SOHAR ISLAMIC

SHARI'AH SUPERVISORY BOARD REPORT

In The Name of Allah, most Gracious, most Merciful. Peace and Blessings Be Upon His Messenger.

To the shareholders of Sohar Islamic, Bank Sohar S.A.O.G ("The Bank")

Assalam Alaykum Wa Rahmatu Allah Wa Barakatuh

Pursuant to the powers entrusted by the Charter of the Bank and the terms of the appointment of the Shari'ah Supervisory Board, we hereby submit the following Annual Shari'ah report:

The Shari'ah Supervisory Board monitored the operations of the Bank between the period of January 1, 2016 and December 31, 2016 to ascertain the Bank's adherence to the provisions and principles of Islamic Shari'ah in its activities and its compliance with the guidelines and decisions issued by the Shari'ah Supervisory Board. The Shari'ah Supervisory Board's monitoring function included the checking of documents and procedures to scrutinize each operation carried out by the Bank, whether directly or through the Shari'ah Audit Unit. We planned with the Shari'ah Audit Unit to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'ah as elaborated by the Shari'ah Supervisory Board. The Shari'ah Audit Unit audited the Bank's transactions and submitted a report to the Shari'ah Supervisory Board. The report confirmed the Bank's conformity to the Shari'ah Supervisory Board's opinions. It held several meetings throughout the year ended December 31, 2016 and replied to the inquiries, in addition to approving number of new products presented by the Management.

The Shari'ah Supervisory Board believes that:

1. Contracts, operations and transactions conducted by the Bank throughout the year ended December 31, 2016 were in accordance with the standard contracts pre-approved by the Shari'ah Supervisory Board.
2. The distribution of profit on investment accounts were in line with the basis and principles approved by the Shari'ah Supervisory Board.
3. The audit did not show any gains resulting from sources or means prohibited by the provisions and principles of Islamic Shari'ah. As such there was no need to direct any amount to the Charity and Donations Account according to SSB's resolution.

Dr. Hussein Hamid Hassan
Chairman

Dr.Muddassir Hussain Siddiqui
Deputy Chairman

Sheikh Azzan Bin Nasir Bin Furfur Al Aamri
Member

Sheikh Fahad Mohammed Hilal Al Khalili
Member

Muscat, Sultanate of Oman

SHARI'AH RULINGS / PRONOUNCEMENTS APPROVED BY THE SSB

LIST OF FATWAS ISSUED DURING THE PERIOD 2016

NO	Reference	Approvals
1	First Quarter 2016	- **Review on the SSB Charter and approval of the SSB** The SSB reviewed the changes that Sohar Islamic had made to the existing SSB Charter and approved these changes and also agreed to renew their engagement as SSB members of Sohar Islamic. Dr Hussain Hamid Hassan was nominated as Chairman of the SSB and Dr Muddassir Siddiqui was nominated as Deputy Chairman.
		- **Review of SSB performance for 2015** The SSB were presented with their performance matrix for 2015 which was duly prepared on behalf of the Board of Directors which they duly acknowledged.
		- **Review on the appointment of a new SSB member** The SSB members reviewed the resumes of a proposed replacement for Dr Ajeel Al Nashmi to join Sohar Islamic's SSB. Dr Hussain Hassan stated that the SSB's role in this matter was to merely express their opinion with the final appointment decision lying on the Board of Directors. To this extent, Dr Hussain and Dr Muddassir both saw the appointment of Sheikh Fahad Al-Khalili as an appropriate replacement to Dr Ajeel Al Nashmi, given his background and experience in banking, investments and marketing and his present involvement with an Islamic Finance Consultancy in Oman.
		- **Review and approval on the amended Trade Finance Application Form** Given the unfavorable market conditions with a tightening of liquidity and an increase in the cost of funds, Sohar Islamic wanted to adopt greater use of the approved ijara structures to give them the flexibility to re-price a finance facility according to market conditions. To this extent, the SSB's approval was sought to add two more financing options to the approved LC application form: Option 4: L/C under Ijara Muntahiya Bittamleek Option 5: L/C under Ijara Diminishing Musharaka to include Dimishing Musharakah "The SSB's opined that there was no issues from a Sharia perspective for Sohar Islamic to open an LC to purchase Goods and Equipments so that these assets could be used under Ijara Muntahiya Bittamleek financing with the customer, or for the Bank to jointly own the assets with the customer under Diminishing Musharaka and for the Bank to lease out its share of the asset to the customer."
		- **Review and approval of the Code of Ethics for SSB** As per the requirements of the IBRF, Sohar Islamic presented a policy document on "Code of Ethics for the SSB" which the SSB duly reviewed and approved.
		- **Review and approval of the Sharia Audit Manual** As per the requirement of the IBRF, Sohar Islamic prepared and presented a detailed policy document on Sharia Audit which was duty reviewed and approved. The Chairman, further commented that Sohar Islamic's activities in the area of Sharia Audit are well appreciated by the SSB for their clarity and rigor.
		- **Review and approval of the Sharia Governance Manual** As per the requirements of the IBRF, Sohar Islamic presented a policy document on Sharia Governance, titled "Sharia Governance Manual" which the SSB duly reviewed and approved.
		- **Review and approval of the Accounting and Financing Policy Manual** As per the requirement of the IBRF, Sohar Islamic's existing Accounting and Financing Manual was due for review and renewal. The SSB duly reviewed and approved on renewing this document for implementation.
		- **Review and approval of the Profit Distribution Policy and Mechanism** As per the requirement of the IBRF, Sohar Islamic's existing Profit Distribution Policy and Mechanism was due for review. The SSB duly reviewed and approved on renewing this document for implementation.
		- **Review and approval of the Liquidity Funding Contingency Plan and Policy Document** As per the requirement of the IBRF, Sohar Islamic presented a policy document, titled "Liquidity Funding Contingency Plan" which the SSB duly reviewed and approved. As per the guidelines of the SSB, the document was drafted and aligned with the requirements of AAOIFI on the subject matter.
		- **Review and Fatwa on Sohar Islamic's product offering** As per the requirement of the IBRF, Sohar Islamic's presented a certificate of its product offerings which the SSB duly reviewed and signed.
		- **SSB annual training programme** As per clause 2.2.6.7 of Title 2 of the IBRF, the SSB were requested to opine on a training schedule for their training and development. The SSB suggested that the CBO should organize a training programme or seminars once or twice a year for all the Sharia Boards of Islamic Financial Institutions to attend in order for this requirement to be fulfilled in an orderly and acceptable fashion.

SHARI'AH RULINGS / PRONOUNCEMENTS APPROVED BY THE SSB

LIST OF FATWAS ISSUED DURING THE PERIOD 2016 (continued)

NO	Reference	Approvals
1	First Quarter 2016 (continued)	- **Review and Approval of profit distribution for the months of Dec 2015, Jan, Feb and March 2016** The SSB reviewed the realized profits in the Mudaraba Accounts of Investment Account Holders for each of the above months and approved the distribution of profits based on the fact that they were in line with the SSB approval and practices.
		- **Review and SSB approval of quarterly Sharia Audit reports from (01/07/2015 to 31/12/2015)** The SSB reviewed the audit reports prepared for the subject period for Auto Finance, Home Finance, Corporate Real Estate Financing, Goods Murabaha Finance, Treasury Wakala Placements and Deposits & FX transactions and Trade Finance transactions and confirmed their approval and satisfaction with the reports prepared by the Sharia Audit Department.
		- **Review and SSB approval of the Annual Sharia Report for 2015** As per the requirements of the IBRF, the SSB issued an annual report confirming the Sharia compliancy of Sohar Islamic's activities and transactions undertaken in 2015.
		- **Review and SSB acknowledgement of external auditors Sharia report of Sohar Islamic for 2015** An external Sharia audit of Sohar Islamic's products and services was undertaken by E&Y who confirmed that the Sharia controls at Sohar Islamic were effective. As per the IBRF requirements, this report was circulated amongst the SSB who reviewed and duly noted.
		- **Review of the Goods Murabaha product** The SSB duly reviewed the contract and product memorandum for goods murabaha and approved the product for Sohar Islamic, as it was totally aligned with the Sharia principles of Murabaha.
		- **Review and SSB approval of the Forward FX contract of Bank Al-Salam Bahrain** The SSB discussed the issue and agreed that the fatwa with regards to the exchange of currency would follow that of gold and silver, specifically the point which requires possession of both countervalues in the same 'majlis' or time period, or granting possession within atleast 2 working days of the transaction where the parties are at distance from each other. Where parties are at a distance from each other, a delay beyond 2 working days of either one or both countervalues would not be permissible. The Deputy Chairman of the SSB, opined that the reason and need for conducting forward transactions of currencies in the present day was due to the need to hedge against the fluctuation of various currencies because of the use of many different currencies in the present day and the de-link of fiat currency from a single gold standard. Hence forward transaction of currencies in the present should not be considered to come under the forbidden ambit of an interest based transaction. In view of this, the rules of ribal fadl do not apply here because the illat of prevention of falling into riba is missing, and because the reason of prevention of future contracts was to close the door of interest which is not found here. Volatility of currencies is a recent day phenomena and individuals and organisations are increasingly pressed to hedge their currencies for fear of losing value of what they hold. If the purpose of forbidding a forward or futures transaction is down to greater caution then there is no issue for the SSB to lay down some measures that can be used by the Internal Sharia Reviewer to ensure that the purpose for any forward transaction conducted by the bank is indeed for hedging. There is no need to first say that a specific type of transaction is forbidden, and then to say that it is permissible if a promise or undertaking is used. This is so that the true spirit and rules of the Sharia can be implemented. Intention is what matters in the Sharia and the basis of all our actions.
2	Second Quarter 2016	- **Review and Approval of profit distribution for the months of April and May 2016** The SSB reviewed the realized profits in the Mudaraba Accounts of Investment Account Holders for each of the above months and approved the distribution of profits based on the fact that they were in line with the SSB approval and practices.
		- **Review and approval of quarterly Sharia Audit report from (01/01/2016 to 31/03/2016).** The SSB reviewed the audit reports prepared for the subject period for Auto Finance, Home Finance, Corporate Real Estate Financing, Goods Murabaha Finance, Treasury Wakala Placements and Deposits & FX transactions and Construction Finance transactions and confirmed their approval and satisfaction with the reports prepared by the Sharia Audit Department.
		- **Review of the Service Ijara product** The SSB duly reviewed the contract and product memorandum for the service ijara product and it was approved by our Chairman and Sheikh Azzan. Our Deputy Chairman approved on the following condition: There contracts between the Bank and the supplier of services (first contract) and the Bank and the Customer (second contract) should be independent of each other, regardless of whether the supplier is an educational centre or a hospital; and furthermore not to mention the beneficiary of service and his relationship with the service provider in the first contract. The terms and conditions in both contracts should be the same.
		- **Review and approval of the Electronic Banking Policy** As per the requirement of the IBRF, Sohar Islamic presented a policy document, titled "Electronic Banking Policy" which the SSB duly reviewed and approved.

