(133,499)	Cash payments to suppliers and employees	**(39,817)**	(51,397)
180,730	116,252		**69,581**	44,757
		Decrease in operating assets		
(1,255,543)	(934,361)	Loans, advances and financing to customers	**(483,384)**	(359,729)
(12,177)	(31,473)	Loans, advances and financing to banks	**(4,688)**	(12,117)
(400)	(40,041)	Receipts from treasury bills and certificates of deposits (net)	**(154)**	(15,416)
(1,268,120)	(1,005,875)		**(488,226)**	(387,262)
		Increase in operating liabilities		
286,213	1,169,956	Deposits from customers	**110,192**	450,433
345,351	177,865	Due to banks	**132,960**	68,478
631,564	1,347,821		**243,152**	518,911
(455,826)	458,198	**Net cash from operating activities**	**(175,493)**	176,406
(14,005)	(19,688)	Income tax paid	**(5,392)**	(7,580)
(469,831)	438,510	**Net cash from operating activities**	**(180,885)**	168,826
		Cash flows from investing activities		
7,418	5,091	Investment income	**2,856**	1,960
(25,912)	(33,210)	Purchase of investments	**(9,976)**	(12,786)
4,231	22,927	Proceeds from sale of investments	**1,629**	8,827
1,865	1,966	Dividend received	**718**	757
(6,716)	(6,260)	Purchase of property and equipment	**(2,586)**	(2,410)
457	483	Proceeds from sale of property and equipment	**176**	186
(18,657)	(9,003)	**Net cash used in investing activities**	**(7,183)**	(3,466)
		Cash flow (used in) / from financing activities		
-	75,000	Subordinated loan	**-**	28,875
300,000		Proceeds from issue of perpetual tier 1 capital securities	**115,500**	
(10,275)		Additional tier 1 coupon	**(3,956)**	
(1,961)	-	Perpetual tier 1 capital securities issuance cost	**(755)**	-
(17,444)	(44,005)	Dividend paid	**(6,716)**	(16,942)
270,319	30,995	**Net cash from financing activities**	**104,073**	11,933
(218,169)	460,502	**Net change in cash and cash equivalents**	**(83,995)**	177,293
1,565,060	1,104,558	Cash and cash equivalents at the beginning of the year	**602,548**	425,255
1,346,891	1,565,060	**Cash and cash equivalents at the end of the year**	**518,553**	602,548
1,142,424	1,517,844	**Cash and balances with Central Bank of Oman (Note 5)**	**439,833**	584,370
(1,299)	(1,299)	Capital deposit with Central Bank of Oman	**(500)**	(500)
160,156	50,587	Loans, advances and financing to banks due within 90 days	**61,660**	19,476
49,997	-	Treasury bills within 90 days	**19,249**	-
(4,387)	(2,072)	Due to banks within 90 days	**(1,689)**	(798)
1,346,891	1,565,060	**Cash and cash equivalents for the purpose of the cash flow statement**	**518,553**	602,548

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements 2015

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the "Bank") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank's Islamic Banking Window, Maisarah Islamic Banking services has an allocated capital of RO 40 million from the core paid up capital of the shareholders. The Bank has a primary listing on the Muscat Securities Market ("MSM") and its principal place of business is the Head Office, Capital Business District ("CBD"), Muscat, Sultanate of Oman.

2. BASIS OF PREPARATION

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

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

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

For the year ended 31 December 2015, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 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 those standards and interpretations has not resulted in any major changes to the Bank's accounting policies and has not affected the amounts reported for the current and prior periods.

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

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

- IFRS 15, Revenue from Contracts with Customers: effective for annual periods commencing 1 January 2018;
- IFRS 9, Financial Instruments - Hedge accounting: effective for annual periods commencing 1 January 2018;
- IFRS 16, Leases: effective for annual periods commencing 1 January 2019;
- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements 2012-2014 Cycle – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

IFRS 9 Financial Instruments

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

The Bank plans to adopt the new standard on the required effective date. The Bank plans to perform a detailed assessment in the future to determine the impact of all three aspects of IFRS 9.

(a) Classification and measurement

The Bank does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale with gains and losses recorded in other comprehensive income (OCI) will be measured at fair value through profit or loss instead, which will increase volatility in recorded profit or loss. The Available-for-sale (AFS) reserve currently in accumulated OCI will be reclassified to opening retained earnings. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Bank expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Bank expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Bank were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Bank expects that these will continue to be measured at amortised cost under IFRS 9. However, the Bank will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Bank expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Bank expects an impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(c) Hedge accounting

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency translations

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

3.2 Financial assets and liabilities

3.2.1 Classification

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

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

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

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

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

(b) Loans and receivables

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

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

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the statement of comprehensive income and is reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the 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 Bank has not designated any loans or receivables as available-for-sale.

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

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

3.2.2 Derivative financial instruments and hedging activities

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

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(iii) hedges of a net investment in a foreign operation (net investment hedge).

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

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

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

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

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

3.2.3 Recognition

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

3.2.4 Derecognition

(i) Financial assets

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

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

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

(ii) Financial liabilities

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

3.2.5 Offsetting

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

3.2.6 Amortised cost measurement

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

3.2.7 Fair value measurement

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

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

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

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

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

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

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

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 Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

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

3.2.8 Investment in equity and debt securities

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

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

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

3.2.9 Fair value measurement of derivatives

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

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

3.3 Identification and measurement of impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

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

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

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

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

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

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

(b)Assets classified as available-for-sale

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

(c)Renegotiated loans

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

3.4Cash and cash equivalents

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

3.5 Due from banks

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

3.6 Property and equipment

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

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

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

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

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

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

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

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

3.7 Collateral pending sale

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

3.8 Intangible assets

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

3.9 Deposits

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

3.10 Income tax

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

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

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

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

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

3.11 Fiduciary assets

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

3.12 Acceptances

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

3.13 Sale and repurchase agreements

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

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

3.14 Trade and settlement date accounting

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

3.15 Leases

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

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

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

3.16 Employee benefits

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

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

3.17 Financial guarantees contracts

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

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

3.18 Borrowings

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

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

3.19 Dividend on ordinary shares

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

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

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

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

3.21.1 Interest income and expense

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

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

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

3.21.2 Fees and commission income

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

3.21.3 Dividends

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

3.21.4 Provisions

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

3.22 Segment reporting

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

3.23 Earnings per share

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

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Classification of investments

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

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

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

(b) Fair value estimation

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

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

(c) Impairment

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

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

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

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

(d) Useful life of property and equipment

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

(e) Deferred tax asset

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

5. Cash and balances with Central Bank of Oman

	2015 RO'000	2014 RO'000
Cash in hand	**31,979**	36,121
Balances with the Central Bank of Oman	**237,684**	238,249
Placements with Central Bank of Oman	**170,170**	-
Certificate of deposits with original maturity of 90 days or less	**-**	310,000
	439,833	584,370

At 31 December 2015, cash and balances with Central Bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2014: RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

6. Recovery from a legal case (RO 26.1 million)

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

7. Loans and advances to banks

	2015 RO'000	2014 RO'000
Syndicated loans to other banks	**80,841**	73,920
Less: impairment allowance (collective)	**(409)**	(439)
Net syndicated loans to other banks	**80,432**	73,481
Placements with other banks	**48,090**	4,821
Current clearing accounts	**9,514**	12,862
	138,036	91,164

At 31 December 2015, there are no concentrations with any banks representing 20% or more of the Bank's placements (2014: no concentration).

Movement of the impairment allowance as below:

	2015 RO'000	2014 RO'000
Opening balance as on 1 January	**439**	367
Add: Additions during the year	**-**	256
Less: Reversal during the year	**(30)**	(184)
Closing balance as on 31 December	**409**	439

8 Loans, advances and financing to customers

	2015 RO'000	2014 RO'000
Overdrafts	**149,261**	130,591
Loans	**2,299,290**	1,953,070
Loans against trust receipts	**111,700**	79,484
Bills discounted	**6,867**	10,445
Advance against credit cards	**7,684**	7,705
Others	**43,207**	27,980
Islamic Banking Window financing	**209,915**	133,034
Gross loans, advances and financing	**2,827,924**	2,342,309
Less: Impairment allowance	**(98,618)**	(87,604)
Net loans, advances and financing	**2,729,306**	2,254,705
The movement in the impairment allowance is analysed below:		
a) Allowance for loan impairment		
1 January	**56,887**	50,809
Allowance during the year	**14,335**	11,586
Released to the statement of income during the year	**(5,522)**	(4,724)
Written off during the year	**(890)**	(784)
31 December	**64,810**	56,887
Reserved interest		
1 January	**30,717**	29,810
Reserved during the year	**6,042**	5,682
Released to the statement of income during the year	**(763)**	(944)
Written off during the year	**(2,188)**	(3,831)
31 December	**33,808**	30,717
Total impairment allowance	**98,618**	87,604

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

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

In 2015, the Bank has written off RO 2.42 million (2014: RO 2.66 million) as technical write off.

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

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

Out of the total provisions of RO 98,618,000 (2014: RO 87,604,000) a collective provision was made on portfolio basis amounting to RO 37,792,000 (2014: RO 32,349,000). Collective provision includes RO 2,430,000 against financing of Islamic window (2014: RO 1,494,000)

At 31 December 2015, impaired loans and advances on which interest has been reserved amount to RO 64,932,694 (2014: RO 58,680,172) and loans and advances on which interest is not being accrued amount to RO 973,000 (2014: RO 1,251,000).

Loans advances and financing are summarised as follows:

	2015		2014	
	Loans, advances and financing to customers RO'000	Loans, advances and financing to banks RO'000	Loans, advances and financing to customers RO'000	Loans, advances and financing to banks RO'000
Neither past due nor impaired	**2,728,369**	**138,445**	2,265,922	91,603
Past due but not impaired	**34,624**	**-**	16,625	-
Impaired	**64,931**	**-**	59,762	-
Gross loans and advances	**2,827,924**	**138,445**	2,342,309	91,603
Less: Impairment allowance	**(98,618)**	**(409)**	(87,604)	(439)
Total	**2,729,306**	**138,036**	2,254,705	91,164

Loans, advances and financing neither past due nor impaired

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

Loans and advances past due but not impaired

	2015 RO'000	2014 RO'000
Past due up to 30 days	**19,867**	11,019
Past due 30 – 60 days	**10,996**	4,082
Past due 60 – 89 days	**3,761**	1,524
Total	**34,624**	16,625

Impaired

	2015 RO'000	2014 RO'000
Substandard	3,069	2,999
Doubtful	5,257	3,608
Loss	56,605	53,155
Total	64,931	59,762

Fair value of collaterals

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

Loans, advances and financing renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that are classified as standard amounted to RO 14,369,000 at 31 December 2015 (2014: RO 44,908,000).

9.Available-for-sale investments

a) Equity investments

	Cost RO'000	Fair value 2015 RO'000	Fair value 2014 RO'000
Quoted on the Muscat Securities Market			
Banking and investments	**3,723**	**3,684**	1,211
Services	**5,063**	**5,041**	5,257
Industrial	**8,948**	**8,584**	7,737
	17,734	**17,309**	14,205
Unquoted			
Omani companies	**1,377**	**1,900**	2,483
	1,377	**1,900**	2,483
	19,111	**19,209**	16,688
b) Sukuk			
Unquoted			
Omani company/Govt.	**16,364**	**16,593**	10,198
	16,364	**16,593**	10,198
	35,475	**35,802**	26,886

At 31 December 2015, the market value of the Sukuk approximates to the carrying value.

10. Held-to-maturity investments

	2015 RO'000	2014 RO'000
Treasury bills	**39,236**	61,121
Government Development Bonds	**120,155**	88,867
	159,391	149,988
Local un – listed sukuk	**10,000**	-
	169,391	149,988

Outstanding treasury bills were issued by central banks outside Sultanate of Oman for a term less than 3 carry interest rates ranging from 0.11% per annum (2014 from: 0.30%) per annum.

Outstanding Government Development Bonds carry interest ranging from 1.85% to 4.3% per annum and mature from Dec 2016 to Feb 2025. (2014: 3.25% to 5.50%) per annum and mature from 2015 to 2022.)

11. Intangible asset

	2015 RO'000	2014 RO'000
1 January	**2,383**	2,780
Impaired during the year	**(397)**	(397)
31 December	**1,986**	2,383

Intangible asset represents goodwill which resulted from the acquisition of branches of the Commercial Bank of Oman in the year 2001 and merger with Majan International Bank in the year 2003. Goodwill is tested for impairment each year. An assessment has been made to establish projected future cash flows associated with the cash generating unit (CGU) by using discount rate equivalent to cost of funds of the Bank. An impairment change of RO 397,000 (2014: 397,000) was recognised during the year.

