



OMINVEST

[www.ominvest.net](http://www.ominvest.net)

Annual Report

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Banking



Insurance



Finance & Leasing



Investment Banking



Financial Investment

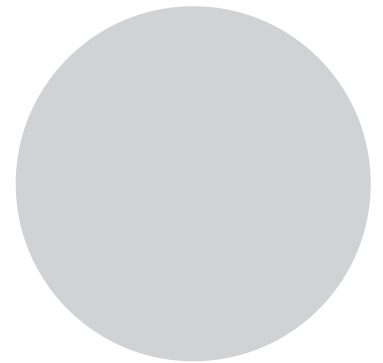
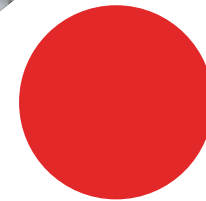


Real Estate

**Investing in a Shared Future**



OMINVEST



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# VISION

To be the Premier Investment Holding Company in Oman and the Region

# MISSION

Achieving Sustainable and Superior Shareholders' Returns

# CORE VALUES

## **Teamwork**

Working together as one to deliver on stakeholders' objectives.

## **Performance**

Aiming to deliver to full potential to maximize shareholders' value.

## **Integrity**

Commitment to maintain transparency and trust in our interactions.

## **Discipline**

Maintaining professionalism in communication and dealings.

## **Reputation**

Earning trust and credibility through people, processes and practices.

## **Empowerment with Accountability**

Encouraging and motivating individuals to perform at their best while taking ownership of their responsibility.

# VALUE ENABLERS AND ENHANCERS



FINANCE  
& LEASING



INVESTMENT  
BANKING



BANKING



OMINVEST



FINANCIAL  
INVESTMENTS



INSURANCE



REAL ESTATE

# Board of Directors



**Khalid Muhammad Al Zubair**

Chairman

Member of the Nomination,  
Remuneration and Executive Committee



**Hassan Ahmed Al Nabhani**

Deputy Chairman

Member of the Nomination,  
Remuneration and Executive Committee



**Taya Jandal Ali**

Director



**Jamal Shamis Al Hooti**

Director

Member of the Audit  
and Control Committee



**Saif Said Al Yazidi**

Director

Member of the Nomination,  
Remuneration and Executive Committee



**C S Badrinath**

Director

Member of the Nomination,  
Remuneration and Executive Committee



**Khalid Abdullah Al Khalili**

Director

Member of the Audit  
and Control Committee



**Qais Mohammed Al Yousef**

Director

Member of the Audit  
and Control Committee



**Anwar Hilal Al Jabri**

Director

Member of the Audit  
and Control Committee



**Shaheen Mohammed Amin**

Director

Member of the Nomination,  
Remuneration and Executive Committee



# Directors' Report

## Dear Shareholders

On behalf of the Board of Directors, it's my pleasure to present to you audited results of the Group and the Parent for the year ended 31 December 2016. Despite an exceptionally difficult environment for local and regional businesses, OMINVEST's performance in 2016 stayed relatively resilient and the company delivered healthy performance for the year. Your company remains in a strong position to continue to enhance long-term shareholder value.

## Group Consolidated Performance

For the year ended 31 December 2016, total Group revenues rose by 59% to RO 227m and Group net profit grew by 1% to RO 37.6m over the same period in 2015. OMINVEST's share of the Group net profit stood at RO 23.9m, compared to RO 22.9m, a growth of 4% over the same period in 2015. The growth in net profit was attributable mainly to the strong growth in our new subsidiary Oman National Investment Corporation (ONIC) which recorded total investment income of RO 7.1m for the year ended 31 December 2016. In addition, National Life & General Insurance's net profit rose by 8% over the same period in 2015. Overall, this was partially offset by the decline of

16% in Oman Arab Bank's (OAB) net profit. The share of profit from our 11 associate companies also contributed to the growth of OMINVEST's net profit for the year ended 31 December 2016.

## Parent Company Performance

For the year ended 31 December 2016, total revenues rose by 80% to RO 35.2m and Parent net profit rose by 82% to RO 24.8m, over the same period in 2015. The increase in the Parent net profit was mainly due to the strong growth in our new subsidiary Oman National Investment Corporation (ONIC) and the fact that our share of profit from 5 associates in previous year represented only 4 months of the year and the full year in 2016. As at 31 December 2016, total assets of the Parent Company increased by 79% to RO 379m compared to RO 321m at 31 December 2015. Similarly, shareholders' equity of the Parent Company rose to RO 238m compared to RO 215m as at 31 December 2015. Amid challenging business conditions, OMINVEST tightly controlled its operating expenses, which stayed flat compared to last year. Our Cost to Income Ratio stood at around 12%, among the lowest versus peers in the region. During the current downturn, we opportunistically increased leverage at competitive rates to be able to buy high quality businesses at attractive valuations and dividend yields, putting in place a recurring stream of yearly dividends and potential for capital gains over the long term. As a result of our opportunistic investments, our Debt / Equity ratio modestly increased to 58%. We still have a significant capacity to borrow more at attractive rates to build our investment portfolios. However, we are proceeding with caution and are very selective in allocating capital to new opportunities.

## Our Major Subsidiaries

Oman Arab Bank (OAB), our banking subsidiary, increased its Net Loans & Advances by 5% to RO 1.59bn and Customer Deposits by 2% to RO 1.64bn as at 31 December 2016 over the same period in 2015. OAB reported net profit of RO 24m for the year ended 31 December 2016, a decline of 16% as compared to last year, primarily due to sudden rise in cost of funding amid a liquidity crunch, drop in non-interest income and sharp rise in provisions. While the Bank's profit growth has temporarily slowed in this challenging environment, we remain confident about its long-term growth prospects. OAB has a strong balance sheet, an established

brand, committed shareholders, well-anchored and growing market position. We are confident that OAB will continue to deliver robust and steady performance, over the long term.

