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## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

### **1. LEGAL STATUS AND PRINCIPAL ACTIVITIES**

bank muscat SAOG (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of 154 branches (30 September 2015 : 153 branches) within the Sultanate of Oman and one branch each in Riyadh, Kingdom of Saudi Arabia and Kuwait. The Bank has representative offices in Dubai, United Arab Emirates, Singapore and Tehran, Iran. The Bank has a subsidiary in Riyadh, Kingdom of Saudi Arabia. The Bank operates in Oman under a banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank has its primary listing on the Muscat Securities Market.

The Bank employed 3,695 employees as of 30 September 2016 (30 September 2015: 3,663 employees).

During 2013, the Parent Company inaugurated "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking license granted by the CBO on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities. The principal activities of Meethaq include: accepting customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes; undertaking Shari'a compliant investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 30 September 2016, Meethaq has 17 branches (Sep 2015 - 15 branches) in the Sultanate of Oman.

### **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The unaudited interim condensed consolidated financial statements for the three month period ended 30 September 2016 of the Bank are prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting', applicable regulations of the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

For the period ended 30 September 2016, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2016. The adoption of new and revised standards and interpretations has not resulted in any major changes to the Group's accounting policies and has not affected the amounts reported for the current and prior periods.

The unaudited interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the six month period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year 2016.

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## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

### **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

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

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

The functional currency of the Bank is the Rial Omani (RO). These unaudited interim condensed consolidated financial statements of the Bank are prepared in Rial Omani, rounded to the nearest thousands, except as indicated.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

**3. LOANS AND ADVANCES / ISLAMIC FINANCING RECEIVABLES**

**Conventional banking**

	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Audited 31 December 2015 RO' 000</i>	<i>Unaudited 30 September RO' 000</i>
Corporate loans	3,740,437	3,578,502	3,514,576
Overdrafts and credit cards	244,040	275,592	298,412
Loans against trust receipts / Other advances	575,856	560,725	518,478
Bills purchased and discounted	17,284	24,438	27,753
Personal and housing loans	2,738,987	2,542,866	2,478,403
	<u>7,316,604</u>	<u>6,982,123</u>	<u>6,837,622</u>
Provision for impairment	(284,184)	(286,637)	(271,692)
	<u>7,032,420</u>	<u>6,695,486</u>	<u>6,565,930</u>

**Islamic financing receivables**

	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Audited 31 December 2015 RO' 000</i>	<i>Unaudited 30 September RO' 000</i>
Housing finance	370,924	328,545	314,548
Corporate finance	380,596	272,019	131,834
Consumer finance	44,282	45,235	45,646
	<u>795,802</u>	<u>645,799</u>	<u>492,028</u>
Provision for impairment	(13,735)	(11,070)	(9,627)
	<u>782,067</u>	<u>634,729</u>	<u>482,401</u>

Movement in provision for impairment is analysed below:

**Impairment for credit losses**

	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Audited 31 December 2015 RO' 000</i>	<i>Unaudited September 2015 RO' 000</i>
<b>1 January</b>	<b>274,782</b>	<b>237,750</b>	<b>237,750</b>
Provided during the period / year	46,962	71,984	42,737
Released during the period / year	(20,504)	(34,888)	(24,563)
Written off during the period / year	(1,287)	(1,446)	(787)
Transfer to memorandum portfolio	(23,021)	-	-
Transfer from memorandum portfolio	892	1,575	1,309
Foreign currency translation difference	26	(120)	(180)
Transfer to collateral pending sale	-	(73)	-
<b>At 30 September / 31 December (a)</b>	<b>277,850</b>	<b>274,782</b>	<b>256,266</b>

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**3. LOANS AND ADVANCES / ISLAMIC FINANCING RECEIVABLES (continued)**

**Contractual interest / profit not recognised**

	<i>Unaudited</i> <i>30 September</i> <i>2016</i> <i>RO' 000</i>	<i>Audited</i> <i>31 December</i> <i>2015</i> <i>RO' 000</i>	<i>Unaudited</i> <i>30 September</i> <i>2015</i> <i>RO' 000</i>
<b>1 January</b>	<b>22,925</b>	21,144	21,144
Contractual interest not recognised	<b>10,747</b>	11,690	8,450
Contractual interest recovered	<b>(3,471)</b>	(9,488)	(4,182)
Written off during the period	<b>(597)</b>	(514)	(449)
Transfer from / (to) Memorandum portfolio	<b>(9,534)</b>	93	90
Translation adjustment of opening balances	<b>(2)</b>	-	-
<b>At 30 September / 31 December (b)</b>	<b>20,068</b>	22,925	25,053
<b>Total impairment (a) + (b)</b>	<b>297,918</b>	297,707	281,319

Total impairment above includes impairment for off-balance sheet exposure as well. Interest / Profit is reserved on loans and advances / Islamic financing receivables which are impaired.