SHARI'AH RULINGS / PRONOUNCEMENTS APPROVED BY THE SSB

LIST OF FATWAS ISSUED DURING THE PERIOD 2016 (continued)

NO	Reference	Approvals
3	Third Quarter 2016	- **Approval of appointing Sheikh Fahad Al-Khalili as new SSB member.** - **Review and Approval of profit distribution for the months of June, July and August 2016** The SSB reviewed the realized profits in the Mudaraba Accounts of Investment Account Holders for each of the above months and approved the distribution of profits based on the fact that they were in line with the SSB approval and practices.
		- **Review and Approval of quarterly Sharia Audit report from 01/04/2016 to 30/06/2016.** The SSB reviewed the audit reports prepared for the subject period for Auto Finance, Home Finance, Corporate Real Estate Financing, Goods Murabaha Finance, Treasury Wakala Placements and Deposits & FX transactions and Trade Finance transactions and confirmed their approval and satisfaction with the reports prepared by the Sharia Audit Department.
		- **Review and Acknowledgement of the CBO Circular on Takeover Finance through Ijara** The SSB reviewed and approved of the process and methodology in which Sohar Islamic takes over an existing customers' liability from another Bank through the Ijara product with reservation noted from the Deputy Chairman on the use of Ijara for such endeavours. The fatwa approved of the following takeover method: There have been cases of Sohar Islamic taking over an existing customer liability from other financial institutions – both conventional and Islamic – using Ijara. o In cases where a customer's conventional liability was taken over, an existing unencumbered asset (property) of the customer would be acquired (either wholly or a certain percentage if the value of the asset exceeded the outstanding liability) by Sohar Islamic at market value and leased back to the customer. The proceeds of the sale would be utilized to close / payoff the outstanding conventional liability. o For takeover of Islamic housing finance from other IBEs, Sohar Islamic would purchase the asset from the customer* and sign the ijara set of documentation. *Purchase from the customer who would be holding the asset on behalf of the respective IBE through a title agency agreement. Since the CBO has now instructed that the title has to be in the name of the financing / purchasing IBE, Sohar Islamic would purchase the asset at market value from the IBE directly and lease it to the customer. (So far, we have had no cases where the title of the asset was registered in the name of the IBE. There have also been cases wherein an existing Sohar Islamic customer has transferred his liability to another IBE. o As per the documentation directives, in such cases, the customer would deliver a sale notice wherein he would call upon SI's promise to sell the asset. SI would agree to sell the asset and execute a sale transaction with the customer. The sale amount would come from the IBE taking over the financing.
		- **Review and Fatwa on early settlement charges** The SSB approved of the following practice of Sohar Islamic on the subject matter: 1. Sohar Islamic applies a 1% charge on early settlement requests, on the prepaid / foreclosed amount. 2. Early settlement charge is taken to cover administrative costs for processing and terminating the financial relationship with the customer. 3. Early settlement charge forms part of the exercise price (sale price) agreed between the bank and the customer in the sale agreement, and hence treated as income of the bank.
		- **Review and approval of the Country Risk Policy** As per the requirement of the IBRF, Sohar Islamic presented a policy document, titled "Country Risk Policy" which the SSB duly reviewed and approved, noting that Islamic Banking Risk differs from the risks of conventional banks and this.
		- **Review and approval of the Corporate Risk Policy for SME** As per the requirement of the IBRF, Sohar Islamic presented a policy document, titled "Corporate Risk Policy for SME" which the SSB duly reviewed and approved.

SHARI'AH RULINGS / PRONOUNCEMENTS APPROVED BY THE SSB

LIST OF FATWAS ISSUED DURING THE PERIOD 2016 (continued)

NO	Reference	Approvals
4	Fourth Quarter 2016	- **Approval and signing of IBRF clause 2.2.4.2 from SSB** Each SSB member signed an undertaking related to the independence of their ruling in work related issues as per the requirement of the IBRF.
		- **Review and approval of annual audit plan for 2017.** The SSB said that Sohar Islamic is a Sharia conscious and compliant bank and the various sharia audit reports have shown that transactions and services are offered in line with the Sharia rules and regulations and there have been no mistakes or violations of Sharia found. Furthermore, the SSB deputed Sheikh Azzan and Sheikh Fahad Al-Khalili to undertake spot audits and checks on their behalf to ensure Sharia compliancy. The SSB duly reviewed the proposed audit plan for 2017 and stressed the need to focus on the contracts of every transaction to ensure Sharia compliancy and avoid Sharia violations.
		- **Review and approval of annual training program for Sohar Islamic Staff for 2017** The SSB decided that the annual plan of training needed some enhancement in the sense that Sohar Islamic should not depend solely on internal trainers, but use external trainers also to bolster the capacity in training and to focus on how to complete contracts properly and to rectify mistakes and shortcomings that appear during Sharia audits, and to focus on practical aspects of a staffs day to day work and differences between Islamic and conventional practices. The SSB furthermore encouraged Sohar Islamic staff to attend conferences and seminars to enhance their awareness on latest industry developments and also try to obtain all the fatwas that have been published by various Banks. The SSB approved of the annual training program with the aforementioned points to adopt.
		- **Review and SSB approval of the Annual Sharia Report for 2016** As per the requirements of the IBRF, the SSB issued an annual report confirming the Sharia compliancy of Sohar Islamic's activities and transactions undertaken in 2016.
		- **Review and Approval of profit distribution for the months of September, October and November 2016** The SSB reviewed the realized profits in the Mudaraba Accounts of Investment Account Holders for each of the above months and approved the distribution of profits based on the fact that they were in line with the SSB approval and practices.
		- **Review and Approval of quarterly Sharia Audit report from 01/07/2016 to 30/09/2016** The SSB reviewed the audit reports prepared for the subject period for Auto Finance, Home Finance, Corporate Real Estate Financing, Goods Murabaha Finance, Treasury Wakala Placements and Deposits & FX transactions and confirmed their approval and satisfaction with the reports prepared by the Sharia Audit Department. The SSB approved of the work undertaken by the Sharia audit department praising the team for its diligence in matters of Sharia compliancy and audit.
		- **Review and fatwa on the permissibility of conventional car insurance on Islamic financing if provided by the supplier as a package** The SSB discussed the issue of obtaining free conventional insurance on vehicles that are financed by Sohar Islamic and agreed that there was no issues for the Bank to purchase the car from the supplier if the supplier had already procured a conventional insurance on the vehicle. The justification was that Sohar Islamic was not aparty to the conventional insurance contract. The SSB however emphatically stressed the need to educate such suppliers to adopt Takaful insurance.
		- **Review on the AAOIFI Standard 57 on Gold** The SSB reviewed the AAOIFI Standard 57 on gold and saw that it was fine for Sohar Islamic to use this standard to benefit from; however it advised and stressed that if the Bank wanted to launch a product based on gold, it would need to get express Sharia approval from the SSB.
		- **Review on increasing the Ijara rate after two years of financing** The question under consideration by the SSB was that was it permissible for the Bank to unilaterally increase the ijara profit rate after 2 years of financing? The entire SSB agreed that the financing contracts which include the finance application, credit reports and the actual transaction documents are a package which cannot be separated from one another.

FINANCIAL STATEMENTS
SOHAR ISLAMIC

Guided
by strong values

Building a better
working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK SOHAR SAOG (the "Bank")

Report on the financial statements

We have audited the accompanying statement of financial position of Sohar Islamic (the "Islamic Window") as of 31 December 2016, and the related statements of income, changes in owners' equity and cash flows for the year then ended, 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 2016, the results of its operations, cash flows and changes in equity for the year then ended in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window of the Bank and the Financial Accounting Standards issued by AAOIFI.

Ernst & Young LLC

9 March 2017
Muscat

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SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

31 December 2015 USD'000	31 December 2016 USD'000		Notes	31 December 2016 RO'000	31 December 2015 RO'000
		ASSETS			
65,010	44,442	Cash and balances with central banks	B 1	17,110	25,029
327	36,935	Due from banks and financial institutions	B 2	14,220	126
14,538	20,488	Murabaha receivables	B 3	7,888	5,597
101,641	116,569	Ijarah muntahia bittamleek	B 4	44,879	39,132
12,699	52,639	Istisna followed by Ijarah muntahia bittamleek	B 5	20,266	4,889
44,779	58,525	Diminishing Musharka	B 6	22,532	17,240
26,044	26,036	Investment securities	B 7	10,024	10,027
3,613	3,361	Property, equipment and fixture	B 8	1,294	1,391
3,149	4,041	Other assets	B 9	1,556	1,212
271,800	363,036	TOTAL ASSETS		139,769	104,643
		LIABILITIES			
113,148	189,979	Wakala deposits	B 10	73,142	43,562
51,753	33,896	Customer deposit and other accounts	B 11	13,050	19,925
4,753	3,099	Other liabilities	B 12	1,193	1,830
169,654	22,6974	TOTAL LIABILITIES		87,385	65,317
		EQUITY OF INVESTMENT			
69,670	88,878	ACCOUNT HOLDERS	B 13	34,218	26,823
		EQUITY			
31,169	44,155	Assigned capital	B 14 (a)	17,000	12,000
348	348	Legal reserve	B 14 (b)	134	134
2,566	2,566	General reserve	B 14 (c)	988	988
(1,607)	115	Retained earnings / (accumulated losses)		44	(619)
32,476	47,184	TOTAL OWNERS' EQUITY		18,166	12,503
271,800	363,036	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		139,769	104,643
74,019	42,690	CONTINGENT LIABILITIES	B 15.1	16,436	28,498
10,493	53,099	COMMITMENTS	B 15.2	20,443	4,040

These financial statements were approved and authorised for issue by the Board of Directors on 26 January 2017 and signed on their behalf by:

Chairman

Deputy Chairman

The attached notes A1 to D8 form an integral part of these financial statements.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