National Life & General Insurance Company (NLGIC), our subsidiary in the insurance sector, continued its high growth with net insurance premiums rising by 25% to RO 57m for the year ended 31 December 2016, signifying the underlying growth in the broader insurance sector and more importantly major gains in NLGIC's market share. NLGIC's net profit rose by 8% to RO 4.7m over the same period in 2015. We believe that NLGIC's growth prospects are strong and its recurring revenues from insurance business are stable and on a clear growth trend. NLGIC is already in a leading position in the Omani insurance market and growing fast in the UAE. The company is looking to broaden its footprint in the regional markets through organic growth and acquisitions. We expect NLGIC to deliver robust profit growth over the next 3-5 years. NLGIC is expected to go public during 2017 in-line with CMA guidelines.

Oman National Investment Corporation SAOC (ONIC), our new subsidiary that manages all financial investments of OMINVEST across private equity, public equity, fixed income and other structured investments, reported total investment income of RO 7.1m for the year ended 31 December 2016. We expect ONIC to further enhance and diversify its investment income and become one of the largest contributors to OMINVEST's future profits and growth. At end of 2016 we have hired a highly experienced Omani national as the General Manager for ONIC and also appointed a team of dedicated and qualified professionals to help achieve our vision and to take ONIC to higher milestones.

## Our Major Associates

During the year 2016, our share of profit in the associate companies rose to RO 8m compared to RO 3.8m, a growth of 110%, mainly driven by the merger with ONIC Holdings on 19 August 2015 which increased our total number of associates from 3 to 11. The share of profit from 5 associates in previous year represented only 4 months of the year and the full year in 2016. Our investments in Associate companies help enhance and diversify our income sources – ensuring steady profitability in future years.

## National Finance Company & Oman Orix Leasing Co.

OMINVEST owns significant equity stakes in both National Finance Company (NFC) and Oman Orix Leasing Company (OOLC). Recently, NFC approached OOLC to initiate discussions to explore mutual strategic collaboration to realize any potential value creation and synergies. OMINVEST, being a major shareholder, is highly supportive of this initiative. We believe that current business environment necessitates further improving our portfolio companies' efficiencies to create durable value for all shareholders.

## U Capital

I am pleased to update you that OMINVEST, along with its Strategic Partners, OIF and Arab Bank (Switzerland) Ltd., has established Ubhar Capital "U Capital", which is envisioned to become Oman's leading independent investment banking platform. U Capital has acquired Oman Arab Bank's investment banking business "OABINVEST", which has a long-standing track record in corporate finance, asset management, brokerage and a leading market share in Oman. With the support of our strategic partners and committed stakeholders, we are focused on building U Capital into one of the largest and most valuable Omani Investment Company & Asset Manager – with regional capabilities and international reach.

Although the current business conditions are challenging, we are optimistic about OMINVEST's strong financial position and future prospects and remain highly supportive of the major initiatives that our management has undertaken. OMINVEST will continue to play a key role in Oman's economic growth; creating job opportunities for Omani nationals and helping businesses grow and attracting investments to our country.

## Regional Macroeconomic – Future Outlook

Oil prices snapped back from a low of \$29/barrel in February 2016 to around \$50/barrel at end December 2016. With OPEC trying to stabilize oil market through coordinate output caps and cuts, it seems that oil has stabilised around mid-\$50s and will likely hover around \$50-\$60/barrel range, over the next year. This bodes well for the overall sentiment. In addition, Omani and other GCC governments have successfully raised capital from international investors at attractive yields. It has

eased liquidity conditions and financial stress in the system. Going into 2017, we expect regional governments, quasi-sovereigns and major banks & corporations to further tap international debt markets to boost their finances and liquidity positions. These developments have defused panic situation in the markets and helped restore confidence among businesses and investors. As a result, our operating businesses are looking forward to a period of stability and resumption of growth.

## Acknowledgements

We would like to thank our shareholders and partners for their continued support and trust. We also take this opportunity to sincerely thank the leadership at the Capital Market Authority, Ministry of Commerce & Industry and Muscat Securities Market for their guidance and supportive measures to strengthen the financial markets in Oman.

The Board and entire OMINVEST Group is profoundly thankful to His Majesty Sultan Qaboos for his great vision and wise leadership for the steady growth & stability and enduring prosperity of our great country.



**Khalid Muhammad Al Zubair**

Chairman

28<sup>th</sup> February, 2017





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PR No. HHM/15/2015; HMA/9/2015

#### REPORT OF FACTUAL FINDING

#### TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Oman International Development and Investment Company SAOG (the "Company") as at and for the year ended 31 December 2016 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarised as follows:

- 1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and
- 2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2016. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Oman International Development and Investment Company SAOG to be included in its annual report for the year ended 31 December 2016 and does not extend to any financial statements of Oman International Development and Investment Company SAOG, taken as a whole.

Muscat  
9 March 2017

A member firm of Ernst & Young Global Limited

# CORPORATE GOVERNANCE REPORT

The principles of Corporate Governance mainly deals with the way companies are led and managed, the role of the Board of Directors and the framework of internal controls. At Ominvest, the Board supports the highest standards of Corporate Governance. The Board of Directors is responsible for approving and monitoring the Company's overall strategy and policies, including risk management policies, control systems, business plan and annual budget. The Management is responsible to provide the Board with appropriate and timely information to monitor and maintain effective control over strategic, financial, operational and compliance issues. The Board confirms that Ominvest applies the principles set out in the Capital Market Authority's (CMA) Code of Corporate Governance for Public Listed Companies (the "Code") and other rules and guidelines issued by the CMA.