12. Property and equipment

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

	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor Vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Total RO'000
Cost							
1 January 2014	140	1,573	12,251	1,666	17,683	251	33,564
Additions	-	-	942	52	1,290	126	2,410
Disposals	-	-	(55)	(377)	(72)	(20)	(524)
31 December 2014	**140**	**1,573**	**13,138**	**1,341**	**18,901**	**357**	**35,450**
Depreciation							
1 January 2014	-	997	8,415	1,346	11,903	-	22,661
Charge for the year	-	59	1,344	201	1,979	-	3,583
Disposals	-	-	(30)	(376)	(71)	-	(477)
31 December 2014	**-**	**1,056**	**9,729**	**1,171**	**13,811**	**-**	**25,767**
Carrying value							
31 December 2014	**140**	**517**	**3,409**	**170**	**5,090**	**357**	**9,683**
31 December 2013	140	576	3,836	320	5,780	251	10,903

13. Other assets

	2015 RO'000	2014 RO'000
Acceptances	**59,713**	65,113
Interest receivable	**5,842**	4,149
Prepaid expenses	**1,584**	1,680
Positive fair value of derivatives (note 33)	**-**	1,320
Deferred tax assets (note 27)	**62**	-
Other receivables	**2,711**	2,686
	69,912	74,948

14. Due to banks

	2015 RO'000	2014 RO'000
Syndicated Inter bank borrowings	**96,250**	38,500
Inter bank borrowings	**210,925**	135,715
Payable on demand	**1,689**	798
	308,864	175,013

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

At 31 December 2015, Inter bank borrowings includes Islamic Window's inter bank borrowings with other bank of RO 52,325,000. (2014 RO 23,100,000)

At 31 December 2015 no borrowings with any banks represented 20% or more of the Bank's borrowings (2014: one bank). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

15. Deposits from customers

	2015 RO'000	2014 RO'000
Current accounts	**715,302**	686,095
Savings accounts	**435,759**	402,433
Time deposits	**1,227,648**	1,274,542
Margin accounts	**21,504**	22,101
Islamic Banking Window deposits	**192,158**	97,008
	2,592,371	2,482,179

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,097,497,000 as at 31 December 2015 (2014: RO 1,076,168,000).

At 31 December 2015, deposits from customers include Islamic Window's current deposits, saving deposits and time deposits of RO 192,158,000 (2014 RO 97,008,000).

16 Other liabilities

	2015 RO'000	2014 RO'000
Acceptances	**59,713**	65,113
Interest payable	**3,661**	4,183
Creditors and accruals	**39,951**	29,795
Income tax provision	**6,688**	5,805
Deferred tax liability (note 27)	**-**	473
Negative fair value of derivatives (note 33)	**130**	1,320
Employee terminal benefits	**1,279**	1,053
	111,422	107,742

Employee terminal benefits

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

	2015 RO'000	2014 RO'000
1 January	**1,053**	871
Expense recognised in the statement of income	**241**	255
Paid to employees	**(15)**	(73)
	1,279	1,053

17. Subordinated loans

	2015 RO'000	2014 RO'000
Subordinated loan - US Dollar	**28,875**	28,875
Subordinated loan - RO	**75,000**	75,000
	103,875	103,875

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

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

In November 2011, the Bank availed RO 50 million unsecured subordinated loan from the major shareholders for a tenor of 5 years and one month. This facility carries a fixed rate of interest payable half yearly, with principal being repaid on maturity.

18. (a) Share capital

The authorised share capital consists of RO 2,200,000,000 ordinary shares of RO 0.100 each (2014: 2,200,000,000 ordinary shares of RO 0.100 each).

At 31 December 2015, the issued and paid up share capital comprise 1,544,728,546 ordinary shares of RO 0.100 each (2014: 1,343,242,214 ordinary shares of RO 0.100 each).

Shareholders

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

	2015		2014	
	No. of shares	%	No. of shares	%
Dhofar International Development and Investment Company SAOG	**432,523,991**	**28.0%**	373,625,997	27.8%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	**321,901,224**	**20.8%**	279,914,110	20.8%
Civil Service Employees' Pension Fund	**157,714,879**	**10.2%**	137,232,341	10.2%
Total	**912,140,094**	**59.0%**	790,772,448	58.9%
Others	**632,588,452**	**41.0%**	552,469,766	41.1%
	1,544,728,546	**100%**	1,343,242,214	100%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 40,000,000 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 31 December 2015.

On 26 June 2014, the Board of Directors proposed the increase of Islamic Banking Window's allocated capital from RO 12,500,000 to RO 25,000,000 from the core paid up capital of the shareholders. A resolution to approve the increase in share capital has presented to the shareholders in the annual general meeting on 29 March 2015 and thereafter on 18 June 2015 Maisarah's paid-up capital was increased from OMR 25 million to OMR 40 Million from its shareholders core capital.

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

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

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

The shareholders of the Bank in the annual general meeting held during March 2015 approved the issuance of 15% bonus shares comprising 201,486,332 shares of par value RO 0.100 each (2014: 133,114,093 shares of par value RO 0.100 each) and 5% (2014 – 14%) as cash dividend of the paid share capital of the Bank amounting to RO 6,716,000 for the year ended 31 December 2014 (2014 – RO 16,942,000 for the year ended 31 December 2013).

18. (b) Perpetual Tier 1 Capital Securities

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

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

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

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

19. Share premium

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

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

20. Reserves

(a) Legal reserve

	2015 RO'000	2014 RO'000
1 January	**35,537**	31,492
Appropriation for the year	**4,677**	4,045
31 December	**40,214**	35,537

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

b) Subordinated loans reserves

	2015 RO'000	2014 RO'000
1 January	**41,250**	26,250
Appropriation for the year:		
Subordinated loan reserve	**20,775**	15,000
31 December	**62,025**	41,250

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

c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	2015 RO'000	2014 RO'000
1 January	**(46)**	1,754
(Decrease)/ Increase in fair value	**(2,238)**	(1,159)
Net transfer to statement of income on sale of available-for-sale investments	**(131)**	(641)
Impairment of available for sale investment	**2,742**	-
31 December	**327**	(46)

d) Special reserve

During the year 2013, the Bank recognised in the statement of income, recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share premium account for issuance of bonus shares, which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen capital and requires prior approval of CBO for any distribution from this 'special reserve account' (refer note 6).

21. Retained earnings

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

22. Net assets per share

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

	2015 RO'000	2014 RO'000
Net assets (RO)	**361,029,000**	325,318,000
Number of shares outstanding at 31 December (Nos.)	**1,544,728,546**	1,343,242,214
Net assets per share (RO)	**0.234**	0.242

23. Net interest income

	2015 RO'000	2014 RO'000
Loans and advances to customers	**115,913**	104,535
Debt investments	**337**	410
Money market placements	**1,908**	1,827
Others	**15**	10
Total interest income	**118,173**	106,782
Deposits from customers	**(32,680)**	(32,364)
Money market deposits	**(1,015)**	(838)
Total interest expense	**(33,695)**	(33,202)
Net interest income	**84,478**	73,580

Included in interest income from debt investments is an amount of RO 337,374,000 (2014: RO 396,528,000) being interest income from held-to-maturity investments.

Included in interest expenses from customers is interest on subordinated loan against related parties of RO 5,422,000 (2014: RO 4,439,000).

24. Other income

	2015 RO'000	2014 RO'000
Foreign exchange	**1,903**	1,398
Investment income (see below)	**4,396**	3,874
Miscellaneous income	**3,430**	4,643
	9,729	9,915
Investment income		
Dividend income- available-for-sale investments	**718**	757
Gain on disposal of available-for-sale investments	**180**	647
Income on Sukuk	**600**	507
Interest income on Government Development Bonds/Other bonds	**2,898**	1,963
	4,396	3,874

25. Staff and administrative costs

a) Staff costs

	2015 RO'000	2014 RO'000
Salaries and allowances	**27,382**	23,365
Other personnel costs	**4,906**	3,586
Scheme costs	**670**	1,377
Non-Omani employees terminal benefit	**242**	255
	33,200	28,583

At 31 December 2015, the Bank had 1,371 employees (2014: 1,340 employees).

b) Administrative costs

	2015 RO'000	2014 RO'000
Occupancy costs	**3,632**	3,486
Operating and administration cost	**9,676**	9,279
Impairment of goodwill	**397**	397
Others	**957**	835
	14,662	13,997
	47,862	42,580

26. Impairment of financial assets

	2015 RO'000	2014 RO'000
Provision for loan impairment (note 7 and 8)	**14,305**	11,658
Loans written-off	**1**	-
	14,306	11,658
Recoveries from provision for loan impairment (note 8)	**(5,522)**	(4,724)
Net impairment charge for financial assets	**8,784**	6,934

27. Income tax

a) Income tax expense

	2015 RO'000	2014 RO'000
Current year	**6,271**	5,416
Prior years	**-**	-
	6,271	5,416
Deferred tax		
Current year	**(130)**	(55)
Prior years	**(405)**	(60)
	(535)	(115)
Tax expense for the year	**5,736**	5,301

b) Reconciliation:

The Bank is liable to income tax for the year 2015 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	2015 RO'000	2014 RO'000
	52,501	45,754
Tax liability at the rates mentioned above	**6,297**	5,487
Tax exempt revenue	**(107)**	(167)
Interest on Additional Tier 1 securities	**(475)**	-
Non-deductible expenses	**151**	36
Deferred tax – prior years	**(130)**	(55)
Tax expense for the year	**5,736**	5,301

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

Particulars	2014 RO '000	Recognised in income	2015 RO '000
Property, plant and equipment	(266)	43	(223)
Intangible asset	(286)	48	(238)
Provisions (others)	24	468	523
Provision – loan loss	55	(24)	-
Net deferred tax assets/(liability)	(473)	535	62

d) Status of previous year returns:

The tax returns of the Bank for the years 2012 to 2014 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

Management are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2015.

28. Earnings per share (basic and diluted)

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

	2015 RO'000	2014 RO'000
Profit for the year (RO)	**46,765,000**	40,453,000
Less : Additional Tier 1 Coupon	**(3,956,000)**	-
Less : Perpetual Tier 1 issuance cost	**(755,000)**	-
Profit for the period attributable to equity holders of the bank after coupon and issuance cost on Tier 1 capital securities	**42,054,000**	40,453,000
Weighted average number of shares outstanding during the year	**1,544,728,546**	1,544,728,546
Earnings per share basic and diluted (RO)	**0.027**	0.026

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

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding to include the 15% bonus shares of 201,486,332 shares issued in the first quarter of 2015.

29. Related parties transactions

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

	2015 RO'000	2014 RO'000
Loans and advances		
Directors and shareholders holding 10% or more interest in the Bank	**34,559**	21,162
Other related parties	**11,943**	9,803
	46,502	30,965
Subordinated loans		
Directors and shareholders holding 10% or more interest in the Bank	**48,663**	54,438
Other related parties	**40,775**	40,775
	89,438	95,213
Deposits and other accounts		
Directors and shareholders holding 10% or more interest in the Bank	**257,649**	325,022
Other related parties	**82,517**	87,515
	340,166	412,537

29. Related parties transactions (continued)

	2015 RO'000	2014 RO'000
Contingent liabilities and commitments		
Directors and shareholders holding 10% or more interest in the Bank	**142**	174
Other related parties	**1,618**	1,816
	1,760	1,990
Remuneration paid to Directors		
Chairman		
– remuneration proposed	**16**	17
– sitting fees paid	**10**	10
Other Directors		
– remuneration proposed	**103**	116
– sitting fees paid	**71**	57
	200	200
Other transactions		
Rental payment to related parties	**468**	380
Other transactions	**79**	70
Remuneration and fees proposed to Sharia' Board of Islamic Banking Window	**32**	32
Key management compensation		
– salaries and other benefits	**1,235**	956

30. Fiduciary assets

At 31 December 2015 and 2014, there were no funds under management with the Bank.

31. Single borrower and senior members

a) Single borrower

	2015 RO'000	2014 RO'000
(a) Single borrower		
Total direct exposure	**124,960**	189,145
Number of Members	**2**	3
(b) Senior members		
Total exposure:		
Direct	**50,310**	33,907
Indirect	**1,760**	1,990
	52,070	35,897
Number of Members	**27**	16

32 Contingent liabilities and commitments

a) Credit related contingent items

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

	2015 RO'000	2014 RO'000
Letters of credit	**133,358**	87,680
Guarantees and performance bonds	**710,960**	628,395
	844,318	716,075

At 31 December 2015, letters of credit, guarantees and other commitments amounting to RO 110,893,000 (2014: RO 136,610,000) are counter guaranteed by other banks.

b) Capital and investment commitments

	2015 RO'000	2014 RO'000
Contractual commitments for property and equipment	**933**	1,152

33. Derivative financial instruments

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

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

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

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

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

At 31 December 2014	Contract / notional amount RO'000	Fair value increase / decrease: Assets RO'000	Fair value increase / decrease: Liabilities RO'000
Foreign exchange derivatives			
Currency forward - purchase contracts	227,273	1,442	-
Currency forward - sales contracts	225,927	-	122

	Assets		Liabilities	
	2015 RO'000	2014 RO'000	2015 RO'000	2014 RO'000
Expected cash flow less than 6 months	-	1,320	130	-

34. Fair value information

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2015 are considered by the Management not to be materially different to their book values.