Recoveries during the period of RO 22,689 thousands (30 September 2015: RO 25,543 thousands) include RO 2,185 thousands (30 September 2015: RO 980 thousands) recovered from loans written off earlier.

At 30 September 2016, loans and advances / Islamic financing on which contractual interest is not accrued or has not been recognised were RO 226.7 million (30 September 2015 : RO 196.7 million).

**The maturity profile of loans and advances / Islamic financing receivables was as follows**

	<i>Unaudited</i> <i>30 September</i> <i>2016</i> <i>RO' 000</i>	<i>Audited</i> <i>31 December</i> <i>2015</i> <i>RO' 000</i>	<i>Unaudited</i> <i>30 September</i> <i>2015</i> <i>RO' 000</i>
On demand or within 3 months	<b>1,951,395</b>	1,860,781	1,745,174
Four months to 12 months	<b>662,860</b>	657,730	693,365
1 to 5 years	<b>1,696,824</b>	1,579,434	1,403,980
More than 5 years	<b>3,503,408</b>	3,232,270	3,205,812
	<b>7,814,487</b>	7,330,215	7,048,331

**4. NON TRADING INVESTMENTS**

**4.a. Fair value through profit or loss**

	<i>Unaudited</i> <i>30 September</i> <i>2016</i> <i>RO' 000</i>	<i>Audited</i> <i>31 December</i> <i>2015</i> <i>RO' 000</i>	<i>Unaudited</i> <i>30 September</i> <i>2015</i> <i>RO' 000</i>
<b>Quoted debt</b>			
Local bonds	<b>49,995</b>	50,250	-
Foreign bonds	<b>1,023</b>	977	1,014
	<b>51,018</b>	51,227	1,014



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**4. NON TRADING INVESTMENTS (continued)**

**4.b. Available for sale**

	<i>Unaudited</i> 30 September 2016 RO' 000	<i>Audited</i> 31 December 2015 RO' 000	<i>Unaudited</i> 30 September 2015 RO' 000
<b>Quoted equity</b>			
Foreign securities	41,787	39,086	33,027
Other services sector	23,583	26,066	29,318
Unit funds	10,214	7,981	8,344
Financial services sector	6,051	5,860	6,058
Industrial sector	2,253	1,379	1,375
<b>Quoted debt</b>			
Government bonds	281,652	283,196	203,152
Foreign bonds	28,713	29,546	29,223
Local bonds	217	328	328
<b>Total quoted investments</b>	<b>394,470</b>	<b>393,442</b>	<b>310,825</b>
<b>Unquoted equity</b>			
Foreign securities	11,384	14,862	14,543
Local securities	19,855	21,223	17,731
Unit funds	50	778	50
<b>Unquoted debt</b>			
Local bonds	26,385	25,538	32,371
<b>Total unquoted investments</b>	<b>57,674</b>	<b>62,401</b>	<b>64,695</b>
<b>Total available for sale investments</b>	<b>452,144</b>	<b>455,843</b>	<b>375,520</b>
<b>Impairment losses on investments</b>	<b>(14,757)</b>	<b>(10,870)</b>	<b>(9,842)</b>
	<b>437,387</b>	<b>444,973</b>	<b>365,678</b>

During the period ended 30 September 2016, the Bank recorded an impairment loss of RO 5,263 thousands and disposed investments on which impairment loss of RO 1,377 thousand was earlier recorded.