## BOARD OF DIRECTORS

### Nomination of Directors

The Articles of Association of the Company provides for ten (10) directors. Each director on the Board is required to own/represent at least two hundred thousand (200,000) shares in the Company as qualification shares. The Nomination, Remuneration and Executive Committee assists the General Meeting in the nomination of proficient directors and the election of the fit for purpose. Election to the Board is subject to approval by the regulatory authorities based on nomination form filed by the candidate who meets the minimum qualification requirements as per CMA guidelines. The election for the Board of Directors was held at the Ordinary General Meeting (OGM) on 19 November 2015 for a term of three years and the next election to the Board is due to be held at the AGM in March 2018.

### Composition of the Board

During the year 2016, the Board consisted of ten directors who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgement. The composition and the independence of the board of directors is in accordance with the Code:

- i) All Directors, including the Chairman, are non-executive. Five out of the ten Directors are independent, which is in compliance with the existing regulations.
- ii) Seven out of the ten Directors represent institutional shareholders, while three Directors were elected by the shareholders in their individual capacities.

### Number of Board meetings

Ominvest held five Board meetings during the year ended 31 December 2016. These were held on 29 February, 17 April, 10 May, 08 August and 06 November. The maximum interval between any two meetings was 89 days. This is in compliance with the Code which requires meetings to be held within a maximum time gap of four months.

## Directors' attendance record

Director	No. of Board meetings attended	Whether attended last AGM
Khalid Muhammad Al Zubair	4	No
Hassan Ahmed Al Nabhani	4	Yes
Taya Jandal Ali	5	Yes
Jamal Shamis Al Hooti	4	Yes
Saif Said Al Yazidi	5	No
Qais Mohammed Al Yousef	5	Yes
Khalid Abdullah Al Khalili	4	Yes
Ceruseri Sreenivas Badrinath	4	Yes
Anwar Hilal Al Jabri	5	No
Shaheen Mohammed Amin	3	No

None of the Directors is a member of the board of more than four public joint stock companies whose principal place of business is in the Sultanate of Oman, or is a chairman of more than two such companies. Particulars of directorships of other joint stock companies and memberships of other Board Committees is set out in Appendix I of this Report. Furthermore, no director is a member of the board of directors of a joint stock company which practices similar activities to the Company and whose principal place of business is in the Sultanate of Oman.

## Directors with materially significant related party transactions, pecuniary or business relationship with the Company

All details relating to financial and commercial transactions where directors may have a potential interest are provided to the Board, and the interested directors neither participate in the discussion, nor do they vote on such matters. All such matters are also discussed in detail by the Audit and Control Committee.

The company has its related party policy & procedures and all related party transactions are reviewed by the Audit and Control Committee and approved by the board.

The following shareholders are deemed to be related parties by virtue of their shareholding during the year (10% or more of the voting power) in the Company:

	<b>At 31 Dec 2016</b> <b>(% Holding)</b>
• Al Hilal Investment Company LLC	20.06%
• Oman Investment Fund	20.00%
• Civil Service Employees' Pension Fund	11.10%

## Board Training

The Code requires that appropriate and ongoing training on compliance, corporate governance and relevant regulatory requirements is provided for the Board. During 2016, OMINVEST in collaboration with the Oman Centre for Governance & Sustainability and Capital Advantage, (UAE), organised an extensive training course (Director Development Programme).

## COMMITTEES OF THE BOARD

### Audit and Control Committee

The Audit and Control Committee consists of four non-executive members, of which three are independent and one non-independent directors. All members of the Committee are familiar with finance, industry, Omani laws and regulations governing SAOG companies.

The Audit and Control Committee met five times during the year on 28 February, 14 March, 01 May, 28 July and 03 November and the attendance record is tabled below.

Attendance record of Audit and Control Committee Members:

Name of Committee Member	Position	Meetings attended during the year
Qais Mohammed Al Yousef	Chairman	5
Anwar Hilal Al Jabri	Deputy Chairman	5
Jamal Shamis Al Hooti	Member	4
Khalid Abdullah Al Khalili	Member	5

The Committee receives reports on the findings of internal and external audits and on actions taken by the Management in response to these. It meets with the external auditors at least once every year and with internal auditors on quarterly basis. The Committee reviews the scope, findings and cost effectiveness of the Company's statutory audit and the independence and objectivity of the external auditors. It also reviews changes to the accounting policies and reviews the audited annual and unaudited quarterly financial statements and recommends for Board approval. In addition, the Committee periodically reviews and reports to the Board on the effectiveness of the Company's system of internal control and risk management process.

### Nomination, Remuneration and Executive Committee (NREC)

The NREC is delegated powers and authority to facilitate the smooth running of the operations of the Company and exercise all of the responsibilities of the Board between its meetings within the limits set out in the Delegation of Authority Manual approved by the Board. The NREC is also responsible for nomination of competent directors and developing appropriate remuneration policies. The exceptions to the delegated powers are:

- Approval of the Company's annual budget and business plan;
- Approval of the Group's and Company's quarterly unaudited financial statements and the annual audited financial statements; and
- Acquisition and disposal of strategic investments.

The NREC consists of two independent and three non-independent Directors. All members are non-executive Directors.