Estimation of fair values

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

Loans and advances

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

Investments

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

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

Current account balances due to and due from banks

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

Bank and customer deposits

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

Other financial instruments

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

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

Fair value versus carrying amounts

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

Fair value measurements recognised in the statement of financial position

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

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

At 31 December 2015	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Cost RO'000	Total RO'000
Available-for-sale investments					
Equity instruments	**16,882**	**-**	**2,327**	**-**	**19,209**
Sukuk	**6,395**	**10,198**	**-**	**-**	**16,593**
At 31 December 2014					
Available-for-sale investments					
Equity instruments	14,205	-	2,483	-	16,688
Sukuk	-	10,198	-	-	10,198

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

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

35. Financial risk management

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

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

Credit risk

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

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

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

a) Geographical concentrations

	Assets			Liabilities		
	Gross loans advances and financing to banks RO'000	Gross Loans Advances and financing RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
31 December 2015						
Sultanate of Oman	**43,270**	**2,819,983**	**185,944**	**2,589,322**	**63,017**	**708,184**
Other GCC countries	**26,577**	**7,941**		**2,276**	**197,722**	**39,897**
Europe and North America	**27,718**	**-**	**19,249**	**5**	**21,175**	**47,280**
Africa and Asia	**40,880**	**-**	**-**	**768**	**26,950**	**48,957**
	138,445	**2,827,924**	**205,193**	**2,592,371**	**308,864**	**844,318**
31 December 2014						
Sultanate of Oman	-	2,336,759	115,753	2,478,557	59,454	549,060
Other GCC countries	14,443	5,550	61,121	3,179	67,539	54,026
Europe and North America	45,189	-	-	4	25,028	68,025
Sultanate of Oman	31,971	-	-	439	22,992	44,964
	91,603	2,342,309	176,874	2,482,179	175,013	716,075

b) Customer concentrations

	Assets			Liabilities		
	Gross loans advances and financing to banks RO'000	Gross Loans Advances and financing RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
31 December 2015						
Personal	**-**	**1,362,625**		**604,342**		**445**
Corporate	**138,445**	**1,383,776**	**48,656**	**890,532**	**308,864**	**823,906**
Government	**-**	**81,523**	**156,537**	**1,097,497**	**-**	**19,967**
	138,445	**2,827,924**	**205,193**	**2,592,371**	**308,864**	**844,318**
31 December 2014						
Personal	-	1,048,120	-	529,288	-	2,639
Corporate	91,603	1,157,466	88,007	876,723	175,013	711,538
Government	-	136,723	88,867	1,076,168	-	1,898
	91,603	2,342,309	176,874	2,482,179	175,013	716,075

c) Economic sector concentrations

	Assets	Liabilities	
	Gross loans, advances and financing RO'000	Deposits from customers RO'000	Contingent Liabilities RO'000
31 December 2015			
Personal	**1,362,625**	**604,342**	**445**
International trade	**111,978**	**55,307**	**51,392**
Construction	**453,547**	**160,658**	**506,845**
Manufacturing	**221,150**	**43,450**	**46,780**
Wholesale and retail trade	**30,861**	**8,791**	**33,622**
Communication and utilities	**77,710**	**44,536**	**5,099**
Financial services	**137,453**	**77,022**	**70,294**
Government	**81,523**	**1,097,497**	**19,967**
Other services	**149,593**	**123,336**	**80,751**
Others	**201,484**	**377,432**	**29,123**
	2,827,924	**2,592,371**	**844,318**
31 December 2014			
Personal	1,048,120	529,288	2,639
International trade	97,168	52,119	45,260
Construction	327,648	131,840	407,296
Manufacturing	230,627	41,999	55,645
Wholesale and retail trade	38,084	8,928	19,627
Communication and utilities	89,171	47,647	5,111
Financial services	122,527	65,474	105,790
Government	136,723	1,076,168	1,898
Other services	105,518	113,336	61,543
Others	146,723	415,380	11,266
	2,342,309	2,482,179	716,075

d) Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2015 RO'000	2014 RO'000	2015 RO'000	2014 RO'000
Overdrafts	**149,261**	130,591	**138,275**	119,691
Loans	**2,299,290**	1,953,070	**2,170,684**	1,887,113
Loans against trust receipts	**111,700**	79,484	**94,955**	91,232
Bills discounted	**6,867**	10,445	**3,671**	10,776
Advance against credit cards	**7,684**	7,705	**7,623**	7,599
Advance against receivable	**43,207**	27,980	**35,434**	22,715
Islamic Banking Window financing	**209,915**	133,034	**171,713**	84,994
Total	**2,827,924**	2,342,309	**2,622,355**	2,224,120

e) Geographical distribution of exposures:

	Sultanate of Oman RO'000	Other countries RO'000	Total RO'000
31 December 2015			
Overdrafts	**149,261**	**-**	**149,261**
Loans	**2,294,169**	**5,121**	**2,299,290**
Loans against trust receipts	**111,670**	**30**	**111,700**
Bills discounted	**4,077**	**2,790**	**6,867**
Advance against credit cards	**7,684**	**-**	**7,684**
Others	**43,207**	**-**	**43,207**
Islamic Banking Window financing	**209,915**	**-**	**209,915**
	2,819,983	**7,941**	**2,827,924**
31 December 2014			
Overdrafts	130,591	-	130,591
Loans	1,948,054	5,016	1,953,070
Loans against trust receipts	78,950	534	79,484
Bills discounted	10,445	-	10,445
Advance against credit cards	7,705	-	7,705
Others	27,980	-	27,980
Islamic Banking Window financing	133,034	-	133,034
	2,336,759	5,550	2,342,309

f) Industry type distribution of exposures by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
31 December 2015						
Import trade	11,107	84,823	599	15,212	111,741	48,667
Export trade	185	37	-	15	237	2,725
Wholesale/retail trade	8,514	19,628	-	2,719	30,861	33,622
Mining and quarrying	4,166	22,501	388	18	27,073	1,291
Construction	72,622	303,019	318	77,588	453,547	506,845
Manufacturing	11,580	153,141	2,164	54,265	221,150	46,780
Electricity, gas and water	7	33,130	-	-	33,137	305
Transport and Communication	113	44,460	-	-	44,573	4,794
Financial institutions	6,286	130,559	608	-	137,453	70,294
Services	20,505	127,705	-	1,383	149,593	80,751
Personal loans	3,929	1,351,212	-	7,484	1,362,625	445
Agriculture and allied Activities	3,490	9,695	-	93	13,278	1,695
Government	-	81,523	-	-	81,523	22,927
Non-resident lending	-	5,151	2,790	-	7,941	22,811
Others	6,757	142,621	-	3,814	153,192	366
	149,261	2,509,205	6,867	162,591	2,827,924	844,318
31 December 2014						
Import trade	10,612	60,486	30	26,035	97,163	45,260
Export trade	5	-	-	-	5	-
Wholesale/retail trade	8,630	26,101	-	3,353	38,084	19,627
Mining and quarrying	3,917	39,973	287	7	44,184	2,614
Construction	51,567	232,238	1,227	42,616	327,648	407,296
Manufacturing	11,396	186,443	-	32,788	230,627	55,645
Electricity, gas and water	34	41,341	-	402	41,777	723
Transport and Communication	120	47,274	-	-	47,394	4,388
Financial institutions	7,693	108,281	6,552	1	122,527	105,790
Services	22,333	81,672	272	1,241	105,518	61,543
Personal loans	4,835	1,035,743	-	7,542	1,048,120	2,639
Agriculture and allied Activities	3,541	8,840	32	46	12,459	1,435
Government	-	136,723	-	-	136,723	1,898
Non-resident lending	-	5,016	-	534	5,550	-
Others	5,908	75,973	2,045	604	84,530	7,217
	130,591	2,086,104	10,445	115,169	2,342,309	716,075

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

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposure RO'000
31 December 2015						
Upto 1 month	7,463	49,766	6,867	4,276	68,372	382,814
1 - 3 months	7,463	86,512	-	3,489	97,464	49,263
3 - 6 months	7,463	30,638	-	4,605	42,706	43,513
6 - 9 months	7,463	3,914	-	6,740	18,117	28,831
9 - 12 months	7,463	11,750	-	10,316	29,529	17,297
1 - 3 years	37,315	143,185	-	71,395	251,895	176,540
3 – 5 years	37,315	149,363	-	18,199	204,877	112,296
Over 5 years	37,316	2,034,077		43,571	2,114,964	33,764
	149,261	2,509,205	6,867	162,591	2,827,924	844,318
31 December 2014						
Upto 1 month	6,530	21,599	10,445	7,278	45,852	288,321
1 - 3 months	6,530	79,559	-	3,346	89,435	38,662
3 - 6 months	6,530	96,564	-	3,290	106,384	54,167
6 - 9 months	6,530	18,204	-	16,285	41,019	36,740
9 - 12 months	6,530	58	-	16,556	23,144	50,748
1 - 3 years	32,647	157,830	-	12,337	202,814	140,141
3 – 5 years	32,647	137,140	-	24,663	194,450	87,659
Over 5 years	32,647	1,575,150	-	31,414	1,639,211	19,637
	130,591	2,086,104	10,445	115,169	2,342,309	716,075

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

	Performing loans RO'000	Non-performing loans RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision during the year RO'000	Advances written off during the year RO'000
31 December 2015							
Import trade	**103,406**	**8,335**	**1,241**	**1,260**	**6,674**	**8**	**32**
Export trade	**232**	**5**	**2**	**3**	**1**	**-**	**-**
Wholesale/retail trade	**9,804**	**21,057**	**98**	**4,934**	**16,254**	**2**	**27**
Mining and quarrying	**27,069**	**4**	**271**	**580**	**2**	**578**	**2**
Construction	**450,805**	**2,742**	**4,508**	**528**	**2,180**	**18**	**21**
Manufacturing	**220,734**	**416**	**2,208**	**182**	**235**	**1**	**7**
Electricity, gas and water	**33,130**	**7**	**331**	**-**	**5**	**-**	**1**
Transport and communication	**44,573**	**-**	**446**	**-**	**-**	**-**	**1**
Financial institutions	**137,453**	**-**	**1,367**	**-**	**-**	**-**	**-**
Services	**149,362**	**231**	**1,494**	**86**	**131**	**2**	**63**
Personal loans	**1,335,946**	**26,679**	**23,215**	**14,848**	**7,478**	**8,073**	**730**
Agriculture and allied activities	**13,268**	**10**	**133**	**7**	**3**	**-**	**-**
Government	**81,523**	**-**	**815**	**-**	**-**	**-**	**-**
Non-resident lending	**2,820**	**5,121**	**28**	**4,429**	**696**	**-**	**-**
Others	**152,868**	**324**	**1,635**	**161**	**149**	**40**	**6**
	2,762,993	**64,931**	**37,792**	**27,018**	**33,808**	**8,722**	**890**
31 December 2014							
Import trade	89,651	7,512	896	1,425	5,786	12	-
Export trade	1	4	1	3	1	-	-
Wholesale/retail trade	19,090	18,994	191	4,959	14,153	22	27
Mining and quarrying	44,179	5	442	4	2	-	-
Construction	325,037	2,611	4,314	814	1,910	15	151
Manufacturing	230,135	492	2,301	264	219	114	-
Electricity, gas and water	41,743	34	417	8	3	8	-
Transport and communication	47,390	4	474	1	3	-	-
Financial institutions	122,527	-	1,227	-	-	-	-
Services	105,135	383	1,051	160	198	13	42
Personal loans	1,023,919	24,201	18,697	12,289	7,692	5,877	564
Agriculture and allied activities	12,450	9	125	7	2	-	-
Government	136,723	-	1,367	-	-	-	-
Non-resident lending	534	5,016	6	4,429	590	-	-
Others	84,033	497	840	175	158	43	-
	2,282,547	59,762	32,349	24,538	30,717	6,104	784

i) Distribution of impaired loans and gross loans by geographical distribution:

	Performing loans RO'000	Non-performing loans RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision during the year RO'000	Advances written off during the year RO'000
31 December 2015							
Sultanate of Oman	**2,819,983**	**59,810**	**37,764**	**22,589**	**33,112**	**8,722**	**890**
Other countries	**7,941**	**5,121**	**28**	**4,429**	**696**	**-**	**-**
	2,827,924	**64,931**	**37,792**	**27,018**	**33,808**	**8,722**	**890**
31 December 2014							
Sultanate of Oman	**2,336,759**	**54,746**	**32,343**	**20,109**	**30,127**	**6,104**	**784**
Other countries	**5,550**	**5,016**	**6**	**4,429**	**590**	**-**	**-**
	2,342,309	**59,762**	**32,349**	**24,538**	**30,717**	**6,104**	**784**

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

	2015 RO'000	2014 RO'000
Treasury bills	**39,236**	61,121
Loans, advances and financing to banks	**138,036**	91,164
Loan, advances and financing to customers	**2,729,306**	2,254,705
Government development bonds	**120,155**	88,867
	3,026,733	2,495,857
Financial guarantees	**679,548**	527,736
	3,706,281	3,023,593

At 31 December 2015, impairment losses would have increased by RO 1, 080,000 (2014: 1,121,483) had collateral not been obtained by the Bank for the impaired loans and advances.