31 December 2015 USD'000	31 December 2016 USD'000		Notes	31 December 2016 RO'000	31 December 2015 RO'000
2,935	**4,234**	Income from jointly financed financing activities and receivables	C 1	**1,630**	1,130
(455)	**(1,039)**	Return on unrestricted investment account holders	C 3	**(400)**	(175)
2,480	**3,195**	Share of income (as Mudarib and Rabalmal)		**1,230**	955
2,852	**5,930**	Income from self-financed financing activities	C 1	**2,283**	1,098
1,430	**1,234**	Income from self-financed investing activities	C 2	**475**	550
6,762	**10,359**	**Income from financing, investments and receivables**		**3,988**	2,603
(720)	**(3,377)**	Return on due to under Wakala contracts	C 3	**(1,300)**	(277)
6,042	**6,982**	**Net revenue from financing and investing activities**		**2,688**	2,326
1,301	**1,127**	Other income	C 4	**434**	501
117	**364**	Foreign exchange gain – net		**140**	45
7,460	**8,473**	**Total revenues**		**3,262**	2,872
(3,486)	**(3,517)**	Staff costs		**(1,354)**	(1,342)
(1,646)	**(1,649)**	Other operating expenses	C 5	**(635)**	(634)
(712)	**(741)**	Depreciation	B 8	**(285)**	(274)
(5,844)	**(5,907)**	**Total expenses**		**(2,274)**	(2,250)
1,616	**2,566**	**Operating profit**		**988**	622
(634)	**(818)**	Net impairment allowance on portfolio basis		**(315)**	(244)
(23)	**(26)**	Net impairment allowance on specific basis		**(10)**	(9)
959	**1,722**	**Profit and total comprehensive income for the year**		**663**	369

The attached notes A1 to D8 form an integral part of these financial statements.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Assigned capital RO'000	Legal reserve RO'000	General reserve RO'000	Retained earnings / (accumulated losses) RO'000	Total RO'000
Balance as at 1 January 2016	*B14*	12,000	134	988	(619)	12,503
Allocated during the year		5,000	-	-	-	5,000
Profit and total comprehensive income for the year		-	-	-	663	663
Balance as at 31 December 2016		17,000	134	988	44	18,166

	Notes	Assigned capital USD'000	Legal reserve USD'000	General reserve USD'000	Retained earnings / (accumulated losses) USD'000	Total USD'000
Balance as at 1 January 2016	*B14*	31,169	348	2,566	(1,607)	32,476
Allocated during the year		12,986	-	-	-	12,986
Profit and total comprehensive income for the year		-	-	-	1,722	1,722
Balance as at 31 December 2016		44,155	348	2,566	115	47,184

	Notes	Assigned capital RO'000	Legal reserve RO'000	General reserve RO'000	Retained earnings / (accumulated losses) RO'000	Total RO'000
Balance as at 1 January 2015	*B14*	10,000	134	988	(988)	10,134
Allocated during the year		2,000	-	-	-	2,000
Profit and total comprehensive income for the year		-	-	-	369	369
Balance as at 31 December 2015		12,000	134	988	(619)	12,503

	Notes	Assigned capital USD'000	Legal reserve USD'000	General reserve USD'000	Retained earnings / (accumulated losses) USD'000	Total USD'000
Balance as at 1 January 2015	*B14*	25,974	348	2,566	(2,566)	26,322
Allocated during the year		5,195	-	-	-	5,195
Profit and total comprehensive income for the year		-	-	-	959	959
Balance as at 31 December 2015		31,169	348	2566	(1,607)	32,476

The attached notes A1 to D8 form an integral part of these financial statements.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

31 December 2015 USD'000	31 December 2016 USD'000		31 December 2016 RO'000	31 December 2015 RO'000
		Cash flows used in operating activities		
959	1,722	Net Profit for the year	663	369
		Adjustments for:		
712	741	Depreciation	285	274
657	844	Net impairment loss on financing assets	325	253
(255)	-	Revaluation gain on investments	-	(98)
(1,094)	(1,179)	Income on Investments	(454)	(421)
(340)	-	Loss on disposal of securities	-	131
1,319	2,128	Operating profit before changes in operating assets and liabilities	819	508
		Changes in operating assets and liabilities		
(3,805)	(6,127)	Murabaha receivables	(2,359)	(1,465)
(16,226)	(14,956)	Ijarah muntahia bittamleek	(5,758)	(6,247)
(11,008)	(40,343)	Istisna followed by Ijarah muntahia bittamleek	(15,532)	(4,238)
(45,234)	(13,883)	Diminishing Musharka	(5,345)	(17,415)
(30,436)	109,442	Wakala deposits	42,135	(11,718)
11,577	(17,857)	Customer deposit and other accounts	(6,875)	4,457
(1,187)	(992)	Other assets	(382)	(457)
1,473	(1,661)	Other liabilities	(639)	567
(93,527)	15,752	Net cash from / (used in) operating activities	6,064	(36,008)
		Cash flows used in investing activities		
(83)	(488)	Acquisition of fixed assets	(188)	(32)
1,055	1,187	Income received on Investments	457	406
2,122	-	Disposal of Investments	-	817
(4,755)	-	Acquisition of Investments	-	(1,829)
(1,657)	699	Net cash from / (used in) in investing activities	269	(638)
		Cash flows from financing activities		
48,169	19,208	Changes in URIA	7,395	18,545
5,195	12,987	Allocated capital	5,000	2,000
53,364	32,195	Net cash from financing activities	12,395	20,545
(41,821)	48,645	Net increase / (decrease) in cash and cash equivalents	18,728	(16,101)
17,403	(24,418)	CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	(9,401)	6,700
(24,418)	24,227	Cash and cash equivalents at 31 December	9,327	(9,401)
		REPRESENTING:		
65,010	44,439	Cash and balances with Central Banks	17,109	25,029
327	36,932	Due from banks and financial institutions	14,219	126
(89,755)	(57,144)	Wakala deposits	(22,001)	(34,556)
(24,418)	24,227		9,327	(9,401)

The attached notes A1 to D8 form an integral part of these financial statements.

A1 INCORPORATION, LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Sohar SAOG (the Head office) under an Islamic Banking License issued by the Central Bank of Oman (CBO) on 30 April 2013, carries out Islamic banking operations and other financial trading activities in accordance with Islamic Shari'a rules and regulations under the name of "Sohar Islamic" (the Window). The Bank's Shari'a Supervisory Board is entrusted to ensure the Window's adherence to Shari'a rules and principles in its transactions and activities. As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'Licensing Requirements' of Islamic Banking Regulatory Framework (IBRF) issued by CBO, the head office assigned RO 17 million (refer note B14a) to the Window as assigned capital.

The Window offers a full range of Islamic banking services and products. The principal activities of the Window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing and undertaking investment activities and providing commercial banking services and other investment activities permitted under IBRF.

A2 BASIS OF PREPARATION

A2.1 Statement of compliance

The financial statements for the Window are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Window and Islamic Banking Regulatory Framework issued by CBO. In accordance with the requirement of AAOIFI, for matters not covered by FAS, the Window uses standards issued by the International Accounting Standards Board (IASB) and the interpretations released by the International Financial Reporting Interpretations Committee and will be replaced later by FAS when an applicable FAS is issued.

The Window has not operated as a separate legal entity. The separate financial statements of the Window has been prepared to comply with the requirement of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by CBO.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost basis except for derivative financial instruments and investment securities which has been measured at fair value. These financial statements are presented in Rial Omani, which is the Window's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded off to the nearest thousands.

A2.3 Use of Judgments and estimates

In the process of applying the Window's accounting policies, management uses judgments and makes estimates in determining the amounts recognized in the financial statements. These estimates and assumptions effect the amount of assets and liabilities and disclosure of contingent liabilities, as these estimates and interpretations effect revenues, expenses and allowances, as well as changes in fair value.

Estimates and underlying assumptions are reviewed on regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The most significant uses of judgments and estimates are as follows:

Impairment provisions against financing contracts with customers

The Window reviews its financing contracts at each reporting date to assess whether an impairment provision should be recorded in the financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

A2 BASIS OF PREPARATION (continued)

A2.3 Use of Judgments and estimates (continued)

Impairment provisions against financing contracts with customers (continued)

In addition to specific provisions against individually significant financing contracts, the Window also makes collective impairment provision against exposures which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This takes into consideration, factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Classification of investments

Management decides upon acquisition of an investment whether it should be classified as fair value through statement of income, fair value through equity or at amortised cost.

Liquidity

The Window manages its liquidity through consideration of the maturity profile of its assets and liabilities which is set out in the liquidity risk disclosures in note D2.2. This requires judgment when determining the maturity of assets and liabilities with no specific maturities.

A2.4 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 annual financial statements for the year ended 31 December 2015, except for adoption of FAS 27 Investment Accounts.

FAS 27 – Investment Accounts

The Islamic Window has adopted FAS 27 which has replaced 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'. This standard has enhanced certain disclosures with respect to investment account holders and bases of profit allocation without having any impact on the financial statements of the Islamic Window.

Standard issued but not yet effective

There are no new standards issued by AAOIFI during the period which may impact the financial statements of the Islamic Window.

A3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

A3.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances with central bank and placements with banks and financial institutions that mature within three months, less borrowings with banks and financial institutions accounts that mature within three months and restricted balances.

A3.2 Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective profit and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.3 Investments

Classification

(a) Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital.

(b) Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Investments in debt-type instruments are classified into the following categories:

1) At amortised cost
2) At fair value through statement of income

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at fair value through statement of income.

Debt-type investments classified and measured at fair value through income statement include investments held for trading or designated at fair value through statement of income.

At inception, a debt-type investment managed on a contractual yield basis can only be designated at fair value through income statement if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases.

Investments in equity type instruments are classified into the following categories:

1) At fair value through income statement
2) At fair value through equity

Equity-type investments classified and measured at fair value through income statement include investments held for trading or designated at fair value through statement of income.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.

Equity-type investments designated at fair value through income statement include investments which are managed and evaluated internally for performance on a fair value basis.

On initial recognition, the Window makes an irrevocable election to designate certain equity instruments that are not to be designated at fair value through income statement and are to be classified as investments at fair value through equity.

Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Window contracts to purchase or sell the asset, at which date the Window becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Window has transferred substantially all risk and rewards of ownership.

Measurement

Initial recognition

Investment securities are initially recognised at fair value plus transaction costs, except for transaction costs incurred to acquire investments at fair value through income statement which are charged to the statement of income.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.3 Investments (continued)

Measurement (continued)

Subsequent measurement

Investments at fair value through income statement are re measured at fair value at the end of each reporting period and the resultant re measurement gains or losses is recognised in the income statement in the period in which they arise.

Subsequent to initial recognition, investments classified at amortised cost are measured at amortised cost using the effective profit method less any impairment allowance. All gains or losses arising from the amortisation process and those arising on de-recognition or impairment of the investments, are recognised in the statement of income.

Investments at fair value through equity are subsequently measured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments are recognised in the statement of changes in owners' equity and presented in a separate fair value reserve within equity. When the investments classified as fair value through equity are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the statement of income.

Investments which do not have a quoted market price or other appropriate methods to fair value them on a continuous basis are stated at cost less impairment allowance, (if any).

Measurement principles

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 capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

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.

Quoted investments are marked to market using the market price for that instrument at the close of business as of the reporting date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows discounted at current profit rates for contracts with similar term and risk characteristics.