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

**4.c. Held to maturity**

	<i>Unaudited</i> 30 September 2016 RO' 000	<i>Audited</i> 31 December 2015 RO' 000	<i>Unaudited</i> 30 September 2015 RO' 000
<b>Quoted bonds</b>	<b>79,349</b>	53,590	53,328
<b>Unquoted investments</b>			
Treasury bills	634,036	967,648	795,501
Bonds / equities	11,115	946	5,959
	<b>645,151</b>	968,594	801,460
	<b>724,500</b>	1,022,184	854,788

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**5. INVESTMENT IN AN ASSOCIATE**

The carrying value of Bank's investment in Al Salam Bank is as set out below:

	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Audited 31 December 2015 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>
At 1 January	47,746	47,449	47,449
Share of results for the period / year	1,092	2,561	1,846
Share of other comprehensive income	116	(617)	(217)
Dividend received	(1,611)	(1,647)	(1,612)
At 30 September / December	<u>47,343</u>	<u>47,746</u>	<u>47,467</u>

**6. CUSTOMERS' DEPOSITS**

**Conventional customers' deposits**

	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Audited 31 December 2015 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>
Current accounts	1,942,794	2,016,337	2,220,541
Call accounts	339,972	316,973	325,530
Savings accounts	2,323,280	2,228,766	2,103,878
Time deposits	2,176,178	2,117,908	2,059,816
Other	48,659	58,331	68,078
	<u>6,830,883</u>	<u>6,738,315</u>	<u>6,777,843</u>

**Islamic customers' deposits**

	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Audited 31 December 2015 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>
Current accounts	86,746	66,319	67,649
Savings accounts	91,699	60,955	55,142
Time deposits	440,267	407,571	419,399
Other	127,241	90,288	6,390
	<u>745,953</u>	<u>625,133</u>	<u>548,580</u>

The maturity profile of customer's deposits was as follows:

	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Audited 31 December 2015 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>
On demand or within 3 months	1,500,896	1,449,659	1,331,846
Four months to 12 months	1,753,524	1,902,538	1,896,349
1 to 5 years	3,047,161	2,526,317	2,634,434
More than 5 years	1,275,255	1,484,934	1,463,794
	<u>7,576,836</u>	<u>7,363,448</u>	<u>7,326,423</u>

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**7. SHARE CAPITAL**

During March 2016, the Bank converted a portion of its mandatory convertible bonds issued in 2013 into share capital. The conversion amounting to RO 30.275 million was credited to the share capital and share premium amounting to RO 8.984 million and RO 21.291 million, respectively.

In the Bank's annual general meeting held on 16 March 2016 the shareholders approved a dividend of 30%, 25% in the form of cash and 5% in the form of bonus shares. Thus shareholders received cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 57.296 million on Bank's existing share capital. In addition, they received bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 114,591,130 shares of RO 0.100 each amounting to RO 11.46 million.

Shareholders of the Bank who hold 10% or more of the bank's shares are given below:

	<i>Unaudited</i> <i>30 September</i> <i>2016</i> <i>RO' 000</i>	<i>Audited</i> <i>31 December</i> <i>2015</i> <i>RO' 000</i>	<i>Unaudited</i> <i>30 September</i> <i>2015</i> <i>RO' 000</i>
<b>Number of shares held</b>			
Royal Court Affairs	<b>589,844,518</b>	540,469,925	540,469,925
Dubai Financial Group LLC	<b>308,669,563</b>	282,671,899	282,671,899
<b>% of shareholding</b>			
Royal Court Affairs	<b>23.63%</b>	23.58%	23.58%
Dubai Financial Group LLC	<b>12.37%</b>	12.33%	12.33%

**8. CONTINGENT LIABILITIES**

	<i>Unaudited</i> <i>30 September</i> <i>2016</i> <i>RO' 000</i>	<i>Audited</i> <i>31 December</i> <i>2015</i> <i>RO' 000</i>	<i>Unaudited</i> <i>30 September</i> <i>2015</i> <i>RO' 000</i>
Letters of credit	<b>655,201</b>	818,735	808,644
Guarantees	<b>2,345,526</b>	2,367,677	2,316,710
	<b><u>3,000,727</u></b>	<u>3,186,412</u>	<u>3,125,354</u>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**9. INTEREST INCOME / INCOME ON ISLAMIC FINANCING / INVESTMENT**

	<i>Unaudited -for six months ended- 30 September 2016 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>	<i>Unaudited -for three months ended- 30 September 2016 RO' 000</i>	<i>Unaudited September 2015 RO' 000</i>
Loans and advances	243,907	228,037	83,573	77,669
Due from banks	10,591	7,920	3,679	2,798
Investments	10,572	8,581	3,621	2,754
	<u>265,070</u>	<u>244,538</u>	<u>90,873</u>	<u>83,221</u>
Islamic financing receivable	25,257	18,264	9,317	6,380
Islamic due from banks	124	67	19	37
Islamic investment	1,593	233	559	31
	<u>26,974</u>	<u>18,564</u>	<u>9,895</u>	<u>6,448</u>
	<u>292,044</u>	<u>263,102</u>	<u>100,768</u>	<u>89,669</u>