Liquidity risk

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

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

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

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

Maturity profile of assets and liabilities

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

	Due on demand and up to 30 days RO'000	More than 1month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2014						
Cash and balances with Central Bank of Oman	583,870	-	-	-	500	584,370
Loans and advances to banks	17,683	47,446	18,381	7,654	-	91,164
Loans and advances to customers	174,626	338,998	147,198	513,580	1,080,303	2,254,705
Available-for-sale Investments	-	-	16,688	10,198	-	26,886
Held-to-maturity Investments	5,128	55,993	25,778	50,565	12,524	149,988
Intangible asset	-	-	-	-	2,383	2,383
Property and equipment	-	-	-	-	9,683	9,683
Other assets	4,149	54,399	9,318	1,396	5,686	74,948
Total assets	785,456	496,836	217,363	583,393	1,111,079	3,194,127
Due to banks	59,620	76,893	-	38,500	-	175,013
Deposits from customers	193,621	405,455	460,548	652,275	770,280	2,482,179
Other liabilities	21,440	55,432	10,446	13,646	6,778	107,742
Subordinated loans	-	-	-	75,000	28,875	103,875
Total equity	-	40,453	-	-	284,865	325,318
Total liabilities and shareholders' equity	274,681	578,233	470,994	779,421	1,090,798	3,194,127

Market risk

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

a) Currency risk

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

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

Foreign currency exposures

	2015 RO'000	2014 RO'000
Net assets denominated in US Dollars	**131,257**	47,511
Net assets denominated in other foreign currencies	**10,843**	2,013
	142,100	49,524

b) Interest rate risk

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

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

	+ or – 1%		+ or – 2%	
	2015 RO'000	2014 RO'000	2015 RO'000	2014 RO'000
Omani Rials	**7,327**	10,031	**14,654**	20,061
US Dollars	**2,599**	1,830	**5,199**	3,660
Others currencies	**144**	181	**288**	361

Interest rate sensitivity gap

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

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2015								
Cash and balances with Central Bank of Oman	**0.15%**	**170,170**	**-**	**-**	**-**	**500**	**269,163**	**439,833**
Loans, advances and financing to banks	**1.0%**	**65,561**	**72,475**	**-**	**-**	**-**	**-**	**138,036**
Loans, advances and financing to customers	**5.1%**	**201,330**	**316,280**	**127,884**	**699,309**	**1,384,503**	**-**	**2,729,306**
Available-for-sale Investments	**5.0%**	**-**	**-**	**-**	**16,593**	**-**	**19,209**	**35,802**
Held-to-maturity investments	**1.9%**	**39,235**	**-**	**7,239**	**113,655**	**9,262**	**-**	**169,391**
Intangible asset		**-**	**-**	**-**	**-**	**-**	**1,986**	**1,986**
Property and equipment		**-**	**-**	**-**	**-**	**-**	**8,795**	**8,795**
Other assets		**-**	**-**	**-**	**-**	**-**	**69,912**	**69,912**
Total assets		**476,296**	**388,755**	**135,123**	**829,557**	**1,394,265**	**369,065**	**3,593,061**
Due to banks	0.7%	172,425	38,500	-	96,250	-	1,689	308,864
Deposits from customers	1.3%	116,475	313,621	369,546	650,723	45,164	1,096,842	2,592,371
Other liabilities		-	-	-	-	-	111,422	111,422
Subordinated loan	5.3%	-	-	50,000	25,000	28,875	-	103,875
Shareholders' equity		-	46,765	-	-	115,500	314,264	476,529
Total liabilities and equity		288,900	398,886	419,546	771,973	189,539	1,524,217	3,593,061
On-balance sheet gap		187,396	(10,131)	(284,423)	(57,584)	1,204,726	(1,155,152)	
Cumulative interest sensitivity gap		187,396	177,265	(107,158)	(49,574)	1,155,152		

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2014								
Cash and balances with Central Bank of Oman	0.13%	310,000	-	-	-	500	273,870	584,370
Loans and advances to banks	1.1%	28,950	62,214	-	-	-	-	91,164
Loans and advances to customers	5.3%	174,626	338,998	147,198	513,580	1,080,303	-	2,254,705
Available-for-sale Investments	5.0%	-	-	-	10,198	-	16,688	26,886
Held-to-maturity investments	1.9%	5,128	55,993	25,778	50,565	12,524	-	149,988
Intangible asset		-	-	-	-	-	2,383	2,383
Property and equipment		-	-	-	-	-	9,683	9,683
Other assets		-	-	-	-	-	74,948	74,948
Total assets		518,704	457,205	172,976	574,343	1,093,327	377,572	3,194,127
Due to banks	0.7%	58,822	26,843	88,550	-	-	798	175,013
Deposits from customers	1.4%	64,208	238,001	472,624	570,461	34,821	1,102,064	2,482,179
Other liabilities		-	-	-	-	-	107,742	107,742
Subordinated loan	5.3%	-	-	-	75,000	28,875		103,875
Shareholders' equity		-	40,453	-	-	-	284,865	325,318
Total liabilities and equity		123,030	305,297	561,174	645,461	63,696	1,495,469	3,194,127
On-balance sheet gap		395,674	151,908	(388,198)	(71,118)	1,029,631	(1,117,897)	
Cumulative interest sensitivity gap		395,674	547,582	159,384	88,266	1,117,897		

c) Investment price risk

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

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

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

If there is adverse impact of 5% on equity portfolio, the value of the portfolio may decrease by RO 712,000. (2014: decrease by RO 708,000).

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

The financial statements include holdings in unlisted shares and bonds which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the unlisted shares and bonds would decrease / increase by RO 248,000 (2014: decrease / increase by RO 127,000.

Operational risk

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

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Risk Management Committee (RMC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The RMC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/ Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2015, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

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

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

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

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

Business Continuity Planning (BCP)

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

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.
- Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.
- Bank wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipments, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.
- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.
- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.
- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Internal Capital Adequacy Assessment Process (ICAAP):

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

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

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

36. Capital risk management

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

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

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2015 is 14.70% (2014: 14.05%).

Capital structure

	2015 RO'000	2014 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**154,473**	134,324
Legal reserve	**40,214**	35,537
Share premium	**40,018**	40,018
Special reserve	**18,488**	18,488
Subordinated loan reserve	**62,025**	41,250
Retained earnings	**6,866**	28,882
Proposed bonus shares	**15,447**	20,149
CET I/Tier I Capital	**337,531**	318,648
Additional Tier I regulatory adjustments:		
Deferred tax Assets	**(62)**	-
Goodwill	**(1,986)**	(2,383)
Negative investment revaluation reserve	**(804)**	(1,634)
Total CET 1 capital	**334,679**	314,631
Additional Tier I capital (AT1)	**115,500**	-
Total Tier 1 Capital (T1=CET1+AT1)	**450,179**	314,631
TIER II CAPITAL		
Investment revaluation reserve	**444**	620
General provision	**38,201**	32,788
Subordinated loan	**33,100**	62,625
Total Tier II capital	**71,745**	96,033
Total eligible capital	**521,924**	410,664
Risk weighted assets		
Banking book	**3,239,902**	2,674,461
Trading book	**111,079**	70,357
Operational risk	**198,703**	178,817
Total	**3,549,684**	2,923,635
Total Tier 1 Capital (T1=CET1+AT1)	**450,179**	314,631
Tier II capital	**71,745**	96,033
Tier III capital	**-**	-
Total regulatory capital	**521,924**	410,664
Common Equity Tier 1 ratio	**9.43%**	10.76%
Tier I capital ratio	**12.68%**	10.76%
Total capital ratio	**14.70%**	14.05%

37. Segmental information

The Bank is organised into three main business segments:
Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and
Treasury and investments

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

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

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

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

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

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

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

At 31 December 2014	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	61,043	46,894	2,470	110,407
Other revenues	7,567	7,758	6,738	22,063
Segment operating revenues	68,610	54,652	9,208	132,470
Interest, Islamic Window Deposit expenses	(12,273)	(15,491)	(5,855)	(33,619)
Net operating income	56,337	39,161	3,353	98,851
Segment cost				
Operating expenses including depreciation	(22,864)	(20,211)	(3,088)	(46,163)
Impairment for loans and investment net recoveries from allowance for loans impairment	(5,188)	(1,674)	(72)	(6,934)
Profit from operations after provision	28,285	17,276	193	45,754
Tax expenses	(3,279)	(2,000)	(22)	(5,301)
Net profit for the year	25,006	15,276	171	40,453
Segment assets	1,160,090	1,492,117	629,963	3,282,170
Less: Impairment allowance	(52,330)	(35,274)	(439)	(88,043)
Total segment assets	1,107,760	1,456,843	629,524	3,194,127
Segment liabilities	671,636	1,917,840	279,333	2,868,809

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

At 31 December 2014	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	1,536	2,017	72	3,625
Other revenues	89	467	532	1,088
Segment operating revenues	1,625	2,484	604	4,713
Profit expenses	(26)	(263)	(128)	(417)
Net operating income	1,599	2,221	476	4,296
Segment cost				
Operating expenses including depreciation	(1,211)	(1,590)	(57)	(2,858)
Impairment allowance	(427)	(782)	-	(1,208)
Net loss for the year	(39)	(151)	419	230
Segment assets	52,091	85,856	55,339	193,286
Less: Impairment allowance	(612)	(882)	-	(1,494)
Total segment assets	51,479	84,974	55,339	191,792
Segment liabilities	1,797	91,291	66,277	159,365

38. Proposed dividend

The Board of Directors in their meeting held on 26 January 2016 proposed a cash dividend of 15% (2014: 10%) for the year ended 31 December 2015 amounting to RO 23.17 million (2014: RO 13.43 million) and a bonus share issue of 10% (2014: 10%) amounting to 154,472,855 shares (2014: 134,324,227 shares) of RO 0.100 each.

Subsequently, Central Bank of Oman in their approval for 2014 financial statements, advised to change the dividend distribution in the form of cash dividend of 5% amounting to RO 6.7 million and a bonus share issue of 15% aggregating to amounting 201,486,332 shares of RO 0.100 each, of the share capital of the bank for the year ended 31 December 2014. A resolution to approve these dividends and the increase in share capital was presented to the shareholders at the annual general meeting on 29 March 2015 and approved accordingly.

During the year, unclaimed dividend amounting to RO 4,647 (2014: RO 6,187) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

MAISARAH ISLAMIC BANKING

مَيْسَرة
MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

Maisarah Islamic Banking Services- window of BankDhofar SAOG

Annual Report 2015

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ANNUAL REPORT OF SHARI'A SUPERVISORY BOARD

31ST DECEMBER 2015

SHARIA SUPERVISORY BOARD

To: General Assembly and Board of Directors of Maisarah Islamic Banking Services – BankDhofar (S.A.O.G)

Assalam Alaikum Wa Rahrnat Allah Wa Baeakatuh

All perfect praise be to Allah; and may Allah send blessing and peace upon the noblest of Messengers, our Prophet Muhammad, sallallahu 'alayhi wa sallam, his family and companions. In compliance with the letter of appointment, we are required to submit the following report for the year ended 31/12/2015:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Maisarah Islamic Banking Services (MIBS) during the year ended on 31/12/2015. We have also conducted our review to form an opinion as to whether the MIBS has complied with Sharia principles and also with the specific Fatawa, rulings and guidelines issued by us.

Maisarah's management is responsible for ensuring that the Maisarah conducts its business in accordance with Sharia principle. It is our responsibility to form an independent opinion, based on our review of the operations of Maisarah, and report to you.