A3.4 Financing assets

Financing assets comprise Shari'a compliant financing provided by the Window with fixed or determinable payments. These include financing provided through Murabaha, Mudaraba, Musharaka, Musawama, Ijarah, Istisna and other modes of Islamic financing. Financing assets are stated at their amortised cost less impairment allowances (if any).

Murabaha

Murabaha receivables are sales on deferred terms. The Window arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and selling it to the Murabeh (a beneficiary) at a margin of profit over cost. The sales price (cost plus the profit margin) is repaid in instalments by the Murabeh over the agreed period. Murabaha receivables are stated net of deferred profits and impairment allowance (if any). Any promise made by potential Murabeh is considered obligatory.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.4 Financing assets (continued)

Mudaraba

Mudaraba is stated at the fair value of consideration given less any impairment.

Mudaraba is a form of partnership between work and capital in which the Window contributes capital. Mudaraba capital provided by the Window at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Window.

In case mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of mudarib, then such losses are deducted from mudaraba capital and are treated as loss to the Window. In case of termination or liquidation, unpaid portion by mudarib is recognised as receivable due from mudarib.

Musharaka

Musharaka contracts represents a partnership between the Window and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall share profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Window enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilisation of Window's Musharaka share by the customer.

Ijarah muntahia bittamleek

These are initially recorded at cost including initial direct costs. 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 installments are settled.

Depreciation is charged on Ijarah muntahia bittamleek assets at rates calculated to write off the cost of each asset over its lease term.

Ijarah income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount. The ijarah income receivable is classified under other asset.

Istisna followed by Ijarah muntahia bittamleek

Istisna followed by Ijarah muntahia bittamleek is construction finance product in which property is developed under istisna` contract between customer and the Bank. Banks develops the property and then after completion of construction the property is leased to customer under Ijarah muntahia bittamleek contract. During construction customer pays the advance rentals.

Salam

In a Salam contract a buyer pays in advance for a specified quantity and quality of a commodity, deliverable on a specific date, at an agreed spot price. Salam is particularly applicable to seasonal agricultural purchases and can be used as a means of financing production. The price is paid at the time of the contract but the delivery would take place at a future date which enables an entrepreneur to sell his output to the Window at a price determined in advance. However, at the time of sale all specifications, quality and quantity of the commodity must be determined to avoid any ambiguity which could become a cause of dispute. Furthermore, date and time of delivery must also be agreed upon but can be changed with mutual consent of the parties. Salam contracts are recognised on the date at which they are originated and are carried at their cost less impairment allowances, if any.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.4 Financing assets (continued)

Diminishing Musharakah

In Diminishing Musharakah financing, the Bank enters into Musharakah based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilisation of the Bank's Musharakah share by the customer.

A3.5 Property, equipment and fixtures

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

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

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

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

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

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

A3.6 Taxation

The tax return of the Bank is filed at head office level and the Window is not required to file a separate return on the activities of the Islamic Banking operations.

A3.7 Employee benefits

End of service benefits

End of service indemnity for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

Provision for end of service indemnity for non-Omani employees has been made in accordance with the terms of the Oman Labour Law 2003 and its amendments and is based on current remuneration rates and cumulative years of service at the statement of financial position date. Employees' entitlements to annual leave and leave passage are recognised when they accrue to the employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

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

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.7 Employee benefits (continued)

Short term benefits

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

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

A3.8 Impairment losses on financing and receivables

The Window follows IFRS and CBO guidelines in assessing the impairment against non-performing financing. The Window reviews its assets portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Window 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. 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 financing and receivables which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant financing and receivables which are not impaired and all individually insignificant financing and receivables are then assessed collectively considering historical experience and observable data on a portfolio basis, in group of assets with similar risk characteristics to determine whether collective impairment loss is to be made. In determining collective impairment loss, the Window takes into account several factors including credit quality, concentration risk, levels of past due balances, sector performance, available collateral and macro economic conditions.

A3.9 Customer current accounts

Balances in current accounts are recognised when received by the Window. The transactions are measured as the amount received by the Window at the time of contracting. At the end of the reporting period, these accounts are measured at amortised cost.

A3.10 Equity of unrestricted investment account holders

The Window charges a management fee (Mudarib fee) to the unrestricted investment account holders. Of the total income from investments of funds, the income attributable to the unrestricted investment account holders is allocated to them after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve), if any, and deducting the Window's share of income as a Mudarib. The allocation of income is determined by the management of the Window within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts.

A3.11 Due to and due from banks and Wakala Deposits

Due to and due from banks and financial institutions and customers comprise of wakala payables and receivables. Wakala payables and receivables are initially recognised at cost, being the fair value of consideration exchanged. Subsequently, they are carried at amortised cost less amounts repaid.

A3.12 Revenue recognition

Murabaha

Profit on Murabaha is recognised on an accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of Murabaha.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.12 Revenue recognition (continued)

Mudaraba

Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution. by the Mudarib. Losses on the other hand are charged to the income statement on declaration by the Mudarib.

Musharaka

Income on musharaka is recognised when the right to receive payment is established or on distribution. In case of losses in musharaka, the Window's share of loss is recognised to the extent that such losses are being deducted from its share of the musharaka capital.

Profit on Diminishing Musharakah financings is recognised on an accrual basis.

Profit on sukuks

Profit on Sukuks is recognized on an accrual basis. Where Sukuks are purchased at a premium or discount and are classified at amortised cost, those premiums / discounts are amortised over the remaining maturity, using the effective profit rate method.

Ijarah

Ijarah rental income is recognised over the term of the lease on accrual basis and is stated net of depreciation and impairment. Income related to non performing ijarah muntahia bittamleek accounts and ijarah installments that are above 90 days is excluded from the statement of income.

Istisna followed by Ijarah muntahia bittamleek

Income for Istisna followed by Ijarah muntahia bittamleek is booked on receipt of the rentals.

Fees and commission income

Fees and commission income that are integral to the effective profit rate of a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management, arrangement and syndication fees, are recognised as the related services are performed.

Window's share of income from equity of investment accountholders (as Rabalmal and Mudarib)

Income is allocated proportionately between equity of investment accountholders and shareholders on the basis of their respective investment in the pool before allocation of the Mudarib fees. The Window's share as a Mudarib for managing the equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

Salam

Income from salam is determined by using the percentage of completion method.

Dividend income

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

Profit on amounts due from banks and financial institutions

Profit on amounts due from banks and financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

A3.13 Expense recognition

Return on equity of investment accountholders is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool i.e. "mudarib expenses". Mudarib expenses include all expenses incurred by the Window, but excluding staff costs and other administrative expenses. The Window's "mudarib profit" is deducted from the investors' share of income before distributing such income.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.14 Earnings or expenditures prohibited by Sharia

The Window records these amounts in a separate account in the other payables and is not included in the Window's revenues; these amounts are distributed to charities according to the Sharia Supervisory Board directions.

A3.15 Financial guarantees

In the ordinary course of business, the Window gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received at the date the guarantee was given, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Window's liability under such guarantees are measured at the higher of the amortised amount 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.

A3.16 Contingent liabilities

Contingent liabilities include guarantees, letter of credit, the Window's obligations with respect to unilateral promise to buy/sell currencies and others. Contingent liabilities are not recognized in the statement of financial position but are disclosed in the notes to the financial statements, unless they are remote.

A3.17 Shari'a supervisory board

The Window's business activities are subject to the supervision of a Shari'a supervisory board consisting of members appointed by the general assembly of shareholders.

A3.18 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable rights must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Window and the counter party.

A3.19 Zakah

In accordance with the article of association Zakah is payable by individual shareholders of the Window and Zakah on unrestricted investment and other accounts is the responsibility of investment accountholders.

A3.20 Provisions

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

A3.21 Joint and self-financed

Assets that are jointly financed by the Window and the equity of investment accountholders are disclosed as "jointly financed" in the financial statements and assets that are financed solely by the Window are classified under "self financed".

A3.22 Profit equalisation reserve

Profit equalisation reserve, this is the amount appropriated out of Mudaraba income before allocating the Window's share as investment manager (Mudarib), in order to maintain a certain level of return on investment for unrestricted investment accountholders and increase owners' equity.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.23 Investment risk reserve

Investment risk reserve is the amount appropriated out of profit share of the unrestricted investment accountholders after allocating the Mudarib share, in order to cushion the effects of the risk of future investment losses. The terms and conditions whereby investment risk reserve can be set aside and utilised are determined and approved by the Shari'a Supervisory Board of the Window.

A3.24 Derecognition of financial assets and liabilities

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

(i) the right to receive cash flows from the asset has expired;

(ii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

A3.25 Fair value for financial assets

For investments quoted in an active market, fair value is determined by reference to quoted market prices.

For financial instruments where there is no active market, fair value is normally based on comparison with the current market value of highly similar financial instruments.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortised cost and any impairment in the value are recorded in statement of income.

For Sales (Murabaha) receivables the fair value is determined at the end of the financial period at their cash equivalent value.

A3.26 Fair value for non-financial assets

Market prices represent the fair value for non-financial assets. In case market prices are not available, they are assessed by taking average value of three assessments from experienced and certified parties.

B1 Cash and balances with central banks

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
		Balances with CBO:		
53,530	34,340	- current account	13,221	20,609
10,090	8,306	- cash reserve	3,198	3,885
1,390	1,796	Cash	691	535
65,010	44,442		17,110	25,029

The cash reserve with the Central Bank of Oman cannot be withdrawn without its approval.

B2 Due from banks and financial institutions

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
		Local currency:		
-	25,977	Wakalah placements with banks	10,001	-
		Foreign currency abroad:		
-	10,005	Wakalah placements with banks	3,852	-
327	953	Demand accounts	367	126
327	36,935		14,220	126
327	36,935	Self financed	14,220	126

B3 Murabaha receivables

2016				2016		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
23,273	-	23,273	Book value	8,960	-	8,960
(2,416)	-	(2,416)	Deferred profit	(930)	-	(930)
20,857	-	20,857	Net Book value	8,030	-	8,030
(314)	-	(314)	Provision for impairment - general	(121)	-	(121)
(55)	-	(55)	Provision for impairment - specific	(21)	-	(21)
20,488	-	20,488		7,888	-	7,888

Murabaha receivables which are non-performing as of 31 December 2016 amounted to RO 74 K (2015 : nil).