The Committee met three times during the year on 28 February, 08 May, and 30 June and the attendance record of the members is tabled below:

Name of Committee Member	Position	Meetings attended during the year
Khalid Muhammad Al Zubair	Chairman	3
Hassan Ahmed Al Nabhani	Deputy Chairman	2
Saif Said Al Yazidi	Member	2
Ceruseri Sreenivas Badrinath	Member	3
Shaheen Mohammed Amin	Member	1

### Remuneration of Directors

During the year, following the approval by the shareholders at the AGM held on 30 March 2016, the Directors were paid a remuneration of RO 152,000 for 2015.

Directorship sitting fees of RO 500 was paid to the Directors for each Board/Board Committee meeting attended during the year. Total sitting fees for Board and Board Committee meetings held during 2016 were as follows:

	<b>(RO)</b>
Board	21,500
NREC	5,500
Audit & Control Committee	9,500
	<b><u>36,500</u></b>

There was no other remuneration paid by the company to any of the Directors.

There were no travel and incidental expenses relating to Group's business paid by the Parent Company to any Board members during the year.

Remuneration for 2015 paid in 2016 and sitting fees paid for 2016 relating to individual Directors was (in RO):

Director	Sitting Fees				Remuneration for 2015	Total
	Board	NREC	Audit and Control Committee	Total		
Khalid Muhammad Al Zubair	2,000	1,500	-	3,500	13,572	17,072
Hassan Ahmed Al Nabhani	2,000	1,000	-	3,000	13,306	16,306
Taya Jandal Ali	2,500	-	-	2,500	11,044	13,544
Jamal Shamis Al Hooti	2,000	-	2,000	4,000	9,048	13,048
Saif Said Al Yazidi	2,500	1,000	-	3,500	9,048	12,548
Khalid Abdullah Al Khalili	2,000	-	2,500	4,500	9,048	13,548
Qais Mohammed Al Yousef	2,500	-	2,500	5,000	1,066	6,066
Anwar Hilal Al Jabri	2,500	-	2,500	5,000	9,048	14,048
Ceruseri Sreenivas Badrinath	2,000	1,500	-	3,500	9,048	12,548
Shaheen Mohammed Amin	1,500	500	-	2,000	9,047	11,047
Sayyida Rawan Ahmed Al Said (1)	-	-	-	-	7,982	7,982
Rashid Saif Al Saadi (1)	-	-	-	-	2,851	2,851
Majid Salim Al Araimi (1)	-	-	-	-	7,982	7,982
Khalil Abdulah Al Khonji (1)	-	-	-	-	7,982	7,982
Abdulah Said Al Balushi (1)	-	-	-	-	7,982	7,982
Majid Sultan Al Toky (1)	-	-	-	-	7,982	7,982
Lakhdar Moussi (1)	-	-	-	-	7,982	7,982
Andrea Moneta (1)	-	-	-	-	7,982	7,982
<b>Total</b>	<b>21,500</b>	<b>5,500</b>	<b>9,500</b>	<b>36,500</b>	<b>152,000</b>	<b>188,500</b>

(1) Former Board members of Ominvest and ONIC Holding SAOG.

Directors' Remuneration proposed for 2016 is RO 163,500 and this is subject to shareholders' approval at the AGM scheduled to be held on Wednesday, 29 March 2017. As per Royal Decree 99/2005 of 5 December 2005, the maximum permissible limit on Board remuneration, including sitting fees is 5% of annual net profit, subject to an overall limit of RO 200,000. Each Director's sitting fees per annum is limited to RO 10,000 after deduction at a rate not less than 5% of the capital.

## **INTERNAL CONTROL REVIEW**

The Code requires that the directors should, at least annually, review the effectiveness of the Company's system of internal controls and report to the shareholders that they have done so. The Board attach great importance to maintaining a strong control environment and confirm that its review has covered the financial statements, all controls, including financial, operational, compliance and risk management. The Board has reviewed the Parent Company's internal control policies and procedures and is satisfied that appropriate procedures are in place to implement the Code's requirement.

## **MANAGEMENT**

### **Management Discussion and Analysis**

A copy of the Management Discussion and Analysis is included in the annual report.

### **Management Remuneration**

At 31 December 2016, the Company had forty one (41) full-time employees. The expense (salaries, allowances, other statutory payments and bonuses) incurred for 2016 relating to the (5) full-time executive management team of the Company was RO 1,187,222.

In addition, Sitting fees and funds received by the company from the investee companies was RO 214,375. Travel and incidental expenses for Group's business incurred by any of the above executives for the year 2016 amounted to RO 7,174.

All employees are employed on two year renewable employment contracts. Notice period is 3 months for all positions or salary in lieu thereof.



## PROFILE OF EXECUTIVE MANAGEMENT



**AbdulAziz Al Balushi**

Group Chief Executive Officer

AbdulAziz Mohammed Al Balushi has been the Group CEO of Oman International Development and Investment Company SAOG (OMINVEST) since January 2014.

With experience of more than 30 years, AbdulAziz has extensive in-depth knowledge of global financial services industry. At OMINVEST, AbdulAziz has transformed the Company by implementing the new Vision, formulating a new organizational culture, structure and policies. He has been the key driver behind the merger of Ominvest and ONIC Holding, which has created the largest publicly listed investment company in Oman.

Before joining OMINVEST, AbdulAziz was the CEO of Ahlibank SAOG from 2007 to 2013 and was primarily responsible in converting a single product mortgage bank into a full-fledged commercial bank. During his tenure, Ahlibank won many prestigious awards including; the best bank of Oman for three consecutive years by OER, the best bank in Oman 2012 by World Finance and the Bankers award 2013. AbdulAziz has held positions of increasing responsibility in all major areas of Banking. Abdulaziz started his career with Oman International Bank and prior to joining Ahlibank, he was Deputy CEO of National Bank of Oman.