We conducted our review which included examining, on a test basis, of each type of transaction, the relevant documentation and procedure adopted by Maisarah. We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Maisarah has not violated Sharia principles;
In our opinion:

a) The contacts, transactions and dealings entered into by the Maisarah during the year ended 2015 that we have reviewed are in compliance with Sharia principles;
b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Sharia principles;
c) Earnings that have been realized from sources or by means prohibited by Shari'a principles have been identified and segregated for disposal to charity.

We have identified the following areas where we believe there is room for further improvement by the management of Maisarah in order to follow truly the letter and spirit of the Sharia and to enhance the public's confidence in Islamic banking in general and the Maisarah in particular:

a) Although Maisarah has focused on training and development of human resources in 2015, however more focus is required for training of new and existing staff in 2016;
b) Public awareness programs and seminars should be conducted to create awareness of Islamic banking;
c) As MIBS operations are expected to increase in 2016, therefore, management should further focus on ensuring highest standard of Sharia compliance;
d) The SSB advises MIBS to actively participate in Sharia compliant social and community activities to fulfill its corporate responsibilities.

We beg Allah the almighty to grant us all the success and straight-forwardness.
Wassalam Alikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab
Chairman

Sheikh Dr. Mohammed Bin Ali Bin Mahmoud Al Lawati
Member

Sheikh Ahmed Bin Awadh Bin Abdul Rahman Al Hassaan
Member

Sheikh Dr. Abdullah Bin Mubarak Al Abri
Member

Sheikh Dr. Mohammad Ameen Ali Qattan
Member

Annexure (as per IBRF 2.2.2.14)

Fatawa Issued by the Sharia Supervisory Board of Maisarah Islamic Banking Services during the year 2015

Fatwa Reference Number	Fatwa Title	Executive Summary	Sharia evidence/bases
15/1/2015	Service Ijarah Product for Education Finance	The Education Finance product is based on the services Ijarah concept, wherein Maisarah will take on lease a seat with all its essentials from the university or institute and lease these educational services to the customer on affordable installments	Ijarah of Services is permissible by virtue of Quraan, Sunnah and Ijmaa
16/2/2015	Diminishing Musharakah Product for Personal Finance	The Personal Finance product is based on the concept of Diminishing Musharakah wherein Maisarah will purchase the share in the vehicle or property owned by the customer and leases the same to the customer. Accordingly the customer will again purchase the share of Masiarah.	AAOIFI Sharia Standard 9 (Ijarah and Ijarah Muntahia Bittamleek) and Musharaka is permissible by virtue of Quraan, Sunnah and Ijmaa..
17/3/2015	Funds Deposited at the Central Bank of Oman	Maisarah can place USD deposit with Central Bank of Oman through Bank Dhofar without charging any interest from CBO on this deposit. If CBO pay any amount against this deposit to Bank Dhofar, Bank Dhofar shall transfer the same to Maisarah and Maisarah will transfer this amount to charity account.	AAOIFI Sharia Standard No. 19 on Loan (Qard)
18/4/2015	Inventory Finance Product	The product is based on the Islamic concept of Musawamah sell, Maisarah under this product will buy ready to sell goods from customer on spot payment basis under Musawamah and appoint the customer as its agent to sell these goods in the market on Bank's behalf	Musawamah Sell is permissible by virtue of Quraan, Sunnah and Ijmaa.

Disclaimer: if further detailed information is required about the fatwas kindly contact Maisarah Islamic Banking Services.

Shari'a Supervisory Board Members

Name of Chairman:
Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab

Basis of Membership:
Chairman of Shari'a Supervisory Board

No. of other Directorships held: None

Name of Member:
Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan

Basis of Membership:
Member

No. of other Directorships held: None

Name of Member:
Sheikh Dr. Mohammed bin Ali bin Mohmoud Al Lawati

Basis of Membership:
Member

No. of other Directorships held: None

Name of Member:
Sheikh Dr. Abdullah bin Mubarak Al Abri

Basis of Membership:
Member

No. of other Directorships held: None

Name of Member:
Sheikh Dr. Mohammad Ameen Ali Qattan

Basis of Membership:
Member

No. of other Directorships held: None

Management Team

Sohail Niazi
Chief Islamic Banking Officer

Ismail Jama Ismail Bait Isihaq
Financial Controller

Yousuf Mohammed Suleiman Al Balushi
Head of Treasury

Jamsheed Hamza
Head of Retail

Syed Muzaffar Alam
Head of Operations

MANAGEMENT DISCUSSION AND ANALYSIS REPORT FOR THE YEAR ENDED

31ST DECEMBER 2015

Maisarah Islamic Banking Services

Maisarah Islamic Banking Services (Maisarah) the Islamic banking window of Bank Dhofar is a full-service provider of a broad range of Sharia-compliant financial products and solutions to its customers. Maisarah is one of the fastest growing Islamic banking entities in the Sultanate of Oman with total assets nearly OMR 300 million as on 31 December 2015.

Since its launch is 2013, Maisarah has shown a tremendous growth by providing excellent Islamic banking experience and offering range of products and services to meet the needs of its customers. In 2015 Maisarah was recognized as a leading Islamic banking Institution by winning awards from several international institutions including Best Islamic Bank in Oman. Maisarah experienced one of the highest growth in profitability and ranked competitively in assets and deposits growth among its peers.

• Maisarah Wholesale Banking Group

The Wholesale Banking Group (WSBG) of Maisarah offers a variety of innovative products and services to cater to the financial needs of clients operating in different sectors, in a Sharia compliant manner. Our dedicated team has both local and international experience that gives Maisarah an edge over the competition in terms of providing clients with professional advice and guidance at every stage of their relationship with us. Maisarah's clients include public and private sector companies, governments and quasi-governmental entities.

Key to the success of customer relationships is Maisarah's ability to timely and dynamically assess and address our clients' requirements and expectations. Professional relationship managers identify clients' needs and prepare a complete financial package, focusing on multi-product solutions and delivering high-quality service, while maintaining a quick turnaround time. During the year the wholesale banking assets portfolio grew to OMR 116 million and deposits reached OMR 167 million. This enabled Maisarah to record a growth of 41% in its financing portfolio. In order to provide customized financial solutions to our clients, the WSBG is categorized into two segments namely Large Corporates and Business Banking (SME). Maisarah has a dedicated team for each business segment that offers banking solutions to our corporate customers covering working capital requirements, term finance, project finance and trade finance.

Continuing in the spirit of last year, the WSBG further diversified its portfolio during the year and was able to finance large projects in different industries which include Hotel & Hospitality, Real Estate, Mining, and Manufacturing. The SME unit was further strengthened and a focused approach was adopted which resulted in total financing of RO 19 million as on 31 December 2015 to different SME clients. Corporate Unit was established in Salalah to allow the same level of personalized service to our valued clients based in the Dhofar region. Corporate seminar was conducted to allow a forum to our Customers where they could interact openly, understand our offerings better and also provide feedback for improvement.
Considering the market response and demand, WSBG is already in the process of introducing new products that are being designed after careful consideration of the Omani market and business requirements. These products will provide further options and flexibility to our existing and potential clientele including Corporates, SME and even Individuals. Furthermore, we will look to increase our area of coverage by establishing corporate units in Sohar and other areas and continue arrangement of corporate seminars to maintain a close liaison with our existing clientele and introduce our offerings to potential clients. Our results in 2015 have further reinforced our belief and commitment to provide first class corporate banking service going forward.

• Maisarah Retail Banking Services

Retail Banking Services continued its focus on outstanding service and expanding the branch network to serve its customers. Maisarah launched retail banking services with 2 flagship branches in 2013 at Azaiba and Salalah. Third branch was added in Sohar in 2014 and 2015 saw addition of two more branches – one in Birkat Al Mouz and the 5th one in Al Hail. We have total 5 branches today to serve our customer across the country and the plans to grow the network further are already underway.

During the year the retail assets portfolio grew to OMR 94 million and deposits reached OMR 26 million. The driver of growth was range of retail services and products offered by Maisarah.
The efforts of simplifying the products and services and ensuring that we live by our tagline will continue to be our focus and they make all our stakeholders happy by "making life easy!"

• Maisarah – Treasury & Investment

Year 2015 was yet another exciting year for Maisarah's Treasury which witnessed continued progress on corporate and interbank fronts. Challenges faced by the economy due to declining global oil prices influenced upward pressure on profit and exchange rates toward second half the year. Maisarah Treasury managed both long and short term liquidity positions efficiently during the year to ensure continued funding of corporate and retail assets including treasury investments at lower costs.

Also Maisarah's Treasury managed its Foreign Currency exposure efficiently during the year to manage its growing business in 2015. With the increase in overall trade finance business volumes, Maisarah Treasury ensured smooth and effective management of its cash flows and funding requirements by adhering to internal and regulatory limits with the overall objective of achieving planned growth.

Maisarah's Treasury actively participated in the Debut Sovereign Sukuk issuance of the Sultanate of Oman thereby diversifying its asset base across Treasury investments and enhancing its position in high quality liquid assets.

Maisarah's Treasury further expanded its interbank relationships with local and offshore banks by signing bilateral Wakalah and Wa'ad agreements. This has further strengthened Maisarah treasury's position and enhanced its visibility in the region. This in turn is expected to add to the sources to finance its asset books and to meet its foreign currency requirements from time to time.

• Product Development

Maisarah has a dedicated product development department that focuses on creatively developing new and innovative product along with enhancing the existing products through continuous research and customer feedback. The main objective of product development is to come-up with product structures that best fits the customer requirements in the best possible manner, whilst helping Maisarah expand its business. As a result, Maisarah was able to develop and successfully launch various innovative products and services expanding its market coverage.

In order to allow/enable customers to migrate from conventional finance to Islamic finance, Maisarah Personal Finance was launched using the Diminishing Musharakah structure to meet the customer's requirement of availing Islamic Personal finance against customer's already owned vehicle or property.
Based on the customer's requirement and demand, Product Development developed two different personal finance solutions for its customers; Maisarah Education Finance and Maisarah Travel Finance product.
As an ongoing activity of process improvement and product enhancement, the Property Finance product, Mudarabah – Working Capital Finance, Ameen Term Deposit and Ameen Investment Account products were enhanced to make the customer's experience better. Product development efforts will continue to play an important role in providing best customer experience through development and launch of innovative products and services.

• Sharia Supervisory Board

Maisarah's Sharia Supervisory Board (SSB) is the highest authority in Maisarah to decide on the Sharia related matters. SSB, with the aim of upholding the highest Sharia standards held 6 meetings during the year under the Chairmanship of Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab, and membership of Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati, Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan, Sheikh Dr. Abdullah bin Mubarak Al Abri, Sheikh Dr. Mohammad Ameen Ali Qattan, in addition to one meeting with Bank Dhofar BoD. The SSB reviewed and approved all new products, services, policies, procedures, manuals and amendments in the existing products and services to ensure ongoing sharia compliance and supervisory guidance.The SSB has been fulfilling its responsibility of playing an important role in ensuring Sharia governance in line with CBO Islamic Banking Regulatory Framework (IBRF) and industry best practices with the help of Sharia Compliance and the Audit Department.

• Sharia Compliance and Audit Department

In order to ensure that all the business operations conducted by Maisarah are in-line with the Sharia principles, a full-fledged Sharia Compliance and Audit department is working under the supervision of Sharia Supervisory

Board (SSB). As per the Sharia Governance framework mentioned in Islamic Banking Regulatory Framework (IBRF) of Central Bank of Oman comprises of Sharia Compliance Unit and Sharia Audit Unit.
To implement Sharia controls and ensure highest standards of Sharia compliance, the Sharia department works closely with all departments and management within Miasarah to ensure all activities, operations and transactions are conducted in accordance with Sharia rules, principles and IBRF guidelines.
As part of its role, the Sharia department monitors and audits all branches, business units and control functions of Maisarah. The service level agreements and profit distribution with Bank Dhofar are also reviewed and audited by the Sharia Compliance and audit departments.
Furthermore, Maisarah has entered into an engagement with an External Sharia Auditor that conducted a third party independent Sharia audit and review to ensure highest standards of Sharia compliance are maintained within Maisarah. The Sharia Compliance department is actively involved in Islamic banking and product related training of staff, management and other stakeholders.

• Maisarah Operations & Support Team

Maisarah Operations & Support Services (MO&SS) provides infrastructure support for efficient functioning of Maisarah Islamic Banking Services. This group consists of various functions that include:

- Centralized Operations
- Credit Administration
- Trade Finance
- Policies and Procedures
- General Admin Services

MO&SS facilitates all operations of Maisarah to allow business units to offer best and efficient services to customers, and continuously works on streamlining and re-engineering the processes to ensure that operational risks are minimized while enhancing the operational efficiencies to execute and process the transactions on day to day basis. MO&SS also plays an important role in the implementation of systems and procedures to automate its activities to fulfill its goal of providing best customer experience through state of the art infrastructure support.