**10. INTEREST EXPENSE / DISTRIBUTION ON ISLAMIC DEPOSITS**

	<i>Unaudited -for six months ended- 30 September 2016 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>	<i>Unaudited -for three months ended- 30 September 2016 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>
Customer's deposits	52,572	49,713	18,264	17,568
Subordinated liabilities/mandatory convertible bonds	11,546	14,357	3,061	4,905
Certificates of deposits	-	486	-	-
Bank borrowings	6,180	1,970	2,791	196
Euro medium term notes	6,822	2,012	3,223	-
	<u>77,120</u>	<u>68,538</u>	<u>27,339</u>	<u>22,669</u>
Islamic customers deposits	8,296	4,559	3,503	1,940
Islamic bank borrowings	898	324	367	39
	<u>9,194</u>	<u>4,883</u>	<u>3,870</u>	<u>1,979</u>
	<u>86,314</u>	<u>73,421</u>	<u>31,209</u>	<u>24,648</u>

**11. COMMISSION AND FEES INCOME (NET)**

The commission and fees shown in the interim condensed consolidated statement of comprehensive income is net off commission and fees paid of RO 715 K (30 September 2015 : RO 587 K).

**12. OTHER OPERATING INCOME**

	<i>Unaudited -for six months ended- 30 September 2016 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>	<i>Unaudited -for three months ended- 30 September 2016 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>
Foreign exchange	25,816	26,601	8,239	8,101
Profit on sale of investment securities	3,308	2,739	499	203
Dividend income	4,329	2,863	944	722
Other income	4,393	4,719	1,287	1,051
	<u>37,846</u>	<u>36,922</u>	<u>10,969</u>	<u>10,077</u>



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**13. EARNINGS PER SHARE**

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

	<i>Unaudited</i> <i>30 September</i> <i>2016</i> <i>RO' 000</i>	<i>Unaudited</i> <i>30 September</i> <i>2015</i> <i>RO' 000</i>
<b>a) Basic earnings per share</b>		
Profit attributable to ordinary shareholders of parent company for basic earnings per share (RO 000's)	<u>136,907</u>	136,234
Weighted average number of shares outstanding during the period (RO in 000's)	<u>2,440,184</u>	2,406,414
Basic earnings per share (RO)	<u>0.056</u>	0.057
<b>b) Diluted earnings per share</b>		
Profit attributable to ordinary shareholders of parent company for diluted earnings per share (RO 000's)	<u>136,907</u>	136,234
Interest on convertible bonds, net of taxation (RO 000's)	<u>1,962</u>	2,374
	<u>138,869</u>	138,608
Weighted average number of shares in issue during the period (000's)	<u>2,639,381</u>	2,623,116
Diluted earnings per share (RO)	<u>0.053</u>	0.053

**14. RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Group conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. The terms of these transactions are approved by the Bank's Board and Management. The balances in respect of related parties included in the interim condensed consolidated statement of financial position as at the reporting date are as follows:

	<i>Unaudited</i> <i>30 September</i> <i>2016</i> <i>RO' 000</i>	<i>Audited</i> <i>31 December</i> <i>2015</i> <i>RO' 000</i>	<i>Unaudited</i> <i>30 September</i> <i>2015</i> <i>RO' 000</i>
<b>a) Directors and senior management</b>			
Loans and advances (gross)	4,871	3,202	3,227
Provision and reserve interest	-	-	-
Loans and advances (net)	<u>4,871</u>	3,202	3,227
Current, deposit and other accounts	875	937	710
Customers' liabilities under documentary credits, guarantees and other commitments	2	-	-
<b>b) Major shareholders and others</b>			
Loans and advances (gross)	33,181	39,578	30,130
Provision and reserve interest	<u>(8,505)</u>	(8,452)	(8,390)
Loans and advances (net)	<u>24,676</u>	31,126	21,740
Current, deposit and other accounts	92,917	44,353	69,229
Customers' liabilities under documentary credits, guarantees and other commitments	12,166	13,983	14,186