AbdulAziz holds Master of Science Degree in Finance from the University of Strathclyde (UK) and a Fellow Chartered Institute of Bankers (UK). He has attended a host of Specialized Executive Management Development Programs at International Institutes of worldwide repute including, London Business School and INSEAD. In November 2012, he was ranked as the "Second Best CEO in the Arab Banking World" by Forbes Magazine.

AbdulAziz is the Chairman of Board of Directors at Oman Electricity Transmission Company SAOC (a wholly government-owned entity), Oman Real Estate Investment and Services SAOC and Oman National Investment Corporation SAOC. He is also a Board member at Oman Arab Bank SAOC, National Finance Company SAOG and National Life and General Insurance Company SAOC. Additionally, he is a member of Oman American Business Center, an organization formed to foster the development of commercial activity between the United States of America and the Sultanate of Oman.



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**Shahid Rasool**

Chief Investment Officer

Shahid is the Chief Investment Officer at Ominvest and joined the firm in August 2014. Over the last 20 years, he has held leadership responsibilities at prominent Investment Banks and Investment Firms in the Middle East. Shahid has managed substantially large investment platforms across public equities, private equity, fixed income and alternative investments across regional and international markets. Before joining Ominvest, Shahid was Head of Public Securities at QInvest (Qatar's largest investment bank) and managed the bank's proprietary capital and client portfolios focusing on MENA and Global Equities. Earlier, he was Head of Investments Group at First Gulf Bank (FGB) in Abu Dhabi, where he led a large team and managed multi-asset investment portfolios covering MENA and Global markets. Shahid also extensively managed private equity investments at ADIC – an Abu Dhabi based Sovereign Wealth Fund. Previously, he was a Senior Analyst in the Asset Management Division at Riyadh Bank and an Equity Analyst with ABN AMRO Hoare Govett. Shahid is a CFA charter holder and received his MBA from The University of Chicago, Booth School of Business, Illinois, USA.



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**Bikram Monga**

Chief Risk Officer

Bikram is a senior risk management professional with 20 years of international experience in financial services / banking across Commercial & Investment Banking, Brokerage, Advisory and Islamic Banking. His experience includes working with leading institutions across GCC, Western & Eastern Europe and Central Asia, where he has accumulated an extensive understanding of various markets and advised businesses in multicultural environments. Bikram holds a BSc (with honors) in Mechanical Engineering from Moscow and an MBA from University of Alberta, Canada. At Ominvest, Bikram is responsible for the Risk Management, Corporate Governance, Compliance and Legal functions.



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**Nashat Helal**

Chief Financial Officer

Nashat is the Chief Financial Officer of Ominvest and Joined the firm in July 2013. He is a member of the Institute of Management accountants and CFA Institute with over than 13 years of professional experience in managing the finance functions, formulating strategic business plans, budgeting and financial planning. Before joining Ominvest, he was the Chief Financial Officer of Oman Sail LLC, where he led the finance and operation teams. Previously, he worked with Ernst & Young in Jordan and Oman where he was the Executive manager leading the risk management team and led projects across various industries covering government, utilities, Insurance, energy, Banking and financial services. He is a CPA & CMA by profession and holds Bachelor degree in Marketing from Yarmouk University in Jordan.



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**Hamid Al Harthi**

Head of Support Services

Hamid joined OMINVEST in 2009 as a Vice President Internal Audit, reporting to Audit Committee. Currently, he is the Head of Support Services at OMINVEST. Hamid is a Certified Internal Auditor (CIA) – from the Institution of Internal Auditors (IIA), United State of America (USA) and Certified Internal Quality Auditor (CIQA). He is a Member of Institution of Internal Auditor (IIA), USA. He is also a member of Information Systems Audit and Control Association (ISACA), USA. He has over 12 years of professional experience in internal audit in various institutions in Oman includes; Oman Development Bank, Gulf Investment Services (GIS) as a Head of Internal Audit & Group Compliance Officer, at Gulf Baadar Capital Markets as Management representative of GIS. Hamid graduated from Sultan Qaboos University with a bachelor degree of Science in Accounting from College of Commerce and Economics.

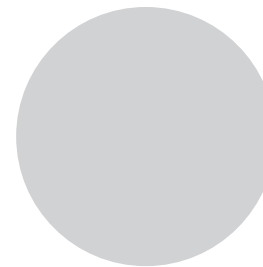


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**Muneer Al Mughairi**

Chief Internal Auditor

Muneer has over 12 years of experience in Internal Audit. He worked for various reputable companies such as Oman LNG, Takamul Investment Company, Al Maha Petroleum Marketing Company. In his capacity as Internal Audit Manager at Takamul Investment company, Muneer was responsible to oversee the Internal Audit Department over the parent company and to evaluate the requirement of conducting shareholders audit over around 8 subsidiaries. Muneer is a Certified Internal Audit, a Certified Fraud Examiner and a Certified Information System Auditor.



## SHAREHOLDERS

### Communication to shareholders and investors

Information relating to the Company and its quarterly and annual financial statements are posted on the Company's website - www.ominvest.net. Financial statements, in Arabic and English, are also available at the Company's offices during the Company's business hours. The quarterly unaudited and annual audited sections of the financial statements of the Group and Parent Company are published in leading Arabic and English newspapers in the Sultanate of Oman.

Audited financial statements (abridged), in Arabic together with the Notice and Agenda for the AGM are sent by post to all shareholders to their registered addresses provided by the Muscat Clearing and Depository Company SAOC and have also been disclosed on the MSM website. Extracts from the financial statements are published in an Arabic and English newspaper within five days of filing it through electronic transmission system of MSM.