In the preceding year MO&SS has achieved several mile stones. It established a dedicated Trade Finance & Credit Administration function within Maisarah that enhanced the efficiency of operations, lowered turnaround time, and improved customer service.

• Maisarah - Financial Performance

Maisarah continued business growth and achieved outstanding financial results in 2015. Its total assets reached OMR 299.40 million, including net financing of OMR 207.49 Million and investments of OMR 26.59 million at end of year 2015. Customer deposits have reached OMR 192.16 million at the end of 2015.

A brief analysis of our diverse financing portfolio as at December 31, 2015 period is as follows:

	OMR in Million	
Particulars	2015	2014
Murabaha receivables	13.05	20.56
Mudaraba financing	11.77	2.28
Diminishing Musharaka financing	152.26	80.73
Ijarah Muntahia Bittamleek	32.84	29.46
Gross Financing to customers	209.92	133.03
Less: Allowance for impairment	(2.43)	(1.49)
Net Financing	207.49	131.54

As at 31 December 2015 non – performing financing has been reported as Nil (2014: Nil).
Customer deposits of Maisarah at the end of 2015 comprises of the following:

	OMR in Million	
Particulars	2015	2014
Current accounts	47.47	14.90
Margin accounts	1.55	0.15
Saving accounts	7.99	9.16
Term deposits	135.15	72.80
Total customer deposits	192.16	97.01

• Assigned capital

Maisarah started its operations with the assigned capital of OMR 12.5 million. During 2014, additional capital of OMR 12.5 million was assigned resulting in the total assigned capital of OMR 25 million. An additional capital of OMR 15 million was injected in 2015 to keep up with business growth resulting in the total capital of OMR 40 million.

• Income Statement

	OMR in Million	
Particulars	2015	2014
Net profit income	5.73	3.21
Fees, commissions, investment & other income	1.17	1.09
Operating Income	6.90	4.30
Total operating costs	(3.40)	(2.86)
Net operating profit	3.50	1.44
Impairment allowance	(0.93)	(1.21)
Net profit / before tax	2.57	0.23

Maisarah key profitability indicators also recorded a remarkable growth compared to previous year. The net profit income increased to RO 5.73 million during 2015 compared to RO 3.21 million achieved in the previous year recording a growth of 78.50%.

For the year 2015 Maisarah Islamic Banking Services declared net profit before tax of RO 2.57 million compared to a net profit before tax of RO 0.23 million in 2014 , showing remarkable growth of 11.17 times.

• Future Plans of Maisarah

Maisarah will continue to stay focused on providing superior customer service, business growth, increasing market share and shareholders value in 2016.
The key areas and initiatives for 2016 include:

- Expanding the distribution network by opening more branches across Oman to increase customer and market reach
- Rolling out new products and services to fulfill customers' needs and gain market share
- Enhancing customer experience by providing internet and mobile banking services
- Enhancing call center capabilities to provide around the clock exceptional customer service
- Increasing awareness regarding Islamic Finance through seminars, workshops and corporate events
- Investing in technology and operational infrastructure to stream line internal process, reduce operational risks and improve customer service.

FINANCIAL STATEMENTS
31ST DECEMBER 2015

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Sultanate of Oman

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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 Dhofar SAOG (the "Bank")

We have audited the accompanying statement of financial position of Maisarah Islamic Banking Services (the "Islamic Window") as of 31 December 2015, and the related statements of income, changes in owners' equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2015, and a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate its Islamic Window 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 the Islamic Window as of 31 December 2015, the results of its operations, changes in owner's equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2015 in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window and the Financial Accounting Standards issued by AAOIFI.

Ernst & Young LLC

28 February 2016
Muscat

إرنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Statement of Financial Position

At 31 December 2015

2015 USD 000	2014 USD 000		Note	2015 RO 000	2014 RO 000
		Assets			
79,122	115,612	Cash and balances with Central Bank of Oman	5	**30,462**	44,511
84,278	539	Due from banks and financial institutions	6	**32,447**	207
33,387	52,759	Murabaha receivables	7	**12,854**	20,312
30,239	5,860	Mudaraba financing	8	**11,642**	2,256
391,039	207,427	Diminishing Musharaka financing	9	**150,550**	79,859
43,099	26,487	Investments at fair value through equity	10	**16,593**	10,198
25,974	-	Investment at amortised cost	11	**10,000**	-
84,257	75,618	Ijarah Muntahia Bittamleek	12	**32,439**	29,113
3,138	2,744	Property and equipment	13	**1,208**	1,057
3,140	11,117	Other assets	14	**1,209**	4,280
777,673	498,163	**Total assets**		**299,404**	191,793
		Liabilities, equity of investment account holders and owners' equity			
		Liabilities			
123,296	38,694	Current accounts		**47,469**	14,897
135,909	124,935	Due to Head office and other banks	15	**52,325**	48,100
26,564	44,717	Qard Hasan from Head office	16	**10,227**	17,216
350,930	188,896	Customer Wakala deposits		**135,108**	72,725
14,084	16,622	Other liabilities	17	**5,422**	6,399
650,783	413,864	**Total liabilities**		**250,551**	159,337
20,849	23,974	**Equity of investment account holders**	18	**8,027**	9,230
		Owners' equity			
103,896	64,935	Capital	19	**40,000**	25,000
595	513	Reserves		**229**	198
1,550	(5,123)	Retained Earnings / (Accumulated losses)		**597**	(1,972)
106,041	60,325	**Total owners' equity**		**40,826**	23,226
777,673	498,163	**Total liabilities, equity of investment account holders and owners' equity**		**299,404**	191,793
38,509	42,090	**Contingent liabilities and commitments**	26	**14,826**	16,204

The financial statements were approved by the Board of Directors on 26 January 2016 and were signed on their behalf by:

Chairman

Chief Islamic Banking Officer

The accompanying notes form an integral part of these financial statements. Report of the Auditors – page 183.

Statement of Income

For the year ended 31 December 2015

2015 USD 000	2014 USD 000		Note	2015 RO 000	2014 RO 000
		Income			
21,501	10,546	Income from Islamic finances and investments	21	8,278	4,060
13	186	Income on Wakala placements		5	72
21,514	10,732			8,283	4,132
		Less:			
(216)	(66)	Return on equity of investment account holders		(83)	(25)
(4,441)	(682)	Return on customer Wakala deposits		(1,710)	(263)
(418)	(334)	Return on interbank Wakala deposit		(161)	(129)
(5,075)	(1,082)			(1,954)	(417)
16,439	9,650	**Maisarah's share in income from investment as a Mudarib and Rabul Maal**		6,329	3,715
1,332	1,444	Revenue from banking services		513	556
151	64	Foreign exchange gain – net		58	25
17,922	11,158	**Total revenue**		6,900	4,296
(5,849)	(4,936)	Staff costs	22	(2,252)	(1,900)
(2,309)	(1,970)	General and administrative expenses	23	(889)	(759)
(2,431)	(3,139)	Provision for financing impairment	24	(936)	(1,208)
(660)	(516)	Depreciation	13	(254)	(199)
(11,249)	(10,561)	**Total expenses**		(4,331)	(4,066)
6,673	597	**Net profit for the year before taxation**		2,569	230

The accompanying notes form an integral part of these financial statements. Report of the Auditors – page 183.

Statement of changes in owners' equity

For the year ended 31 December 2015

	31 December 2015			
	Capital RO 000	Investment Revaluation Reserve RO 000	Retained Earnings / (Accumulated Losses) RO 000	Total RO 000
Balance at 1 January 2015	25,000	198	(1,972)	23,226
Total comprehensive income for the year				
Net profit for the year	-	-	2,569	2,569
Other comprehensive income for the year				
Fair value adjustments against fair value through equity investment	-	31	-	31
Total comprehensive income	25,000	229	597	25,826
Addition of capital during the year	15,000	-	-	15,000
Balance as at 31 December 2015	40,000	229	597	40,826

	31 December 2014			
	Capital RO 000	Investment Revaluation Reserve RO 000	Retained Earnings / (Accumulated Losses) RO 000	Total RO 000
Balance at 1 January 2014	12,500	-	(2,202)	10,298
Total comprehensive income for the year				
Net profit for the year	-	-	230	230
Other comprehensive income for the year				
Fair value adjustments against fair value through equity investment	-	198	-	198
Total comprehensive income	12,500	198	(1,972)	10,726
Addition of capital during the year	12,500	-	-	12,500
Balance as at 31 December 2014	25,000	198	(1,972)	23,226

The accompanying notes form an integral part of these financial statements.
Report of the Auditors – page 183.

Statement of changes in owners' equity

For the year ended 31 December 2015

	31 December 2015			
	Capital USD 000	Investment Revaluation Reserve USD 000	Retained Earnings / (Accumulated Losses) USD 000	Total USD 000
Balance at 1 January 2015	64,935	513	(5,123)	60,325
Total comprehensive income for the year				
Net profit for the year	-	-	6,673	6,673
Other comprehensive income for the year				
Fair value adjustments against fair value through equity investment	-	82	-	82
Total comprehensive income	64,935	595	1,550	67,080
Addition of capital during the year	38,961	-	-	38,961
Balance as at 31 December 2015	103,896	595	1,550	106,041

	31 December 2014			
	Capital USD 000	Investment Revaluation Reserve USD 000	Retained Earnings / (Accumulated Losses) USD 000	Total USD 000
Balance at 1 January 2014	32,467	-	(5,720)	26,747
Total comprehensive income for the year				
Net profit for the year	-	-	597	597
Other comprehensive income for the year				
Fair value adjustments against fair value through equity investment	-	513	-	513
Total comprehensive income	32,467	513	(5,123)	27,857
Addition of capital during the year	32,468	-	-	32,468
Balance as at 31 December 2014	64,935	513	(5,123)	60,325

The accompanying notes form an integral part of these financial statements.
Report of the Auditors – page 183.

Statement of sources and uses of charity fund

For the year ended 31 December 2015

2015 USD 000	2014 USD 000		2015 RO 000	2014 RO 000
		Sources of charity funds		
-	-	Undistributed charity funds at beginning of the year	-	-
18	-	Shari'a non-compliant income	7	-
-	-	Donations	-	-
18	-	Total sources of funds during the year	7	-
		Uses of charity funds		
-	-	University and school students	-	-
-	-	Philanthropic societies	-	-
-	-	Aid to needy families	-	-
-	-	Total uses of funds during the year	-	-
18	-	Undistributed charity funds at end of the year	7	-

The accompanying notes form an integral part of these financial statements.
Report of the Auditors – page 183.

Statement of cash flows

For the year ended 31 December 2015

2015 USD 000	2014 USD 000		2015 RO 000	2014 RO 000
		Cash flows from operating activities		
6,673	597	Net profit for the year	2,569	230
		Adjustments for:		
660	516	Depreciation	254	199
3,192	3,079	Depreciation on Ijarah assets	1,229	1,185
2,431	3,139	Provision for financing impairment	936	1,208
-	-	Investment risk reserve	-	-
5	1	Profit equalization reserve	2	-
12,961	7,332	**Operating profit before changes in operating assets and liabilities**	4,990	2,822
		Operating assets and liabilities:		
19,506	(52,791)	Murabaha receivables	7,510	(20,324)
(16,262)	(36,469)	Ijarah Muntahia Bittamleek assets	(6,261)	(14,041)
4,275	2,613	Proceeds from sale of Ijarah Muntahia Bittamleek assets	1,646	1,006
(185,771)	(182,619)	Diminishing Musharaka financing	(71,522)	(70,308)
(24,631)	(5,934)	Mudaraba financing	(9,483)	(2,284)
(1,273)	(270)	Other asset	(490)	(104)
3,213	(710)	Other liabilities	1,237	(273)
(19,343)	35,754	Qard Hasan from Head Office	(7,447)	13,765
(207,325)	(233,094)	**Net cash used in operating activities**	(79,820)	(89,741)
		Cash flows from investing activities		
(16,530)	-	Purchase of investments at fair value through equity	(6,364)	-
(25,974)	-	Purchase of investment at amortised cost	(10,000)	-
(42,504)	-	**Net cash used in investing activities**	(16,364)	-
		Cash flows from financing activities		
84,603	32,091	Current account	32,572	12,355
162,034	188,896	Customer Wakala deposit	62,383	72,725
3,636	405	Margin accounts	1,400	156
(3,130)	21,025	Unrestricted investment account holders	(1,205)	8,094
38,961	32,467	Capital	15,000	12,500
286,104	274,884	**Net cash from financing activities**	110,150	105,830
36,275	41,790	**Cash and cash equivalents during the year**	13,966	16,089
(8,784)	(50,574)	**Cash and cash equivalents at the beginning of the year**	(3,382)	(19,471)
27,491	(8,784)	**Cash and cash equivalents at the end of the year**	10,584	(3,382)
		Cash and cash equivalents at the end of the year comprise:		
79,122	115,612	Cash and balances with CBO	30,462	44,511
84,278	539	Due from banks and financial institutions	32,447	207
(135,909)	(124,935)	Due to Head office and other banks	(52,325)	(48,100)
27,491	8,784		10,584	(3,382)

The accompanying notes form an integral part of these financial statements.
Report of the Auditors – page 183.