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

	<i>Unaudited</i> <i>30 September</i> <i>2016</i> <i>RO' 000</i>	<i>Unaudited</i> <i>30 September</i> <i>2015</i> <i>RO' 000</i>
<b>a) Directors and senior management</b>		
Interest income	147	159
Interest expenditure	14	5
<b>b) Major shareholders and others</b>		
Interest income	949	1,106
Interest expenditure	652	498

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**15 DERIVATIVES**

<b>As at 30 September 2016</b>	<i>Positive</i>	<i>Negative</i>	<i>Notional</i>	<i>Notional amounts by term to maturity</i>		
	<i>fair value</i>	<i>fair value</i>	<i>total</i>	<i>0-3 months</i>	<i>4-12 months</i>	<i>&gt; 12 months</i>
	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>
Fair value hedge	461	907	515,529	-	-	515,529
Cash flow hedge	-	1,385	65,450	-	-	65,450
Interest rate swaps	11,913	11,893	290,293	-	8,302	281,991
Cross currency swap	-	1,488	192,500	77,000	115,500	-
Currency options - bought	298	-	77,121	62,057	15,063	-
Currency options - sold	-	298	77,108	62,045	15,063	-
Commodities purchase contracts	3,939	487	73,377	55,177	17,347	853
Commodities sale contracts	496	3,889	53,186	48,098	4,235	853
Forward purchase contracts	1,206	3,296	1,344,114	1,055,205	254,792	34,117
Forward sales contracts	6,784	3,611	1,359,455	1,063,280	262,769	33,406
	<b>25,097</b>	<b>27,254</b>	<b>4,048,133</b>	<b>2,422,862</b>	<b>693,072</b>	<b>932,199</b>

<b>As at 31 December 2015</b>	<i>Positive</i>	<i>Negative</i>	<i>Notional</i>	<i>Notional amounts by term to maturity</i>		
	<i>fair value</i>	<i>fair value</i>	<i>total</i>	<i>0-3 months</i>	<i>4-12 months</i>	<i>&gt; 12 months</i>
	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>	<i>RO' 000</i>
Fair value hedge	-	2,440	527,454	-	-	527,454
Cash flow hedge	-	816	65,540	-	-	65,540
Interest rate swaps	12,715	12,718	380,035	-	51,695	328,340
Cross currency swap	-	8,873	412,597	-	297,101	115,496
Currency options - bought	350	-	44,401	26,938	17,463	-
Currency options - sold	-	350	44,231	26,754	17,477	-
Commodities purchase contracts	1,778	3,382	70,677	47,161	20,359	3,157
Commodities sale contracts	3,400	1,713	57,855	43,166	11,676	3,013
Forward purchase contracts	286	3,743	1,004,692	519,352	455,717	29,623
Forward sales contracts	6,681	451	988,908	514,330	445,472	29,106
	<b>25,210</b>	<b>34,486</b>	<b>3,596,390</b>	<b>1,177,701</b>	<b>1,316,960</b>	<b>1,101,729</b>

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**16. SEGMENTAL INFORMATION**

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

<i>Unaudited 30 Septemb er 2015 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>	<i>Unaudited 30 Septembe r 2015 RO' 000</i>		<i>Unaudited 30 Septembe r 2016 RO' 000</i>	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Unaudited 30 Septembe r 2016 RO' 000</i>
<i>Total</i>	<i>International</i>	<i>Oman</i>		<i>Oman</i>	<i>International</i>	<i>Total</i>
244,538	10,856	233,682	Interest income	249,830	15,240	265,070
(68,538)	(3,334)	(65,204)	Interest expense	(68,765)	(8,355)	(77,120)
18,564	-	18,564	Income from Islamic financing	26,974	-	26,974
(4,883)	-	(4,883)	Distribution to depositors	(9,194)	-	(9,194)
75,946	4,336	71,610	Commission and fee income (net)	66,554	4,069	70,623
36,922	1,346	35,576	Other operating income	37,002	844	37,846
<u>302,549</u>	<u>13,204</u>	<u>289,345</u>		<u>302,401</u>	<u>11,798</u>	<u>314,199</u>
			<b>Segment costs</b>			
(117,820)	(6,638)	(111,182)	Other operating expenses	(113,287)	(6,255)	(119,542)
(8,179)	(210)	(7,969)	Depreciation	(9,265)	(209)	(9,474)
(125,999)	(6,848)	(119,151)		(122,552)	(6,464)	(129,016)
(450)	-	(450)	Impairment for due from banks	(450)	-	(450)
(42,737)	(9,961)	(32,776)	Impairment for credit losses	(38,874)	(8,088)	(46,962)
			Recoveries from provision for credit losses	20,354	2,334	22,688
25,543	323	25,220	Impairment for investments available-for-sale	(5,263)	-	(5,263)
(3,544)	-	(3,544)	Share of results from an associate	-	1,092	1,092
1,846	1,846	-	Tax expense	(19,345)	(36)	(19,381)
<u>(20,974)</u>	<u>(45)</u>	<u>(20,929)</u>		<u>(166,130)</u>	<u>(11,162)</u>	<u>(177,292)</u>
<u>(166,315)</u>	<u>(14,685)</u>	<u>(151,630)</u>				
			<b>Segment profit (loss) for the year</b>			
136,234	(1,481)	137,715		136,271	636	136,907
			<b>Other information</b>			
<u>12,464,546</u>	<u>627,799</u>	<u>11,836,747</u>	Segment assets	<u>10,153,271</u>	<u>717,549</u>	<u>10,870,820</u>