### Distribution of shareholding

The shareholding pattern as on 31 December 2016 was:

Number of Shares	% Held	Number of shareholders	Total Shares	% of Share Capital
63,579,089 and above	Above 10%	3	325,267,300	51.16%
31,789,426 and 63,579,089	5% - 10%	1	61,286,737	9.64%
6,357,909 and 31,789,426	1% - 5%	7	83,540,992	13.14%
Below 6,357,909	Below 1%	2,077	165,695,863	26.06%
<b>GRAND TOTAL</b>		<b>2,088</b>	<b>635,790,892</b>	<b>100%</b>

## PROFESSIONAL PROFILE OF THE STATUTORY AUDITOR

The shareholders of the Company appointed Ernst & Young as the auditors for the year ended 31 December 2016

### Ernst & Young (EY) – Statutory Auditors'

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

The MENA practice of EY has been operating in the region since 1923 and employs over 6,500 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,400 partners and approximately 1,00,000 professionals. Globally, EY operates in more than 150 countries and employs 231,000 professionals in 700+ offices.

### Remuneration to statutory auditors

	(RO)
Audit fees for 2016: Parent Company	11,500
Subsidiaries	78,620
IFRS 9 early adoption review	32,000
	<b>122,120</b>

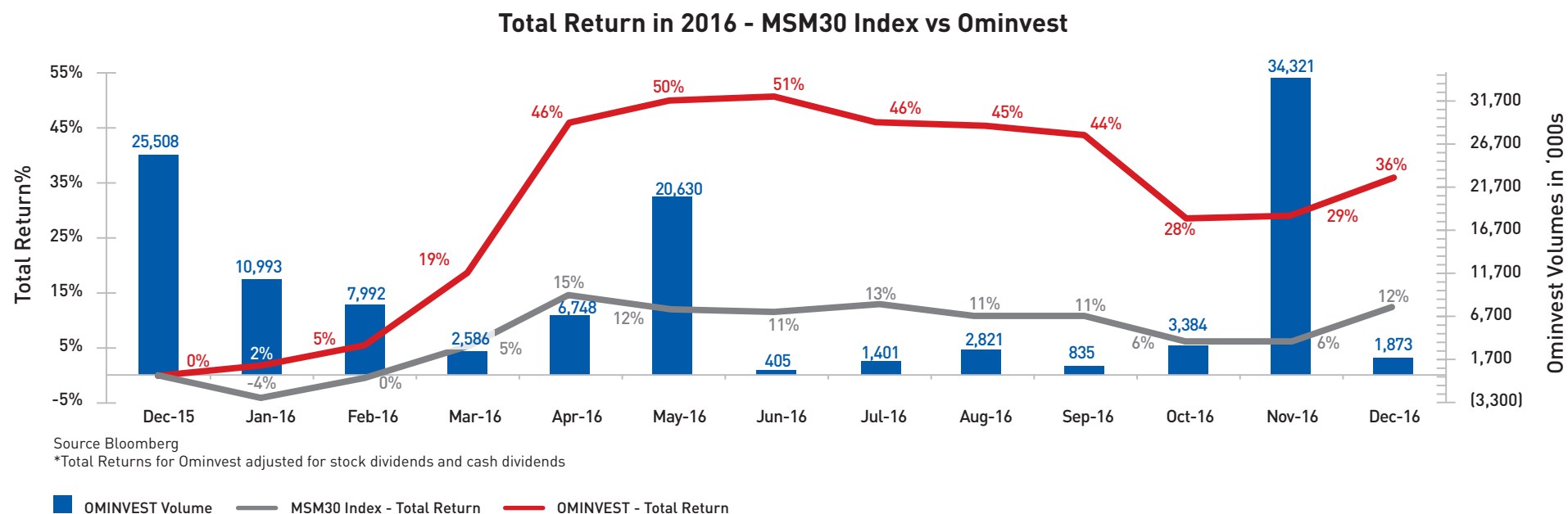
## LEGAL ADVISOR

### Curtis, Mallet-Prevost, Colt & Mosle LLP

Curtis has been lead adviser on some of the largest and most significant projects in Oman, and is regularly recognized as one of the country's foremost law firms. In the latest edition of its Europe, Middle East and Africa guide, Legal 500 identified the firm as a leading legal service provider in Oman. Curtis and their Muscat-based lawyers were recognized for their extensive experience in the areas of banking and finance, corporate and mergers and acquisitions, projects and energy, and shipping.

## MARKET PRICE DATA

The performance of the Company's share price (total returns) in 2016 versus MSM-30 Index is shown below:



Details of Ominvest's high, low and closing share prices during each month are as follows:

	Dec'15	Jan'16	Feb'16	Mar'16	Apr'16	May'16	Jun'16	Jul'16	Aug'16	Sep'16	Oct'16	Nov'16	Dec'16
<b>High</b>	0.442	0.460	0.500	0.530	0.554	0.570	0.570	0.568	0.570	0.558	0.540	0.490	0.518
<b>Low</b>	0.420	0.436	0.450	0.448	0.450	0.550	0.550	0.540	0.542	0.542	0.484	0.480	0.486
<b>Close</b>	0.442	0.450	0.466	0.448	0.550	0.566	0.568	0.550	0.548	0.542	0.484	0.486	0.512

Source: MSM Monthly Bulletin

## DETAILS OF NON-COMPLIANCE

There have been no instances of non-compliance on any matter relating to the Commercial Companies Law No. 4/1974, CMA's Code of Corporate Governance for Public Listed Companies, CMA regulations or the MSM listing agreements.