Notes to the financial statements
For the year ended 31 December 2015

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in Sultanate of Oman as window of Bank Dhofar SAOG. Maisarah's operations commenced on 3 March 2013 and it currently operates through 5 branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

2.5 New standards, interpretations and amendments

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 and is effective from 1 January 2015.

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 IFI 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 Islamic financial institution 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 Islamic Window.

2.6 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. This standard is effective from 1 January 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Foreign currency translations

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

3.2 Investments

Equity and debt type instruments at fair value through equity

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

3.3 De-recognition of financial assets and liabilities

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

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

Notes to the financial statements
For the year ended 31 December 2015

3.4 Fair value measurement principles

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

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

3.5 Cash and cash equivalents

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

3.6 Offsetting

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

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

3.7 Murabaha receivables

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

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

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

3.8 Mudaraba

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

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

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

3.9 Diminishing Musharaka

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

3.10 Ijarah Muntahia Bittamleek assets

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.
Depreciation will be calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

3.11 Property and equipment

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to statement of income when the expense is incurred. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in statement of income as an expense when incurred.

3.12 Equity of investment accountholders

Equity of investment account holders are carried at cost plus profit and related reserves less amounts settled. Equity of investment account holders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

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

3.13 Profit equalisation reserve

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

3.14 Investment risk reserve

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

3.15 Provisions

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

3.16 Earnings prohibited by Shari'a

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

3.17 Zakah

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

3.18 Joint and self-financed

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

3.19 Funds for Maisarah

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

3.20 Revenue recognition

3.20.1 Murabaha receivables

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

3.20.2 Diminishing Musharaka (DM) Financing

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

3.20.3 Mudaraba financing

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

3.20.4Ijarah Muntahia Bittamleek

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

3.20.5 Dividends

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

3.20.6 Fee and Commission income

Fee and commission income is recognised when earned.

3.20.7 Maisarah's share as a Mudarib

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

3.20.8 Income allocation

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

3.21 Taxation

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

3.22 Employees' end of service benefits

End of service benefits are accrued in accordance with the terms of employment of Maisarah's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognized when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.
Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognized as an expense in statement of income as incurred.

3.23 Shari'a supervisory board

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

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

3.24 Trade date accounting

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

3.25 Segment reporting

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

3.25 Segment reporting (Continued)

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

3.26 Fiduciary assets

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

4. Critical accounting judgment and key sources of estimation uncertainty

a) Going concern

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

b) Impairment provisions against financing contracts with customers

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

c) Impairment of investments at fair value through equity

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

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

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

5. Cash and balances with Central Bank of Oman

	2015 RO 000	2014 RO 000
Cash in hand	**607**	508
Balances with Central Bank of Oman	**29,855**	44,003
	30,462	44,511

6. Due from banks and financial institutions

	2015		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Wakala placement	**2,663**	**32**	**2,695**
Qard Hasan placement	**29,260**	**-**	**29,260**
Current clearing account	**492**	**-**	**492**
	32,415	**32**	**32,447**

	2014		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Wakala placement	-	-	-
Qard Hasan placement	-	-	-
Current clearing account	207	-	207
	207	-	207

7. Murabaha receivables

	2015		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Gross Murabaha receivables	**13,643**	**163**	**13,806**
Less: Unearned income	**(745)**	**(9)**	**(754)**
	12,898	**154**	**13,052**
Less: Impairment on portfolio basis (note 23)	**(196)**	**(2)**	**(198)**
	12,702	**152**	**12,854**

	2014		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Gross Murabaha receivables	20,753	205	20,958
Less: Unearned income	(392)	(4)	(396)
	20,361	201	20,562
Less: Impairment on portfolio basis (note 23)	(248)	(2)	(250)
	20,113	199	20,312

Murabaha receivables past due but not impaired amounts to RO 139 thousand (2014: RO 11 thousand).

Notes to the financial statements
For the year ended 31 December 2015

8. Mudaraba financing

	2015		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Mudaraba financing	11,628	139	11,767
Less: Impairment on portfolio basis (note 23)	(124)	(1)	(125)
	11,504	138	11,642

	2014		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Mudaraba financing	2,262	22	2,284
Less: Impairment on portfolio basis (note 23)	(28)	-	(28)
	2,234	22	2,256

Mudaraba financing past due but not impaired amounts to RO(000) Nil (2014: Nil).

9. Diminishing Musharaka financing

	2015		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Diminishing Musharaka	150,456	1,799	152,255
Less: Impairment on portfolio basis (note 23)	(1,685)	(20)	(1,705)
	148,771	1,779	150,550

	2014		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Diminishing Musharaka	79,942	791	80,733
Less: Impairment on portfolio basis (note 23)	(865)	(9)	(874)
	79,077	782	79,859

Diminishing Musharaka past due but not impaired amounts to RO 6,108 thousand (2014: RO 245 thousand).

Fair value of collaterals

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

10. Investment at fair value through equity

	2015		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Local listed Sukuk	10,077	121	10,198
Sovereign Sukuk	6,319	76	6,395
	16,396	197	16,593

	2014		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Local listed Sukuk	10,098	100	10,198

During the year, Maisarah has invested RO 6.3 million in Sovereign Sukuk issued by Sovereign Sukuk SAOC. At 31 December 2015, the market value of the Sovereign Sukuk was RO 1.005 per unit. At 31 December 2015, the market value of the Modern Sukuk was RO 197.5 per unit (2014:RO 197.5 per unit).

11. Investment at amortised cost

	2015		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Sovereign Sukuk	9,882	118	10,000

During the year, Maisarah has invested RO 10 million in Sovereign Sukuk issued by Sovereign Sukuk SAOC.

12. Ijarah Muntahia Bittamleek

	2015		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Cost			
At 1 January	17,451	13,250	30,701
Additions	6,187	74	6,261
Disposals	(1,721)	(21)	(1,742)
At 31 December	21,917	13,303	35,220
Accumulated depreciation			
At 1 January	993	253	1,246
Charge for the period	1,214	15	1,229
Disposals	(95)	(1)	(96)
At 31 December	2,112	267	2,379
Net book value at 31 December	19,805	13,036	32,841
Less: Impairment on portfolio basis (note 23)	(397)	(5)	(402)
Net Ijarah Muntahia Bittamleek	19,408	13,031	32,439

Notes to the financial statements
For the year ended 31 December 2015

12. Ijarah Muntahia Bittamleek (continued)

	2014		
	Self-Financed RO 000	Jointly Financed RO 000	Total RO 000
Cost			
At 1 January	4,814	13,125	17,939
Additions	13,903	138	14,041
Disposals	(1,266)	(13)	(1,279)
At 31 December	17,451	13,250	30,701
Accumulated depreciation			
At 1 January	90	244	334
Charge for the period	1,173	12	1,185
Disposals	(270)	(3)	(273)
At 31 December	993	253	1,246
Net book value at 31 December	16,458	12,997	29,455
Less: Impairment on portfolio basis (note 23)	(339)	(3)	(342)
Net Ijarah Muntahia Bittamleek	16,119	12,994	29,113

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,066 thousand (2014: Nil).

13. Property and equipment

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

13. Property and equipment (continued)

	2014				
	Furniture , fixtures & equipment RO 000	Motor vehicles RO 000	Computer equipment RO 000	Capital work in progress RO 000	Total RO 000
Cost					
At 1 January	192	18	971	15	1,196
Additions	94	10	66	30	200
Disposals / Transfers	(3)	-	-	(20)	(23)
At 31 December	283	28	1,037	25	1,373
Accumulated depreciation					
At 1 January	(29)	(4)	(85)	-	(118)
Provided during the year	(58)	(8)	(133)	-	(199)
Reversal of depreciation	1	-	-	-	1
At 31 December	(86)	(12)	(218)	-	(316)
Net book value at 31 December	197	16	819	25	1,057

14. Other assets

	2015 RO 000	2014 RO 000
Ijarah rental receivables	**23**	21
Other profit receivables	**522**	220
Prepayments	**110**	63
Others	**219**	16
Acceptances	**335**	3,960
Total	**1,209**	4,280

15. Due to Head office and other banks

	2015 RO 000	2014 RO 000
Due to Head office	**-**	25,000
Due to other banks	**52,325**	23,100
Total	**52,325**	48,100

Due to Head office and other banks comprises of Wakala deposits.

16. Qard Hasan from Head Office

	2015 RO 000	2014 RO 000
Qard e Hasan from Head Office (16.1)	**9,360**	5,733
Current clearing account (16.2)	**867**	11,483
Total	**10,227**	17,216

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

16.2 This amount represents the vostro account of parent bank opened with Maisarah.

Notes to the financial statements
For the year ended 31 December 2015

17. Other liabilities

	2015 RO 000	2014 RO 000
Payables	**2,197**	1,474
Accrued expenses	**451**	519
Profit payables	**870**	288
Margins received	**1,556**	156
Others	**6**	2
Charity Payable	**7**	-
Acceptances contra	**335**	3,960
Total	**5,422**	6,399

18. Equity of investment accountholders

	2015 RO 000	2014 RO 000
Saving account	**7,985**	9,157
Term deposit	**40**	73
Profit Equalisation reserve	**2**	-
Investment Risk Reserve	**-**	-
Total	**8,027**	9,230

There is no restricted investment at reporting date.

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

The investment profits are distributed between owners' equity and equity of investment account holders for the period ended 31 December 2015 and 2014 as follows:

	Percentage
Equity of investment account holders share	60%
Mudarib's share	40%

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

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

19. Capital
During 2015, Head office has increased the assigned capital to RO 40 million (2014: RO 25 million) to Maisarah from the core paid up capital of the shareholders.

20. Fiduciary assets
There were no funds under management with Maisarah (2014: RO Nil).

21. Income from Islamic finances and investments

	2015 RO 000	2014 RO 000
Murabaha receivables	**453**	322
Mudaraba	**249**	83
Ijarah muntahia bittamleek - net*	**1,411**	1,134
Diminishing Musharaka	**5,565**	2,014
Profit on investments at fair value through equity	**543**	507
Profit on investment at amortised cost	**57**	-
Total	**8,278**	4,060

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 1,210 thousand (2014: RO 928 thousand).

22. Staff costs

	2015 RO 000	2014 RO 000
Salaries and allowances	**1,963**	1,663
Other personnel cost	**266**	214
Non-Omani employee terminal benefit	**23**	23
Total	**2,252**	1,900

23. General and administrative expenses

	2015 RO 000	2014 RO 000
Occupancy cost	**335**	252
Operating and administration cost	**554**	507
Total	**889**	759

24. Provision for financing impairment

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

	2015 RO 000	2014 RO 000
A- Impairment provision on portfolio basis		
Balance at the beginning of the year	**1,494**	286
Provided during the year	**936**	1,208
Balance at the end of the year	**2,430**	1,494
B- Impairment provision on specific basis		
Balance at the beginning of the year	-	-
Provided during the year	-	-
Balance at the end of the year	-	-

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25. Related parties transactions

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

	2015 RO 000	2014 RO 000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**505**	331
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**17,133**	7,019
Remuneration paid to Directors & Shari'a Supervisor		
Chairman		
– remuneration proposed	**6**	6
– sitting fees paid	**3**	3
Other Members		
– remuneration proposed	**16**	16
– sitting fees paid	**7**	8
Other transactions		
Rental payment to a related party	**231**	35
Other transactions	**-**	-
Key management compensation		
Salaries and other benefits	**112**	103
End of service benefits	**4**	3

26. Contingent liabilities and commitments

a) Credit related contingent items

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

	2015 RO 000	2014 RO 000
Letters of credit	**4,512**	10,223
Guarantees	**10,314**	5,981
Total	**14,826**	16,204

b) Capital and investment commitments

	2015 RO 000	2014 RO 000
Contractual commitments for property and equipment	**109**	57

27. Islamic financial derivatives

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

	2015 RO 000	2014 RO 000
	Contract / Notional Amount	
Forward exchange contracts		
Currency forward - purchase contracts	**30,032**	30,965
Currency forward - sale contracts	**30,040**	30,964

As at 31 December 2015, fair value of the exchange contracts remains equivalent to its notional amount.

28. Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

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

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

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

	2014			
Fair value information	Level 1 RO 000	Level 2 RO 000	Level 3 RO 000	Total RO 000
Investments at fair value through Equity	-	10,198	-	10,198
Total	-	10,198	-	10,198

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

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

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

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

a) Geographical concentrations

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

	2014	
	Due from banks and financial institutions RO 000	Due to Banks and financial Institutions RO 000
Sultanate of Oman	-	25,000
Other GCC Countries	183	3,850
Europe and North America	24	-
Africa and Asia	-	19,250
	207	48,100

29. Financial risk management (continued)
Credit risk (continued)
b) Customer concentrations

Customer concentrations on asset (Gross)

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

	2014				
	Due from banks and financial institutions RO 000	Murabaha receivables RO 000	Mudaraba Financing RO 000	Diminishing Musharaka financing RO 000	Ijarah Muntahia Bittamleek RO 000
Retail	-	1,557	-	20,722	29,455
Corporate	207	19,005	2,284	60,011	-
	207	20,562	2,284	80,733	29,455

c) Economic sector concentrations

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

	2014			
	Murabaha receivables RO 000	Mudaraba Financing RO 000	Diminishing Musharaka Financing RO 000	Ijarah Muntahia Bittamleek RO 000
Personal	1,557	-	20,722	29,455
Construction	-	1,694	40,392	-
Manufacturing	11,584	-	1,724	-
Other services	-	2	15,718	-
Others	7,421	588	2,177	-
	20,562	2,284	80,733	29,455

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29. Financial risk management (continued)
Credit risk (continued)
d) Gross credit exposure

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

	2014	
	Total gross exposure RO 000	Monthly average gross exposure RO 000
Murabaha receivables	20,562	15,685
Mudaraba financing	2,284	1,781
Diminishing Musharaka Financing	80,733	42,853
Ijarah Muntahia Bittamleek	29,455	24,674

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

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

	2014				
	Murabaha receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Ijarah Muntahia Bittamleek RO 000	Off balance sheet exposures RO 000
Import trade	7,311	301	-	-	16,204
Export trade	-	-	-	-	-
Wholesale & retail trade	-	-	-	-	-
Mining & quarrying	-	287	2,080	-	-
Construction	-	1,694	40,392	-	-
Manufacturing	11,584	-	1,724	-	-
Transport & communication	-	-	97	-	-
Services	-	2	15,718	-	-
Retail	1,557	-	20,722	29,455	-
Others	110	-	-	-	-
	20,562	2,284	80,733	29,455	16,204

29. Financial risk management (continued)
Credit risk (continued)
f) Residual contractual maturities of the portfolio by major types of credit exposures:

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

	Murabaha receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Ijarah Muntahia Bittamleek RO 000	Off Balance sheet exposures RO 000
31 December 2014					
Upto 1 month	6,676	2,284	-	-	10,525
1 - 3 months	4,922	-	10	-	4,553
3 - 6 months	7,297	-	-	-	577
6 - 9 months	-	-	-	-	343
9 - 12 months	-	-	-	-	-
1 - 3 years	128	-	1,909	-	191
3 – 5 years	489	-	5,695	319	15
Over 5 years	1,050	-	73,119	29,136	-
	20,562	2,284	80,733	29,455	16,204

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29. Financial risk management (continued)
Credit risk (continued)

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

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

	2014				
	Performing Murabaha receivables RO 000	Performing Mudaraba Financing RO 000	Performing Diminishing Musharaka Financing RO 000	Performing Ijarah Muntahia Bittamleek RO 000	General provisions made during the year RO 000
Import trade	7,311	301	-	-	(83)
Wholesale & retail trade	-	-	-	-	-
Mining & quarrying	-	287	2,080	-	(26)
Construction	-	1,694	40,392	-	(456)
Manufacturing	11,584	-	1,724	-	(144)
Transport & communication	-	-	97	-	(1)
Services	-	2	15,718	-	(171)
Retail	1,557	-	20,722	29,455	(612)
Others	110	-	-	-	(1)
	20,562	2,284	80,733	29,455	(1,494)

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

During the year there is no credit exposure provided without collateral (2014: RO Nil).

29. Financial risk management (continued)
Liquidity risk

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

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

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

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO 000	More than 1month to 6 months RO 000	More than 6 months to 12 months RO 000	More than 1 year to 5 years RO 000	Over 5 years RO 000	Total RO 000
31 December 2015						
Cash and balances with Central Bank of Oman ("CBO")	30,462	-	-	-	-	30,462
Due from banks and financial institutions	32,447	-	-	-	-	32,447
Murabaha receivables - net	9,543	355	412	2,193	351	12,854
Mudaraba financing – net	588	1,177	1,177	5,884	2,816	11,642
Diminishing Musharaka financing – net	3,786	13,905	15,621	66,170	51,068	150,550
Investments at fair value through equity	-	-	-	16,593	-	16,593
Investment at amortised cost	-	-	-	10,000	-	10,000
Ijarah Muntahia Bittamleek– net	240	1,199	1,439	11,222	18,339	32,439
Property and equipment – net	-	-	-	-	1,208	1,208
Other asset	729	151	-	-	329	1,209
Total assets	77,795	16,787	18,649	112,062	74,111	299,404
Due to Head office and other banks	52,325	-	-	-	-	52,325
Qard Hasan from Head Office	867	-	-	9,360	-	10,227
Customer Wakala Deposit	25,552	75,371	15	34,170	-	135,108
Current accounts	9,494	16,614	9,494	-	11,867	47,469
Other liabilities	4,026	696	311	-	389	5,422
Equity of unrestricted investment account holders	399	798	808	4,022	2,000	8,027
Owner's equity	-	-	-	-	40,826	40,826
Total liabilities and account holders & owners' equity	92,663	93,479	10,628	47,552	55,082	299,404

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29. Financial risk management (continued)
Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO 000	More than 1month to 6 months RO 000	More than 6 months to 12 months RO 000	More than 1 year to 5 years RO 000	Over 5 years RO 000	Total RO 000
31 December 2014						
Cash and balances with Central Bank of Oman ("CBO")	44,511	-	-	-	-	44,511
Due from banks and financial institutions	207	-	-	-	-	207
Murabaha receivables - net	6,891	12,183	118	1,057	63	20,312
Mudaraba financing – net	114	228	221	1,142	551	2,256
Diminishing Musharaka financing – net	1,483	7,423	8,666	41,633	20,654	78,859
Investments at fair value through equity	-	-	-	10,198	-	10,198
Investment at amortised cost	-	-	-	-	-	-
Ijarah Muntahia Bittamleek– net	209	1,046	1,170	9,900	16,788	29,113
Property and equipment – net	-	-	-	-	1,057	1,057
Other asset	4,201	-	-	-	79	4,280
Total assets	57,616	20,880	10,175	63,930	39,192	191,793
Due to Head office and other banks	48,100	-	-	-	-	48,100
Qard Hasan from Head Office	-	-	-	17,216	-	17,216
Customer Wakala Deposit	-	53,700	15,025	4,000	-	72,725
Current accounts	2,979	5,214	2,979	-	3,724	14,896
Other liabilities	6,275	55	31	-	39	6,400
Equity of unrestricted investment account holders	508	939	916	4,578	2,289	9,230
Owner's equity	-	-	-	-	23,226	23,226
Total liabilities and account holders & owners' equity	57,862	59,908	18,951	25,794	29,278	191,793

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

a) Currency risk
Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani. Presently Maisarah does not have major foreign exchange exposure. There is only one placement in US dollar which has been financed through Wakala deposit of the same tenure.

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

29. Financial risk management (continued)
Market risk (continued)

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

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

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 6 months RO 000	Due within 7 to 12 months RO 000	Due within 1 to 5 years RO 000	Due after 5 years RO 000	Non-profit bearing RO 000	Total RO 000
31 December 2015								
Cash and balances with Central Bank of Oman		-	-	-	-	-	30,462	30,462
Due from banks and financial institutions	0.11%	2,695	-	-	-	-	29,752	32,447
Murabaha receivables	2.79%	9,543	355	412	2,193	351	-	12,854
Mudaraba financing	5.41%	11,642	-	-	-	-	-	11,642
Diminishing Musharaka Financing	4.80%	3,786	13,905	15,621	66,170	51,068	-	150,550
Investments at fair value through equity	4.84%	-	-	-	16,593	-	-	16,593
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Ijara Muntahia Bittamleek – net	4.65%	240	1,199	1,439	11,222	18,339	-	32,439
Property and equipment – net		-	-	-	-	-	1,208	1,208
Other asset		-	-	-	-	-	1,209	1,209
Total assets		27,906	15,459	17,472	106,178	69,758	62,631	299,404
Due to Head office and other banks	0.62%	52,325	-	-	-	-	-	52,325
Qard Hasan from Head office		-	-	-	-	-	10,227	10,227
Customer Wakala deposit	1.57%	25,552	75,371	15	34,170	-	-	135,108
Current accounts	1.11%	7,017	12,279	7,017	-	8,774	12,382	47,469
Other liabilities		3,842	545	311	-	724	-	5,422
Equity of unrestricted investment account holders	1.02%	-	-	10	30	-	7,987	8,027
Owner's equity		-	-	-	-	40,826	-	40,826
Equity of account holders & Total liabilities and shareholders' equity		88,736	88,195	7,353	34,200	50,324	30,596	299,404
On-balance sheet gap		(60,380)	(72,736)	10,119	71,978	19,434	32,035	-
Cumulative profit sensitivity gap		(60,380)	(133,566)	(123,447)	(51,469)	(32,035)	-	-

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29. Financial risk management (continued)
Market risk (continued)

Profit rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 6 months RO 000	Due within 7 to 12 months RO 000	Due within 1 to 5 years RO 000	Due after 5 years RO 000	Non-profit bearing RO 000	Total RO 000
31 December 2014								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	44,511	44,511
Due from banks and financial institutions	0.53%	207	-	-	-	-	-	207
Murabaha receivables	2.34%	6,891	12,183	118	1,057	63	-	20,312
Mudaraba financing	7.51%	114	228	221	1,142	551	-	2,256
Diminishing Musharaka Financing	4.95%	1,483	7,423	8,666	41,633	20,654	-	78,859
Investments at fair value through equity	5.00%	-	-	-	10,198	-	-	10,198
Investment at amortised cost	-	-	-	-	-	-	-	-
Ijara Muntahia Bittamleek – net	4.68%	209	1,046	1,170	9,900	16,788	-	29,113
Property and equipment – net	-	-	-	-	-	-	1,057	1,057
Other asset	-	-	-	-	-	-	4,280	4,280
Total assets		8,904	20,880	10,175	63,930	38,056	49,848	191,793
Due to Head office and other banks	0.20%	48,100	-	-	-	-	-	48,100
Qard Hasan from Head office	-	-	-	-	-	-	17,216	17,216
Customer Wakala deposit	1.24%	-	53,700	15,025	4,000	-	-	72,725
Current accounts	-	-	-	-	-	-	14,896	14,896
Other liabilities	-	-	-	-	-	-	6,400	6,400
Equity of unrestricted investment account holders	0.85%	508	939	916	4,578	2,289	-	9,230
Owner's equity	-	-	-	-	-	-	23,226	23,226
Equity of account holders & Total liabilities and shareholders' equity	-	48,608	54,639	15,941	8,578	2,289	61,738	191,793
On-balance sheet gap		(39,704)	(33,759)	(5,766)	55,352	35,767	(11,890)	-
Cumulative profit sensitivity gap		(39,704)	(73,463)	(79,229)	(23,877)	11,890	-	-

29. Financial risk management (continued)
Market risk (continued)

c) Equity risk

Presently Maisarah is not exposed to any equity price risk.

Operational risk

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

30. Segmental information
Maisarah is organised into three main business segments:

1) Retail banking – incorporating private customer current accounts, savings account, term deposits, murabaha and ijarah muntahia bittamleek;
2) Corporate banking – incorporating current accounts, savings account, term deposits and diminishing musharaka financing; and
3) Treasury & investments

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

Notes to the financial statements
For the year ended 31 December 2015

30. Segmental information (continued)

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

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

	Retail banking RO 000	Corporate banking RO 000	Treasury and investments RO 000	Total RO 000
31 December 2014				
Segment operating revenues	1,537	2,016	72	3,625
Other revenues	89	467	532	1,088
Total segment operating revenues	1,626	2,483	604	4,713
Profit expenses	(26)	(262)	(129)	(417)
Net operating income	1,600	2,221	475	4,296
Segment cost				
Operating expenses including depreciation	(1,211)	(1,590)	(57)	(2,858)
Provision for impairment	(427)	(781)	-	(1,208)
Net profit / (loss) for the year before tax	(38)	(150)	418	230
Segment assets	52,091	85,857	55,339	193,287
Less: Provision for impairment	(612)	(882)	-	(1,494)
Total segment assets	51,479	84,975	55,339	191,793
Segment liabilities	1,797	91,275	66,265	159,337

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