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**16. SEGMENTAL INFORMATION (continued)**

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

<b>30 September 2016 (unaudited)</b>	<i>Corporate banking RO '000</i>	<i>Consumer banking RO '000</i>	<i>Wholesale banking RO '000</i>	<i>International banking* RO '000</i>	<i>Subtotal RO '000</i>	<i>Islamic banking RO '000</i>	<i>Total RO '000</i>
<b>Segment revenue</b>							
Net interest income	74,454	95,846	10,724	6,926	187,950		187,950
Net income from Islamic financing					-	17,780	17,780
Commission, fees and other income	17,297	47,377	37,157	5,030	106,861	1,608	108,469
Operating income	91,751	143,223	47,881	11,956	294,811	19,388	314,199
<b>Segment costs</b>							
Operating expenses	(20,459)	(80,298)	(11,575)	(8,168)	(120,500)	(8,516)	(129,016)
Impairment (net)	(9,018)	(5,608)	(5,962)	(6,555)	(27,143)	(2,844)	(29,987)
Share of results of an associate				1,092	1,092		1,092
Tax expense	(8,401)	(9,156)	(977)	119	(18,415)	(966)	(19,381)
	(37,878)	(95,062)	(18,514)	(13,512)	(164,966)	(12,326)	(177,292)
Segment profit for the year	53,873	48,161	29,367	(1,556)	129,845	7,062	136,907
Segment assets	4,073,676	2,858,606	2,282,261	719,174	9,933,717	937,103	10,870,820

<b>30 September 2015 (unaudited)</b>	<i>Corporate banking RO '000</i>	<i>Consumer banking RO '000</i>	<i>Wholesale banking RO '000</i>	<i>International banking* RO '000</i>	<i>Subtotal RO '000</i>	<i>Islamic banking RO '000</i>	<i>Total RO '000</i>
<b>Segment revenue</b>							
Net interest income	65,726	78,577	24,099	7,598	176,000	-	176,000
Net income from Islamic financing	-	-	-	-	-	13,681	13,681
Commission, fees and other income	14,907	52,457	38,410	5,911	111,685	1,183	112,868
Operating income	80,633	131,034	62,509	13,509	287,685	14,864	302,549
<b>Segment costs</b>							
Operating expenses	(19,476)	(80,157)	(11,092)	(8,527)	(119,252)	(6,747)	(125,999)
Impairment (net)	(8,625)	(2,896)	(4,444)	(3,280)	(19,245)	(1,943)	(21,188)
Share of results of an associate	-	-	-	1,846	1,846	-	1,846
Tax expense	(7,312)	(6,680)	(6,041)	(111)	(20,144)	(830)	(20,974)
	(35,413)	(89,733)	(21,577)	(10,072)	(156,795)	(9,520)	(166,315)
Segment profit for the year	45,220	41,301	40,932	3,437	130,890	5,344	136,234
Segment assets	3,895,099	2,641,670	4,670,463	630,622	11,837,854	626,692	12,464,546

Note: \* International banking includes overseas operations and cost allocations from Oman operations

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**17. ASSET LIABILITY MATURITY**