2015				2015		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
16,034	-	16,034	Book value			
(1,309)	-	(1,309)	Deferred profit			
14,725	-	14,725	Net Book value	5,669	-	5,669
(187)	-	(187)	Provision for impairment - general	(72)	-	(72)
14,538	-	14,538		5,597	-	5,597

B4 Ijarah muntahia bittamleek

2016 Self Financed USD'000	2016 Jointly Financed USD'000	2016 Total USD'000		2016 Self Financed RO'000	2016 Jointly Financed RO'000	2016 Total RO'000
			Real Estate			
49,416	92,478	141,894	Cost	19,025	35,604	54,629
(6,925)	(17,244)	(24,169)	Accumulated Depreciation	(2,666)	(6,639)	(9,305)
42,491	75,234	117,725	Net Book value	16,359	28,965	45,324
(413)	(743)	(1,156)	Provision for impairment - general	(159)	(286)	(445)
42,078	74,491	116,569		16,200	28,679	44,879

2015 Self Financed USD'000	2015 Jointly Financed USD'000	2015 Total USD'000		2015 Self Financed RO'000	2015 Jointly Financed RO'000	2015 Total RO'000
			Real Estate			
31,086	83,841	114,927	Cost	11,968	32,279	44,247
(3,922)	(8,336)	(12,258)	Accumulated Depreciation	(1,510)	(3,209)	(4,719)
27,164	75,505	102,669	Net Book value	10,458	29,070	39,528
(260)	(745)	(1,005)	Provision for impairment - general	(100)	(287)	(387)
-	(23)	(23)	Provision for impairment - specific	-	(9)	(9)
(260)	(768)	(1,028)		(100)	(296)	(396)
26,904	74,737	101,641		10,358	28,774	39,132

B5 Istisna followed by Ijarah muntahia bittamleek

2016 Self Financed USD'000	2016 Jointly Financed USD'000	2016 Total USD'000		2016 Self Financed RO'000	2016 Jointly Financed RO'000	2016 Total RO'000
31,717	21,452	53,169	Book value	12,211	8,259	20,470
(314)	(216)	(530)	Provision for impairment - general	(121)	(83)	(204)
31,403	21,236	52,639		12,090	8,176	20,266

2015 Self Financed USD'000	2015 Jointly Financed USD'000	2015 Total USD'000		2015 Self Financed RO'000	2015 Jointly Financed RO'000	2015 Total RO'000
12,826	-	12,826	Book value	4,938	-	4,938
(127)	-	(127)	Provision for impairment - general	(49)	-	(49)
12,699	-	12,699		4,889	-	4,889

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FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

B6 Diminishing Musharka

2016 Self Financed USD'000	2016 Jointly Financed USD'000	2016 Total USD'000		2016 Self Financed RO'000	2016 Jointly Financed RO'000	2016 Total RO'000
51,592	7,525	59,117	Book value	19,863	2,897	22,760
(517)	(75)	(592)	Provision for impairment - general	(199)	(29)	(228)
51,075	**7,450**	**58,525**		**19,664**	**2,868**	**22,532**

2015 Self Financed USD'000	2015 Jointly Financed USD'000	2015 Total USD'000		2015 Self Financed RO'000	2015 Jointly Financed RO'000	2015 Total RO'000
36,527	8,706	45,233	Book value	14,063	3,352	17,415
(366)	(88)	(454)	Provision for impairment - general	(141)	(34)	(175)
36,161	8,618	44,779		13,922	3,318	17,240

B7 Investment securities

2015 USD'000	**2016 USD'000**		**2016 RO'000**	2015 RO'000
		Debt securities - Sukuk		
7,883	**7,875**	Unquoted fixed rate debt-type investments classified at amortised cost (secured)	**3,032**	3,036
4,275	**4,275**	Quoted fixed rate debt-type investments classified at amortised cost (secured)	**1,646**	1,646
13,886	**13,886**	Unquoted fixed rate debt-type investments classified at fair value (secured)	**5,346**	5,345
26,044	**26,036**	Self financed	**10,024**	10,027

The sukuk certificates are for a period of 5 years and carry fixed profit rate of 3% - 5% per annum.

B8 Property, plant and equipment

	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicle RO'000	Capital work in progress RO'000	Total RO'000
Cost:						
At 1 January 2016	1,050	481	423	86	4	2,044
Additions	50	104	23	13	(4)	186
As at 31 December 2016	**1,100**	**585**	**446**	**99**	**-**	**2,230**
Accumulated depreciation:						
At 1 January 2016	(243)	(197)	(162)	(49)	-	(651)
Charge for the year	(110)	(90)	(67)	(18)	-	(285)
As at 31 December 2016	**(353)**	**(287)**	**(229)**	**(67)**	**-**	**(936)**
Net book value at 31 December 2016	**747**	**298**	**217**	**32**	**-**	**1,294**

B8 Property, plant and equipment (continued)

	Computer software USD'000	Furniture and fixtures USD'000	Office equipment USD'000	Motor vehicle USD'000	Capital work in progress USD'000	Total USD'000
Cost:						
At 1 January 2016	2,727	1,249	1,099	223	10	5,308
Additions	130	270	60	34	(10)	484
As at 31 December 2016	**2,857**	**1,519**	**1,159**	**257**	**-**	**5,792**
Accumulated depreciation:						
At 1 January 2016	(631)	(512)	(421)	(127)	-	(1,691)
Charge for the year	(286)	(234)	(174)	(46)	-	(740)
Disposals/transfers	-	-	-	-	-	-
As at 31 December 2016	**(917)**	**(746)**	**(595)**	**(173)**	**-**	**(2,431)**
Net book value at 31 December 2016	**1,940**	**773**	**564**	**84**	**-**	**3,361**

	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicle RO'000	Capital work in progress RO'000	Total RO'000
Cost:						
At 1 January 2015	1,029	473	418	86	4	2,010
Additions	21	8	1	-	-	30
Disposals / transfers	-	-	3	-	-	3
As at 31 December 2015	1,050	481	422	86	4	2,043
Accumulated depreciation:						
At 1 January 2015	(135)	(113)	(97)	(32)	-	(377)
Charge for the year	(109)	(84)	(64)	(17)	-	(274)
Disposals / transfers	-	-	(1)	-	-	(1)
As at 31 December 2015	(244)	(197)	(162)	(49)	-	(652)
Net book value at 31 December 2015	806	284	260	37	4	1.391

	Production software USD'000	Furniture and fixtures USD'000	Office equipment USD'000	Motor vehicle USD'000	Capital work in progress USD'000	Total USD'000
Cost:						
At 1 January 2015	2,673	1,229	1,086	223	10	5,221
Additions	55	21	3	-	-	79
Disposals / transfers	-	-	8	-	-	8
As at 31 December 2015	2,728	1,250	1,097	223	10	5,308
Accumulated depreciation:						
At 1 January 2015	(351)	(294)	(252)	(83)	-	(980)
Charge for the year	(283)	(218)	(167)	(44)	-	(712)
Disposals / transfers	-	-	(3)	-	-	(3)
As at 31 December 2015	(634)	(512)	(422)	(127)	-	(1,695)
Net book value at 31 December 2015	2,094	738	675	96	10	3,613

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

B9 Other Assets

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
270	655	Profit / rental receivable	252	104
878	878	Recoverable from head office	338	338
99	452	Advance against Financing	174	38
1,902	2,056	Others	792	732
3,149	4,041		1,556	1,212

B10 Wakala deposits

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
		Local currency:		
57,145	57,145	- banks	22,001	22,001
13,005	106,190	- corporates	40,883	5,007
		Foreign Currency:		
32,608	-	- banks	-	12,554
10,390	26,644	- corporates	10,258	4,000
113,148	189,979		73,142	43,562

Wakalah deposits includes various facilities with a fixed profit rate ranging from 1.4% – 4.9%. The maturity of the Wakalah payables ranges from 1 week to 12 months.

B11 Customer accounts and other accounts

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
		Accounts by nature:		
20,156	20,252	- current	7,797	7,760
31,597	13,644	- margin	5,253	12,165
51,753	33,896		13,050	19,925

B12 Other liabilities

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
161	44	Profit/fee payable	17	62
751	691	Staff entitlements	266	289
1,158	842	Payable to takaful company	324	446
2683	1,522	Other accruals and provisions & payable	586	1,033
4,753	3,099		1,193	1,830

B13 Equity of investment account holders

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
68,418	**87,839**	Saving accounts	**33,818**	26,341
1,252	**1,039**	Term accounts	**400**	482
69,670	**88,878**		**34,218**	26,823

Unrestricted investment account holder accounts are monies invested by customers under Mudaraba to form a pool of funds. Investment accountholder's funds are commingled with the Banks's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

Term deposits are deposits which can be withdrawn with no loss of capital subject to certain conditions.

The share, as Mudarib, in the profits of equity of investment accountholders is up to a maximum of 70% (2015: 70%) as per the terms of investment account holder agreements.

During the year, the Window has not charged any administrative expense to the pool.

Product	Participation factor	Average rate earned
Saving-OMR	16.5	1.42%
Saving-AED	7.22	0.60%
Saving-USD	7.22	0.57%
Term 6 Month	10.03	0.73%
Term 12 Months	18.06	1.39%
Term 3 Months	10.03	-

B14 Owners' equity

(a) Assigned Capital

As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1, *'Licensing Requirements'* of IBRF, the head office assigned capital of RO 10 million to the Window at inception. The head office raised this through a rights issue of shares. Subsequently the head office assigned further capital of RO 7 million to the window.

(b) Legal reserve

As per Article 78 of Commercial Companies Law of Oman of 1974 'an additional amount within 2% of the nominal value of share may be collected for each share as issue fees. If the shares are issued at a value higher than the nominal value, the excess amount, after deducting issue expenses, shall be added either to the legal reserve or a special reserve to be established as provided under Article 106 of the Law'. Accordingly, the Window has transferred the net issue proceeds to the legal reserve.

(c) General reserve

This represents retained earnings allocated by head office.

B15 Contingent liabilities and commitments

B15.1 Contingent liabilities

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

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
69,903	40,519	Guarantees	15,600	26,913
4,116	2,171	Letter of credit	836	1,585
74,019	42,690		16,436	28,498

B15.2 Commitments

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

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
10,493	53,099	Credit related commitments	20,443	4,040

B16 Related parties

In the ordinary course of business, the Window conducts transactions with certain of its Directors, shareholders, senior management, head office, Shari'a Supervisory Board (SSB), Shari'a reviewer and companies in which they have a significant interest. These transactions are conducted on an arm's length basis and are approved by the Window's management and Board of Directors.

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

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
1,974	2,000	Financing and advances (balance at end of year)	770	760
935	104	Financing and advances disbursed during the year	40	360
(4,969)	(78)	Financing and advances repaid during the year	(30)	(1,913)
3	3	Deposits (balance at end of year)	1	1
7,013	397	Deposits received during the year	153	2,610
(6,836)	(400)	Deposits paid during the year	(154)	(2,632)
226	112	Profit on financing and advances (during the year)	43	87
-	-	Profit expense (during the year)	-	-
		Senior management compensation		
462	543	Salaries and other short term benefits	209	178
		Directors' sitting fees and remuneration		
127	135	Shari'a Supervisory Board's sitting fees and remuneration	52	49
		Transaction with head office		
3	5	Profit paid on wakala borrowings	2	1
177	231	Fee on committed line	89	68
145	390	Income on forex contracts	150	56

B 17 Fair value of financial instruments

The Window considers that the fair value of financial instruments is not significantly different to their carrying value at each of those dates. As at 31 December 2016, all the financial assets of the Window were classified as debt-type instrument except for equity securities identified in note B7 of the financial statements.