## ACKNOWLEDGEMENT BY THE BOARD

The Board acknowledges its responsibilities and confirm that:

- a. the audited Group and Parent Company financial statements have been prepared in accordance with the IFRS, the minimum requirements of the Commercial

Companies Laws, No. 4/1974 and the disclosure requirements of the Capital Market Authority;

- b. the internal controls and procedures have been reviewed through an established process of regular internal audit, review by the Audit and Control Committee and the final clearance by the Board;
- c. the Parent Company and the Group have a strong financial standing to carry on their successful operations in the foreseeable future.

## APPENDIX 1

### PARTICULARS OF DIRECTORSHIPS OF OTHER PUBLIC JOINT STOCK COMPANIES AND MEMBERSHIPS OF THEIR COMMITTEES AS OF 31 DECEMBER 2016

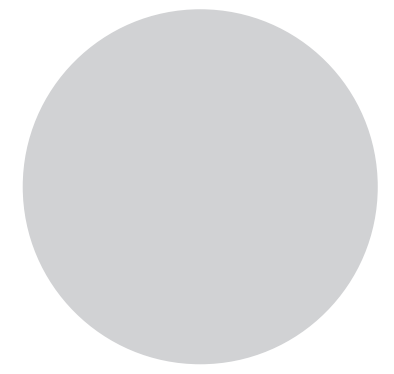
Director	OTHER DIRECTORSHIPS		Committee	Position
	Company	Position		
Taya Jandal Ali	National Finance Co. SAOG	Chairman	EC	Chairman
Hassan Ahmed Al Nabhani	Bank Sohar SAOG	Deputy Chairman	EC CAC HR	Member Member Member
Saif Said Al Yazidi	National Bank of Oman SAOG	Director	CC	Member
	OORED00 SAOG	Director	AC	Member
Khalid Abdullah Ali Al Khalili	Bank Nizwa	Director	-	-
Anwar Hilal Al Jabri	Ahli Bank SAOG	Director	ERC	Member
	Taageer Finance SAOG	Director	-	-
Qais Mohammed Al Yousef	Al Anwar Holding SAOG	Deputy Chairman	NREC	Chairman
	Voltamp Energy SAOG	Chairman	NRPC	Chairman
	Oman Chromite SAOG	Director	NREC	Member

EC: Executive Committee  
ERC: Executive Risk Committee

CC: Credit Committee  
CAC: Credit Approval Committee

AC: Audit Committee  
HR: HR & Remuneration Committee

NRPC: Nomination, Remuneration and Project Committee  
NREC: Nomination, Remuneration and Executive Committee



# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

## OVERVIEW

OMINVEST continued the implementation of its strategic direction and has achieved major milestones in 2016. Despite the on-going macroeconomic challenges, OMINVEST continued to deliver a strong return on equity, enhanced its asset and revenue diversification. The company's prudent financial and risk management has resulted in a strong balance sheet and its progressing well to achieve the vision and strategic objectives of its shareholders.

### Business Model and Investment Philosophy:

Our business model entails reducing concentration and reliance on any one major portfolio company. Through prudent diversification across sectors and geographies, we aim to further diversify our revenue base. It will enhance stability & growth and help mitigate downside risks caused by sudden and sharp economic downturns, such as the current contraction which has been precipitated by severe and prolonged decline in oil prices.

To achieve our strategic goals, OMINVEST is focusing on the following six major initiatives:

- i) further build our presence in the **banking sector** and help improve performance of our strategic investments,
- ii) expand our footprint in the **regional insurance sector** through organic expansion and acquisitions,
- iii) explore strategic collaborations among our **leasing associates** to realize synergies,
- iv) build and grow our **investment banking and asset management** platform to generate fee income,
- v) develop a diverse and high quality portfolio of **financial investments in public and private equity** through our new subsidiary ONIC, and
- vi) establish a top-tier **real estate investment** and projects advisory business.

We believe these initiatives, which are already well under way, will help diversify our revenue streams and create durable value for the shareholders.

### Revenue Growth and Diversification:

As you noted in the Directors' Report that the Company grew its profits and EPS at a healthy rate in 2016, while our current subsidiaries and associates are growing and will continue to contribute more to our revenues – our new initiatives will reduce our reliance on any particular entity. For instance, in 2016, our newly created subsidiary ONIC SAOC has become a major contributor to the group revenue in addition to the revenue generated from our existing two subsidiaries [Oman Arab Bank SAOC (OAB) and National Life and General Insurance Company SAOC (NLG) and four associates [International General Insurance Holding Limited (IGI), National Finance Company SAOG (NFC), Oman Orix Leasing Company SAOG and Al Ahlia Insurance Company SAOC.

In the future, ONIC SAOC will be our growth engine to make new financial investments across public equities, private equity, and fixed income.

**OMINVEST with its strategic partners has established U Capital which envisions to become Oman's leading independent investment banking platform shall contribute significantly to our revenue diversification.**

## Group Audited Consolidated Financial Statements

The Group audited consolidated financial statements include the audited financial statements of the following companies for the financial year ended 31 December 2016:

Company	Activity	Country	Staff *	Status
Oman International Development & Investment Company SAOG	Investment	Oman	41	Parent Company
Oman Arab Bank SAOC	Banking	Oman	1,229	Subsidiary (51.00%)
National Life & General Insurance Company SAOC	Insurance	Oman	296	Subsidiary (97.93%)
Oman National Investment Corporation SAOC	Investment	Oman	0	Subsidiary (100%)
Oman Real Estate Investment & Services SAOC	Investment	Oman	3	Subsidiary (99.98%)
Salalah Resorts SAOC	Integrated Tourism	Oman	1	Subsidiary (99.98%)
Al Jabal Al Aswad Investment LLC	Tourism	Oman	0	Subsidiary (99.98%)
Budva Beach Properties doo	Tourism	Montenegro	2	Subsidiary (100%)