The asset and liability maturity profile was as follows

	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Audited 31 December 2015 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>
<b>ASSETS</b>			
On demand or within 3 months	4,006,384	5,558,316	6,278,777
Four months to 12 months	1,043,538	1,639,173	1,010,271
1 to 5 years	2,021,848	1,872,759	1,721,561
More than 5 years	3,799,050	3,474,281	3,453,937
	<b>10,870,820</b>	<b>12,544,529</b>	<b>12,464,546</b>
<b>LIABILITIES AND EQUITY</b>			
On demand or within 3 months	2,010,389	4,285,435	4,142,711
Four months to 12 months	2,241,811	2,197,290	2,164,217
1 to 5 years	3,770,559	3,113,664	3,267,780
More than 5 years	2,848,061	2,948,140	2,889,838
	<b>10,870,820</b>	<b>12,544,529</b>	<b>12,464,546</b>
<b>MISMATCH</b>			
On demand or within 3 months	1,995,995	1,272,881	2,136,066
Four months to 12 months	(1,198,273)	(558,117)	(1,153,946)
1 to 5 years	(1,748,711)	(1,240,905)	(1,546,219)
More than 5 years	950,989	526,141	564,099
	<b>-</b>	<b>-</b>	<b>-</b>

Mismatch represents difference between assets and liabilities for each maturity band.

**18. CAPITAL ADEQUACY**

The following table sets out the capital adequacy position of the Group as per Basel III regulatory requirements

	<i>Unaudited 30 September 2016 RO' 000</i>	<i>Audited 31 December 2015 RO' 000</i>	<i>Unaudited 30 September 2015 RO' 000</i>
Common Equity Tier I capital	1,301,911	1,271,637	1,160,014
Tier I capital	1,301,911	1,271,637	1,160,014
Tier II capital	219,277	249,551	264,631
Total regulatory capital	1,521,188	1,521,188	1,424,645
Total risk weighted assets	9,335,996	9,447,263	8,941,304
Of which: Credit risk weighted assets	8,452,928	8,347,170	8,169,302
Of which: Market risk weighted assets	196,327	413,352	136,984
Of which: Operational risk weighted assets	686,741	686,741	635,018
<b>Capital ratios :</b>			
Common Equity Tier 1	13.95%	13.46%	12.97%
Tier 1	13.95%	13.46%	12.97%
Total capital	16.29%	16.10%	15.93%

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**19. FAIR VALUE INFORMATION**

The fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values and the related details are set out below:

As of 30 September 2016	Loans and receivables RO' 000	Available-for-sale RO' 000	Held-to-maturity RO' 000	Fair value through profit or loss RO' 000	Other amortised cost RO' 000	Total carrying value RO' 000	Fair value RO' 000
<b>Cash and balances with Central Banks</b>	643,491	-	-	-	-	643,491	643,491
<b>Due from banks</b>	891,611	-	-	-	-	891,611	891,611
<b>Loans and advances</b>	7,032,420	-	-	-	-	7,032,420	7,032,420
<b>Islamic financing receivables</b>	782,067	-	-	-	-	782,067	782,067
<b>Investment securities</b>	-	437,387	724,500	51,018	-	1,212,905	1,210,896
	<b>9,349,589</b>	<b>437,387</b>	<b>724,500</b>	<b>51,018</b>	<b>-</b>	<b>10,562,494</b>	<b>10,560,485</b>
<b>Deposits from banks</b>	-	-	-	-	793,835	793,835	793,835
<b>Customers' deposits</b>	-	-	-	-	6,830,883	6,830,883	6,830,883
<b>Islamic customers' deposits</b>	-	-	-	-	745,953	745,953	745,953
<b>Euro medium term notes</b>	-	-	-	-	384,093	384,093	384,093
<b>Subordinated liabilities/ mandatory convertible bonds</b>	-	-	-	-	229,830	229,830	230,447
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,984,594</b>	<b>8,984,594</b>	<b>8,985,211</b>