Estimation of fair values

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

Financial assets carried at amortised cost

Financial assets at amortised cost include 'cash and balances with central banks', 'due from banks and financial institutions and wakala deposit', 'Murabaha receivables', 'Ijarah muntahia bittamleek', 'Istisna followed by Ijarah muntahia bittamleek'and Diminishing Musharka and 'other assets'. Fair value is calculated based on discounted expected future principal and profit cash flows. Repayments are assumed to occur at contractual repayment dates, where applicable. For assets that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when profit rates were at levels similar to current levels, adjusted for any differences in profit rate outlook.

Expected future cash flows are estimated considering credit risk and any indication of impairment.

Expected future cash flows for homogeneous categories of assets are estimated on a portfolio basis and discounted at current rates offered for similar assets to new borrowers with similar credit profiles. The estimated fair values of assets reflect changes in credit status since the assets were made and changes in profit rates in the case of fixed rate.

Financial liabilities at amortised cost (including bank and customer deposits)

Financial liabilities at amortised cost include 'due to banks and financial institutions and wakala depost', 'customers' current accounts', 'other liabilities'. 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 is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors at Window level is not taken into account in estimating fair values.

Other on-balance sheet financial instruments

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

Off-balance sheet financial instruments

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

Financial assets carried at fair value

Financial assets at fair value include securities and foreign exchange contract (and includes swaps). Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the book values of 'other assets' and 'other liabilities'.

The Window measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

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

As at 31 December 2016, the window has investments and foreign exchange contracts which are carried at fair value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

B18 Derivatives

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

B18.1 Derivative product types

Currency forward (Wa'ad), is a unilateral agreement between parties to buy one currency against selling another currency at an agreed price for settlement at forward/future value date. The exchange rate used for the transaction is called the forward exchange rate.

It is done to hedge from exchange rate volatility risk and to manage liquidity efficiently by allowing window to place/invest excess liquidity with offshore banks or to take funds from offshore banks in case of liquidity shortage.

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

		Notional amounts by term to maturity		
	Notional amount	Within 3 months	3 - 12 months	1 -15 years
As at 31 December 2016	RO'000	RO'000	RO'000	RO'000
Forward foreign exchange purchase contracts	153,914	99,629	53,130	1,155
Forward foreign exchange sales contracts	153,914	99,629	53,130	1,155
	USD'00	USD'00	USD'00	USD'00
Forward foreign exchange purchase contracts	399,777	258,777	138,000	3,000
Forward foreign exchange sales contracts	399,777	258,777	138,000	3,000

		Notional amounts by term to maturity		
	Notional amount	Within 3 months	3 - 12 months	1 -15 years
As at 31 December 2015	RO'000	RO'000	RO'000	RO'000
Forward foreign exchange purchase contracts	136,617	120,853	15,764	-
Forward foreign exchange sales contracts	136,617	120,853	15,764	-
	USD'00	USD'00	USD'00	USD'00
Forward foreign exchange purchase contracts	354,850	313,904	40,946	-
Forward foreign exchange sales contracts	354,850	313,904	40,946	-

Main counter party to forward contracts is head office

C1 Income from financing activities

31 December 2015 USD'000	31 December 2016 USD'000		31 December 2016 RO'000	31 December 2015 RO'000
732	1,217	Murabaha	468	282
3,462	6,853	Ijarah muntahia bittamleek	2,639	1,333
296	1,390	Istisna followed by Ijarah muntahia bittamleek	535	114
1,297	704	Diminishing Musharaka	271	499
5,787	10,164		3,931	2,228
2,935	4,234	Income from jointly financed assets	1,630	1,130
2,852	5,930	Income from self-financed assets	2,283	1,098
5,787	10,164		3,931	2,228

C2 Income from investing activities

31 December 2015 USD'000	31 December 2016 USD'000		31 December 2016 RO'000	31 December 2015 RO'000
81	36	Income from inter-bank placements with Islamic banks	14	31
1,094	1,198	Income from investment in debt-type instruments	461	421
255	-	Fair value gain net on investment securities carried at fair value through income statement	-	98
1,430	1,234		475	550

C3 Profit Paid

31 December 2015 USD'000	31 December 2016 USD'000		31 December 2016 RO'000	31 December 2015 RO'000
455	1,039	On Mudaraba deposit	400	175
		On Wakala deposit-		
478	2,865	- Customers	1,103	184
242	512	- Banks	197	93
720	3,377		1,300	277
1,175	4,416		1,700	452

C4 Other Income

31 December 2015 USD'000	31 December 2016 USD'000		31 December 2016 RO'000	31 December 2015 RO'000
1,579	1,127	Fee and commission – net	434	608
(340)	-	Net gains from held for trading investment securities-reaslised	-	(131)
62	-	Dividend income	-	24
1,301	1,127		434	501

C5 Other operating expenses

31 December 2015 USD'000	31 December 2016 USD'000		31 December 2016 RO'000	31 December 2015 RO'000
1,075	958	Operating and administration costs	369	414
444	556	Establishment costs	214	171
127	135	SSB remuneration and sitting fees and expenses	52	49
1,646	1,649		635	634

D Financial risk management

D1 Credit risk

D1.1 Credit risk in financing products

Credit risk orginates from the financing of receivables and leases (including but not limited to, Murabaha, Diminishing Musharaka, Istisna and Ijarah) and financing of working capital (including but not limited to Salam). Windows acts as financier, supplier, Rabb-ul-Mal and contributor of capital in Musharaka agreement. Window exposes itself with the risk of counterparty's failure to meet their obligations in terms of receiving deferred payment and making or taking delivery of an asset.

The Window manages and controls credit risk by setting limits on the extent of risk it is willing to accept in terms of amounts, counterparties, product types, geographical area and industry sector. It has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Credit Review and Analysis Department ("CR&AD"). Any changes to the Credit Risk Policy will be approved by the Board.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities. Corporate contracts/facilities are reviewed on an annual basis by CR&AD.

To cover unforeseen risk, which dries up the cash flows, additional tangible securities are taken as collateral such as real estate or equity shares. The Window implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for financings and advances are:

- charges of assets under murabaha agreements
- ownership/title of assets under Ijarah & Istisna financing
- ownership/title under Istisna arrangement

D1.2 Management of credit risk

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

D Financial risk management (continued)

D1 Credit risk (continued)

D1.2 Management of credit risk (continued)

The credit exposure of the Window as on the reporting date is as follows:

31 December 2016	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Wakala placements & balance with banks	Debt type securities	Total
In (RO'000)							
Neither past due not impaired	6,338	41,691	20,116	22,532	14,220	10,024	114,921
Past due but not impaired	1,475	3,188	150	-	-	-	4,813
Past due and impaired	75	-	-	-	-	-	75
Total	7,888	44,879	20,266	22,532	14,220	10,024	119,809
In (USD'000)							
Neither past due not impaired	16,462	108,288	52,249	58,525	36,935	26,036	298,495
Past due but not impaired	3,831	8,281	390	-	-	-	12,502
Past due and impaired	195	-	-	-	-	-	195
Total	20,488	116,569	52,639	58,525	36,935	26,036	311,192

31 December 2015	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Wakala placements & balance with banks	Debt type securities	Total
In (RO'000)							
Neither past due not impaired	5,114	37,723	4,560	17,240	126	10,027	74,790
Past due but not impaired	483	1,421	329	-	-	-	2,233
Past due and impaired	-	26	-	-	-	-	26
Total	5,597	39,170	4,889	17,240	126	10,027	77,049
In (USD'000)							
Neither past due not impaired	13,283	97,982	11,844	44,779	327	26,044	194,259
Past due but not impaired	1,255	3,691	855	-	-	-	5,801
Past due and impaired	-	68	-	-	-	-	68
Total	14,538	101,741	12,699	44,779	327	26,044	200,128

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

The maximum credit risk exposures relating to off-balance sheet items calculated as per Basel II guidelines are provided in note D6. The amounts represented in the note D6 represent a worst case scenario of credit risk exposure as of 31 December 2016, without taking into account any collateral held or other credit enhancements attached.

D Financial risk management (continued)

D1 Credit risk (continued)

D1.3 Credit rating analysis (continued)

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2016, based on Moody's ratings or equivalent.

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
236	-	A1 to A3	-	91
91	31,761	Baa1 to Baa3	12,228	35
21,771	25,974	Ba+ to B-	10,000	8,382
-	4,275	Sovereign	1,646	-
22,098	62,010		23,874	8,508

The Window performs an independent assessment based on quantitative and qualitative factors in cases where a counter party is unrated.

D1.4 Allowances for impairment

The Window establishes an allowance for impairment losses account that represents its estimate of incurred losses in its loan portfolio. The components of this allowance are specific loss components that relate to individually significant exposures and a collective loan loss allowance established for group of homogenous assets in respect of losses that have been incurred but have not been identified on financings subject to individual assessment for impairment.

D1.5 Write-off policy

The Window writes off a loan/security balance (and any related allowances for impairment losses) when the Window determines that the loan/security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer repay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financings, charge off decisions generally are based on a product specific past due status.

The assets, or title to the asset, will be maintained in the Window's custody or with a custodian approved by the Window. Necessary measures are taken to ensure that the assets are maintained in useable condition.

The release of collateral without full repayment of all related financial obligations requires authorization of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Window's risk exposure keeping in mind the regulatory requirements.

When collateral is released to the customer, the Credit Administration Department obtains and maintains in its records acknowledgement of receipt from the customer or its authorised representative.

An estimate of the fair value of collateral and other security enhancements held against financings and advances is shown below:

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
116,870	230,060	Property	88,573	44,995
-	2,281	Equity	878	-
116,870	232,341		89,451	44,995

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, securities or other assets as contractually agreed on the day of settlement.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

D Financial risk management (continued)

D1 Credit risk (continued)

D1.6 Concentrations (continued)

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

In order to avoid excessive concentrations of risk, the Window's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

- Regulatory Caps – exposure limits to a person (including juristic person) and his connected parties has been set at 15% of the Bank's Net worth.
- Net worth is the aggregate amount of assets less liabilities, which shall include assets and liabilities both within and outside the Sultanate.
- Exposure to senior member in the management of the Window and any related parties shall not exceed 10% of the amount of the net worth of the Bank and aggregate of all such exposures shall not exceed 35% of the amount of the net worth.

Limits are not applicable to exposures fully secured by cash or cash equivalent (not subject to withdrawal from the Window) or are secured by guarantee of the financial institutions within or outside Sultanate of Oman or the Government of the Sultanate of Oman.

	2016					
	Murabaha RO'000	Ijara RO'000	Istisna followed by Ijarah muntahia bittamleek RO'000	Diminishing Musharka RO'000	Due from banks RO'000	Investment securities RO'000
Concentration by sector						
Corporate	3,168	18,843	11,805	22,532	-	8,378
Personal	4,720	26,036	8,461	-	-	-
Sovereign	-	-	-	-	-	1,646
Banks	-	-	-	-	14,220	-
	7,888	44,879	20,266	22,532	14,220	10,024
Concentration by location						
Middle East	7,888	44,879	20,266	22,532	13,888	10,024
Europe	-	-	-	-	289	-
North America	-	-	-	-	43	-
Asia	-	-	-	-	-	-
Total	7,888	44,879	20,266	22,532	14,220	10,024

D Financial risk management (continued)

D1 Credit risk (continued)

D1.6 Concentrations (continued)

	2016					
	Murabaha USD'000	Ijara USD'000	Istisna followed by Ijarah muntahia bittamleek USD'000	Diminishing Musharka USD'000	Due from banks USD'000	Investment securities USD'000
Concentration by sector						
Corporate	8,229	48,943	30,662	58,525	-	21,758
Personal	12,260	67,626	21,977	-	-	-
Sovereign	-	-	-	-	-	4,275
Banks	-	-	-	-	36,935	-
	20,489	116,569	52,639	58,525	36,935	26,033
Concentration by location						
Middle East	20,488	116,569	52,639	58,525	36,073	26,036
Europe	-	-	-	-	751	-
North America	-	-	-	-	112	-
Asia	-	-	-	-	-	-
Total	20,488	116,569	52,639	58,525	36,936	26,036

	2015					
	Murabaha RO'000	Ijara RO'000	Istisna followed by Ijarah muntahia bittamleek RO'000	Diminishing Musharka RO'000	Due from banks RO'000	Investment securities RO'000
Concentration by sector						
Corporate	3,776	26,780	1,612	17,240	-	8,381
Personal	1,821	12,390	3,277	-	-	-
Sovereign	-	-	-	-	-	1,646
Banks	-	-	-	-	126	-
	5,597	39,170	4,889	17,240	126	10,027
Concentration by location						
Middle East	5,597	39,170	4,889	17,240	58	10,027
Europe	-	-	-	-	25	-
North America	-	-	-	-	43	-
Asia	-	-	-	-	-	-
Total	5,597	39,170	4,889	17,240	126	10,027

D Financial risk management (continued)

D1 Credit risk (continued)

D1.6 Concentrations (continued)

	2015					
	Murabaha USD'000	Ijara USD'000	Istisna followed by Ijarah muntahia bittamleek USD'000	Diminishing Musharka USD'000	Due from banks USD'000	Investment securities USD'000
Concentration by sector						
Corporate	9,808	69,558	4,187	44,779	-	21,769
Personal	4,730	32,182	8,512	-	-	-
Sovereign	-	-	-	-	-	4,275
Banks	-	-	-	-	327	-
	14,538	101,740	12,699	44,779	327	26,044
Concentration by location						
Middle East	14,538	101,740	12,699	44,779	151	26,044
Europe	-	-	-	-	65	-
North America	-	-	-	-	111	-
Asia	-	-	-	-	-	-
Total	14,538	101,740	12,699	44,779	327	26,044

D2 Liquidity risk

Liquidity risk is the risk that the Window will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

D2.1 Management of liquidity risk

The Window's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation.

Window's central treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through short-term loans from central treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The Bank has also laid down a comprehensive liquidity contingency plan for effective management of liquidity. In this process due care is taken to ensure that the Window complies with all the CBO regulations.

All liquidity policies and procedures are subject to review and approved by Asset Liabilities Committee (ALCO). Computation of liquidity gap on maturity of assets and liabilities is provided. The computation has been prepared in accordance with guidelines provided by the regulator.

The lending ratio, which is the ratio of the total financings and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Window also manages its liquidity risk on regular basis and by monitoring the liquid ratio which is a ratio of net liquid assets to total assets on a monthly basis. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market.

D Financial risk management (continued)

D2 Liquidity risk (continued)

D2.1 Management of liquidity risk (continued)

Details of the reported lending and liquid ratio as at 31 December 2016 were as follows:

	2016	
	Lending ratio	Liquid ratio
Average for the year	82.78%	17.41%
Maximum for the year	85.15%	29.24%
Minimum for the year	77.06%	5.74%

	2015	
	Lending ratio	Liquid ratio
Average for the year	83.45%	26.36%
Maximum for the year	96.33%	10.64%
Minimum for the year	76.12%	19.35%

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

D2.2 Exposure to liquidity risk

2016	Carrying amount RO'000	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
Wakala deposits	73,142	22,001	-	-	53,030	75,031
Customer deposit and other accounts	13,050	13,050	-	-	-	13,050
Other liabilities	1,193	1,193	-	-	-	1,193
Other liabilities	87,385	36,244	-	-	53,030	89,274
Equity of Investment account holders	34,218	33,819	-	-	401	34,220
	121,603	70,063	-	-	53,431	123,494

2016	Carrying amount USD'000	Within three months USD'000	Four months to 12 months USD'000	One to three years USD'000	More than three years USD'000	Total USD'000
Wakala deposits	189,979	57,145	-	-	137,740	194,886
Customer deposit and other accounts	33,896	33,896	18,842	5,044	-	57,782
Other liabilities	3,099	3,099	-	-	-	3,099
Other liabilities	226,974	94,140	18,842	5,044	137,740	255,766
Equity of Investment account holders	88,878	87,842	-	-	1,042	88,883
	315,852	181,982	18,842	5,044	138,782	344,649

D Financial risk management (continued)

D2 Liquidity risk (continued)

D2.2 Exposure to liquidity risk (continued)

2015	Carrying amount RO'000	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
Wakala deposits	43,562	38,419	5,111	103	-	43,633
Customer deposit and other accounts	19,925	10,729	7,254	1,942	-	19,925
Other liabilities	1,829	1,829	-	-	-	1,829
Other liabilities	65,316	50,977	12,365	2,045	-	65,387
Equity of Investment account holders	26,823	8,049	7,240	2,474	9,060	26,823
	92,139	59,026	19,605	4,519	9,060	92,210

2015	Carrying amount USD'000	Within three months USD'000	Four months to 12 months USD'000	One to three years USD'000	More than three years USD'000	Total USD'000
Wakala deposits	113,148	99,790	13,275	268	-	113,333
Customer deposit and other accounts	51,753	27,868	18,842	5,044	-	51,754
Other liabilities	4,753	4,753	-	-	-	4,753
Other liabilities	169,654	132,411	32,117	5,312	-	169,840
Equity of Investment account holders	69,670	20,907	18,805	6,427	23,531	69,670
	239,324	153,318	50,922	11,739	23,531	239,510

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

D3 Market risk

Market risk is the exposure to loss resulting from the changes in the profit rates, foreign currency exchange rates, equity prices and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return to risk.

D3.1 Market risk in financing products

Financing contracts mainly comprise 'Murabaha receivables' and 'Ijara Muntahia Bittamleek'. Following are the financing related market risk:

Murabaha receivables

In the case of an asset in possession for a Murabaha transaction and an asset acquired specifically for resale to a customer in a non-binding Murabaha to the purchase orderer (MPO) transaction, the asset would be treated as inventory of the Window and is subject to price risk.

Ijara Muntahia Bittamleek (IMB)

In the case of Non-binding Promise to lease an asset acquired and held for the purpose of either operating Ijarah or IMB. The asset would be treated as asset owned by the Window and is subject to price risk from its acquisition date until its disposal.

D Financial risk management (continued)

D3 Market risk (continued)

D3.2 Measurement of market risk

The Window is mainly engaged in Spots and Currency swaps. Since the positions are taken mainly for customer transactions, the complexity is further reduced. In view of above, the Window measures and controls the risk by using a limit framework. As and when the Window enters into more complex derivatives, it will have more sophisticated models and techniques to measure market risk, supported by a suitable mechanism.

D3.3 Management of market risks

The Window separates its exposure to market risk between trading and non -trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Window is transferred by Central Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Window's trading portfolio for risk management purposes. Foreign currency risk is monitored and managed by the Window by establishment of Middle Office to monitor the market risk, and the risk is managed by putting in place Policy, and implementing limit framework, reporting tools like Currency Position Report, Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report.

Overall authority for market risk is vested in ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Risk Management Committee of the Board). The Policy is periodically reviewed to keep it up to date with the market developments.

D3.4 Exposure to profit rate risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of Window. The profit rate risk in the Window may arise due to the following transactions:

- Murabaha transactions;
- Wakala transactions;
- Isitisna followed by Ijara Muntahia Bittamleek;
- Ijara Muntahia Bittamleek;
- Istisna;
- Sukuk; and
- Musharaka investments.

Window's management believes that the Window is not exposed to material profit rate risk as the re-pricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, Window is not subject to any significant profit rate risk.

D Financial risk management (continued)

D3 Market risk (continued)

D3.4 Exposure to profit rate risk (continued)

Sources of Profit Rate Risk

The different profit rate risks faced by the Window can be classified broadly into the following categories.

- Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose Window's income and underlying economic value to unanticipated fluctuations;
- Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on Window's income and/or underlying economic value;
- Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
- Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared to competitor's rates.

Profit rate risk strategy

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The window is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The window manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

Profit rate risk measurement tools

Window monitors Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of book in absolute terms.

Profit rate risk monitoring and reporting

Window has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to Executive Committee and the Board of Directors of the head office.

The Risk and Compliance Unit monitors these limits regularly. They reviews the results of gap limits and exceptions, if any, and recommends corrective action to be taken which is approved by ALCO or Executive Committee, according to authority parameters approved by the Board.