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

**19. FAIR VALUE INFORMATION (continued)**

As of 30 September 2015	Loans and receivables RO' 000	Available-for-sale RO' 000	Held-to-maturity RO' 000	Fair value through profit or loss RO' 000	Other amortised cost RO' 000	Total carrying value RO' 000	Fair Value RO' 000
Cash and balances with Central Banks	2,967,820	-	-	-	-	2,967,820	2,967,820
Due from banks	897,646	-	-	-	-	897,646	897,646
Loans and advances	6,565,930	-	-	-	-	6,565,930	6,565,930
Islamic financing receivables	482,401	-	-	-	-	482,401	482,401
Investment securities	-	365,678	854,788	1,014	-	1,221,480	1,219,420
	<b>10,913,797</b>	<b>365,678</b>	<b>854,788</b>	<b>1,014</b>	<b>-</b>	<b>12,135,277</b>	<b>12,133,217</b>
Deposits from banks	-	-	-	-	2,800,224	2,800,224	2,800,224
Customers' deposits / Certificates of deposit	-	-	-	-	6,777,843	6,777,843	6,777,843
Islamic customer deposits	-	-	-	-	548,580	548,580	548,580
Euro medium term notes	-	-	-	-	192,596	192,596	192,596
Subordinated liabilities/ mandatory convertible bonds	-	-	-	-	335,105	335,105	336,041
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,654,348</b>	<b>10,654,348</b>	<b>10,655,284</b>

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**19. FAIR VALUE INFORMATION (continued)**

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

<i>As of 30 September 2016</i>	<i>Level 1 RO'000</i>	<i>Level 2 RO'000</i>	<i>Level 3 RO'000</i>	<i>Total RO'000</i>
<b>Assets</b>				
Derivatives	-	25,097	-	25,097
Fair value through profit or loss	51,018	-	-	51,018
<b>Available-for-sale financial assets</b>				
- Equity securities	69,131	-	31,289	100,420
- Debt investments	310,582	-	26,385	336,967
<b>Total Assets</b>	<b>430,731</b>	<b>25,097</b>	<b>57,674</b>	<b>513,502</b>
<b>Liabilities</b>				
Derivatives	-	27,254	-	27,254
<b>As of 31 December 2015</b>				
	<i>Level 1 RO'000</i>	<i>Level 2 RO'000</i>	<i>Level 3 RO'000</i>	<i>Total RO'000</i>
<b>Assets</b>				
Derivatives	-	25,210	-	25,210
Fair value through profit or loss	51,227	-	-	51,227
<b>Available-for-sale financial assets</b>				
- Equity securities	69,502	-	36,863	106,365
- Debt investments	313,070	-	25,538	338,608
<b>Total Assets</b>	<b>433,799</b>	<b>25,210</b>	<b>62,401</b>	<b>521,410</b>
<b>Liabilities</b>				
Derivatives	-	34,486	-	34,486

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

<i>As of 30 September 2016</i>	<i>Equity RO'000</i>	<i>Debt RO'000</i>	<i>Total RO'000</i>
At 1 January 2016	36,863	25,538	62,401
Realised gain on sale	1,496	-	1,496
Gain from change in fair value	(2,778)	-	(2,778)
Additions	1,019	10,625	11,644
Disposals and redemption	(5,321)	(9,778)	(15,099)
Exchange differences	10	-	10
	<b>31,289</b>	<b>26,385</b>	<b>57,674</b>
<b>As of 31 December 2015</b>			
	<i>Equity RO'000</i>	<i>Debt RO'000</i>	<i>Total RO'000</i>
At 1 January 2015	23,912	36,004	59,916
Realised gain on sale	1,191	-	1,191
Gain from change in fair value	3,773	-	3,773
Additions	11,136	15,199	26,335
Disposals and redemption	(3,122)	(25,665)	(28,787)
Exchange differences	(27)	-	(27)
	<b>36,863</b>	<b>25,538</b>	<b>62,401</b>
<b>As of 30 September 2015</b>			
	<i>Equity RO 000's</i>	<i>Debt RO 000's</i>	<i>Total RO 000's</i>
At 1 January 2015	23,912	36,004	59,916
Realised gain on sale	607	-	607
Gain from change in fair value	672	(2)	670
Additions	9,184	6,200	15,384
Disposals and redemption	(2,046)	(9,831)	(11,877)
Exchange differences	(5)	-	(5)
	<b>32,324</b>	<b>32,371</b>	<b>64,695</b>

At 30 September 2016, 63% (31 Dec 15: 59%) of level 3 equity securities were valued on basis of latest available fair valuation and 37% (31 Dec 15: 41%) were valued on basis of latest available capital account statements of investee companies received from independent fund managers. Debt investments were carried at cost. The Group holds adequate provisioning on the above investments.

**20. Comparative figures**

Certain material corresponding figures for 2015 included for comparative purposes were reclassified