D Financial risk management (continued)

D3 Market risk (continued)

D3.5 Exposure to profit rate risk – non trading portfolios

The Window's profit sensitivity position based on contractual re-pricing arrangements at 31 December 2016 was as follows:

At 31 December 2016	Effective annual Profit Rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non sensitive to profit rate RO'000
Assets					
Cash and balances with Central Banks	-	-	-	-	17,110
Due from banks and financial institutions	0.38	13,850	-	-	370
Murabaha receivables	5.30	498	1,636	5,754	-
Ijarah muntahia bittamleek	4.42	1,684	3,049	40,146	-
Istisna followed by Ijarah muntahia bittamleek	5.43	110	449	19,707	-
Diminishing Musharka	5.60	509	1,957	20,066	-
Investment securities	4.64	-	-	10,024	-
Fixed assets		-	-	-	1,294
Other assets		-	-	-	1,556
Total assets		16,651	7,091	95,697	20,330
Liabilities and equity					
Wakala deposits	3.6	42,946	11,950	18,246	-
Customer current accounts		-	-	-	13,050
Other liabilities		-	-	-	1,193
Total liabilities		42,946	11,950	18,246	14,243
Equity of Investment Account Holders	1.73	11,240	-	22,978	-
Total liabilities and equity of Unrestricted Investment Account (URIA)		54,186	11,950	41,224	14,243
Total profit rate sensitivity gap		(37,535)	(4,859)	54,473	6,087
Cumulative profit rate sensitivity gap		(37,535)	(42,394)	12,079	18,166

D Financial risk management (continued)

D3 Market risk (continued)

D3.5 Exposure to profit rate risk – non trading portfolios (continued)

At 31 December 2016	Effective annual Profit Rate %	Within three months USD'000	Four months to 12 months USD'000	Over one year USD'000	Non sensitive to profit rate USD'000
Assets					
Cash and balances with Central Banks	-	-	-	-	44,442
Due from banks and financial institutions	0.38	35,974	-	-	961
Murabaha receivables	5.30	1,294	4,249	14,945	-
Ijarah muntahia bittamleek	4.42	4,374	7,919	104,275	-
Istisna followed by Ijarah muntahia bittamleek	5.43	286	1,166	51,187	-
Diminishing Musharka	5.60	1,322	5,083	52,119	-
Investment securities	4.64	-	-	26,036	-
Fixed assets		-	-	-	3,361
Other assets		-	-	-	4,041
Total assets		43,250	18,417	248,562	52,805
Liabilities and equity					
Wakala deposits	3.60	111,548	31,039	47,392	-
Customer current accounts		-	-	-	33,896
Other liabilities		-	-	-	3,099
Total liabilities		111,548	31,039	47,392	36,995
Equity of Investment Account Holders	1.73	29,195	-	59,683	-
Total liabilities and equity of Unrestricted Investment Account (URIA)		140,743	31,039	107,075	36,995
Total profit rate sensitivity gap		(97,494)	(12,621)	141,488	15,810
Cumulative profit rate sensitivity gap		(97,494)	(110,115)	31,374	47,184

D Financial risk management (continued)

D3 Market risk (continued)

D3.5 Exposure to profit rate risk – non trading portfolios (continued)

At 31 December 2015	Effective annual Profit Rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non sensitive to profit rate RO'000
Assets					
Cash and balances with Central Banks		-	-	-	25,029
Due from banks and financial institutions	0.77	-	-	-	126
Murabaha receivables	4.14	328	1,064	4,205	-
Ijarah muntahia bittamleek	5.92	1,030	4,064	34,038	-
Istisna followed by Ijarah muntahia bittamleek	4.46	328	1,064	3,497	-
Diminishing Musharka	4.09	287	1,323	15,630	-
Investment securities	4.50	78	-	9,949	-
Fixed assets		-	-	-	1,391
Other assets		-	-	-	1,174
Total assets		2,051	7,515	67,319	27,758
Liabilities and equity					
Wakala deposits	0.79	38,555	5,007	-	
Customer current accounts		-	-	-	19,925
Other liabilities		-	-	-	1,830
Total liabilities		38,555	5,007	-	21,755
Equity of Investment Account Holders	0.78	26,680	43	100	-
Total liabilities and equity of Unrestricted Investment Account (URIA)		65,235	5,050	100	21,755
Total profit rate sensitivity gap		(63,184)	2,465	67,219	6,003
Cumulative profit rate sensitivity gap		(63,184)	(60,719)	6,500	12,503

D Financial risk management (continued)

D3 Market risk (continued)

D3.5 Exposure to profit rate risk – non trading portfolios (continued)

At 31 December 2015	Effective annual Profit Rate %	Within three months USD'000	Four months to 12 months USD'000	Over one year USD'000	Non sensitive to profit rate USD'000
Assets					
Cash and balances with Central Banks		-	-	-	65,010
Due from banks and financial institutions	0.77	-	-	-	327
Murabaha receivables	4.14	852	2,764	10,922	-
Ijarah muntahia bittamleek	5.92	2,774	10,556	88,410	-
Istisna followed by Ijarah muntahia bittamleek	4.46	852	2,764	9,083	-
Diminishing Musharka	4.09	745	3,436	40,598	-
Investment securities	4.50	203	-	25,841	-
Fixed assets		-	-	-	3,613
Other assets		-	-	-	3,149
Total assets		5,327	19,520	174,854	72,099
Liabilities and equity					
Wakala deposits	0.79	100,143	13,005	-	-
Customer current accounts		-	-	-	51,753
Other liabilities		-	-	-	4,753
Total liabilities		100,143	13,005	-	56,506
Equity of Investment Account Holders	0.78	69,298	112	260	-
Total liabilities and equity of Unrestricted Investment Account (URIA)		169,114	13,117	260	56,593
Total profit rate sensitivity gap		(164,114)	(6,403)	174,594	15,593
Cumulative profit rate sensitivity gap		(164,114)	(157,711)	16,883	32,476

D Financial risk management (continued)

D3 Market risk (continued)

D 3.6 Currency risk

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

	2016		
	Assets	Liabilities & URIA	Net assets
Riyal Omani	120,198	60,634	59,564
United States Dollar	19,077	26,746	(7,669)
Euro	6	1	5
UAE Dirhams	397	1	396
Pound Sterling	91	2	89

	2015		
	Assets	Liabilities & URIA	Net assets
Riyal Omani	98,056	85,606	12,450
Saudi Rial	-	-	-
Euro	14	16	(2)
UAE Dirhams	101	1	100
Pound Sterling	75	2	73
United States Dollar	15,000	43,017	(28,017)

The Window takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non parity foreign currency prices as at 31 December 2016 and 2015 on net assets is considered negligible.

D4 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to variety of causes associated with the Window's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

Window has adopted same policies and procedures to mitigate operational risk as those of the head office. Advantages of head office processes and infrastructure are obtained in compliance with IBRF. Policies on following processes are also similar to that of the head office:

- Track loss events and potential exposures;
- Reporting of losses, indicators and scenarios on a regular basis; and
- Review the reports jointly by risk and line managers;

In addition to the above, Window has a dedicated Sharia' compliance officer responsible to ensure compliance with IBRF, Sharia' guidelines and other applicable laws and regulations.

D Financial risk management (continued)

D5 Displaced commercial risk

Displaced commercial risk ("DCR") refers to the magnitude of risks that are transferred to shareholders in order to cushion the Investment Account Holder ("IAH") from bearing some or all of the risks to which they are contractually exposed in Mudaraba contracts.

Under a Mudaraba (profit sharing and loss-bearing) contract, unrestricted IAH are exposed to aggregate impact of risks arising from the assets in which their funds are invested, but this is managed by Sohar Islamic Window through DCR.

This risk-sharing is achieved by constituting and using various reserves such as PER, and by adjusting the Sohar Islamic Window's profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace.

Sohar Islamic Window manages its displaced commercial risk as outlined in its Profit Distribution Policy. The Window foregoes its fee in case displaced commercial risk arises. The Window manages profit rates with other Islamic Windows and full-fledged Islamic/ Conventional Banks operating in Oman.

D6 Capital management

D6.1 Regulatory capital

The Window's lead regulator, Central Bank of Oman, sets and monitors capital requirements for the Window as a whole. In implementing current capital requirements Central Bank of Oman requires the Window to maintain a prescribed ratio of total capital to total risk-weighted assets. The Window calculates capital requirements for market risk and operational risk based upon the model prescribed by Central Bank of Oman as follows:

- Sovereign entities – Nil
  Window's – Risk weighting based upon ratings by external credit assessment institutions as approved by CBO
- Retail and Corporate financings – As per credit conversion factors and risk weightage prescribed by Central Bank of Oman.
- Off balance sheet items – As per credit conversion factors and risk weightage prescribed by Central Bank of Oman.

The Window's regulatory capital is analysed into three tiers:

- Tier 1 capital, which includes allocated capital, share premium, reserves, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances the element of the fair value reserve relating to unrealised gains on equity instruments classified as fair value through equity.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances, PER and IRR that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Windows and certain other regulatory items.

Window's operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. There is no availability of data for previous three years as required under basic indicator approach for computation of capital charge for operational risk. The Window's policy is to maintain a strong capital base.

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

D Financial risk management (continued)

D6 Capital management (continued)

D6.1 Regulatory capital (continued)

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

2015 USD'000	2016 USD'000		2016 RO'000	2015 RO'000
		Tier 1 capital		
31,169	44,156	Assigned capital	17,000	12,000
348	348	Legal reserve	134	134
2,566	2,566	General reserve	988	988
(2,566)	(1,605)	Retained earnings	(619)	(988)
31,517	45,465	Total	17,503	12,134
		Tier 2 capital		
1,771	2,592	Impairment allowance on portfolio basis	998	682
1,771	2,592	Total	998	682
33,288	48,057	Total regulatory capital	18,502	12,816
		Risk-weighted assets		
200,548	276,127	Window credit and market risk	114,563	77,211
5,011	11,221	Operational risk	4,320	1,929
205,559	308,787	Total risk-weighted assets	118,883	79,140
		Capital adequacy ratio		
15.58%	15.56%	Total regulatory capital expressed as a percentage of total risk-weighted assets	15.56%	15.58%
14.75%	14.72%	Total tier 1 capital expressed as a percentage of total risk-weighted assets	14.72%	14.75%

The capital adequacy ratio given above is calculated in accordance with the Basel II norms as adopted by Central Bank of Oman and IBRF. Profit earned during the year is so not considered for calculation of Capital adequacy.

D7 Segmental information

The activities of the Window are performed as one unit. Reporting to management is made by business unit. The Window operates solely in the Sultanate of Oman and as such no geographical segment information is presented.

D8 Other disclosures

Following are the disclosures required under Islamic Banking Regulatory Framework:

- There has been no comingling of the funds.
- As of 31 December 2016, and amount of RO 0.338 M is receivable for creating of general reserve.
- During the year no cost has been allocated from the head office.
- There has been no amount transferred to Charity fund during the year.
- Proposed remuneration and sitting fee of SSB board is as follows:

OMR	Assets	Liabilities & URIA	Net assets
Dr. Hussain Hamed Hassan	15,400	770	16,170
Dr. Mudassir Siddiqui	11,550	1,540	13,090
Sheikh Azzan bin Nasir Farfoor Al Amri	7,700	1,540	9,240
Sheikh Fahad Mohamed Hilal Al Khalili	3,502	770	4,272
	38,152	4,620	42,772