\* As at 31 December 2016

The financial highlights based on the audited financial statements for the financial year ended 31 December 2016 are:

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
	(RO '000)	(RO '000)	(RO '000)	Re-stated (RO '000)
Profit for the year attributable to the shareholders of the Parent Company	23,875	22,949	24,796	13,608
Share capital	63,579	55,286	63,579	55,286
Shareholders' equity	241,135	219,937	237,603	215,484
Proposed cash dividend	9,537	5,529	9,537	5,529
Proposed stock dividend	6,358	8,293	6,358	8,293
Basic earnings per share (RO)	0.038	0.046	0.039	0.027
Net assets per share (RO)	0.379	0.398	0.374	0.390
Cash dividend per share (RO)	0.015	0.010	0.015	0.010
Stock dividend per share (RO)	0.010	0.015	0.010	0.015

## PERFORMANCE FOR THE YEAR

The Group consolidated profit for the year was RO 37.58m (2015: RO 37.19m) and is attributable to:

	2016 (RO'000)	2015 (RO'000)
Shareholders of the Parent Company	23,875	22,949
Non-Controlling interests	13,700	14,244
	<b>37,575</b>	<b>37,193</b>

## Non-controlling interests represents:

49% of Oman Arab Bank's equity is owned by the minority shareholder, Arab Bank, Jordan. Accordingly, 49% of Oman Arab Bank's profit for the year is attributable to non-controlling interests.

2.07% of National Life & General Insurance Co.'s equity is owned by the minority shareholder, Bank Muscat SAOG, Oman. Accordingly, 2.07% of National Life & General Insurance Co.'s profit for the year is attributable to non-controlling interests.

Earnings per share decreased to RO 0.038 (2015: RO 0.046) for the Group and increased to RO 0.039 (2015: RO 0.027) for the Parent Company. Net Asset Value (NAV) per share decreased to RO 0.379 (2015: RO 0.398) for the Group and RO 0.374 (2015: RO 0.390) for the Parent Company.

## IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2016

For the year ended 31 December 2016, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant and mandatory to its operations and effective for periods beginning on 1 January 2016.

Consequent to the amendments in IAS 27 effective from 1 January 2016, the company has adopted equity method to account for investments in associates and subsidiaries in the Company's parent financial statements. These amendments have been applied retrospectively.

The Group has elected to apply IFRS 9 Financial Instruments as issued in July 2014, because the new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows. In accordance with the transitional provisions in IFRS 9 (7.2.15) comparative figures have not been restated.

## INVESTMENT IN SUBSIDIARIES

The Parent Company's investments in subsidiaries, which are unquoted, are stated at their carrying value based on equity method and comprise the following:

	2016		2015 (Re-stated)	
	%held	(RO'000)	%held	(RO'000)
Oman Arab Bank SAOC	50.99	129,056	50.99	115,248
National Life & General Insurance Co. SAOC	97.93	57,435	97.93	39,569
Oman National Investment Corporation SAOC	98.00	25,382	-	19,174
Oman Real Estate Investment & Services SAOC	99.98	719	99.98	730
Salalah Resorts SAOC	99.98	-	99.98	-
Al Jabal Al Aswad Investment LLC	99.98	100	99.98	100
Budva Beach Properties doo	100.00	1,632	100.00	2,638

Oman National Investment Corporation SAOC (ONIC) was established to be the house of our financial investments across private and public equities and fixed income.

Oman Real Estate Investment & Services SAOC (ORIS) was recently established to build high quality real estate investments and provide project advisory services to the group and affiliates.

Budva Beach Properties and Salalah Resorts SAOC are specific projects for property development. Salalah Resorts SAOC is an Integrated Tourism Complex project.

## INVESTMENT IN ASSOCIATES

In accordance with International Accounting Standard 28; investment in associates are stated "at cost". Income from such investments is recognised in the Parent Company's financial statements when cash dividend is received from these companies.

However, consequent to the amendments in IAS 27 effective from 1 January 2016, the company has adopted equity method to account for investments in associates and subsidiaries in the Company's parent financial statements. These amendments have been applied retrospectively.

Investment in the eleven associates comprises five associates listed on the Muscat Securities Market and six unquoted associates. Performance of associates accounted during the year is as follows:

Name of the associate	Share of profit (RO'000)	
	2016	2015
National Finance Company SAOG	1,623	1,539
International General Insurance Holding Limited	3,137	1,104
Oman Orix Leasing Company SAOG	1,936	701
National Biscuit Industries SAOG	187	187
National Detergent Company SAOG	232	134
Oman Chlorine SAOG	297	121
National Finance House B.S.C.	226	86
Al Ahlia Insurance Company SAOC	414	73
Shamal Plastic Industries LLC	26	41
Gulf Acrylic Industries LLC	41	12
Modern Steel Mill LLC	(134)	(224)
<b>Total Share of Results</b>	<b>7,985</b>	<b>3,774</b>

The borrowing is mainly to fund Parent Company's investment activities. All outstanding borrowing is clean facilities without any tangible securities and is due for settlement within one to five years.

OMINVEST's debt/equity ratio at the balance sheet date stood at 0.58:1, based on total shareholders' equity of RO 237.6m in the Parent Company.

## Dividends and Share Capital

The Parent Company's objective is to provide its shareholders with a reasonable and consistent annual cash return on their investment in the share capital of the Company.

The Parent Company has a track record of consistently paying dividend since its inception. **Cash dividends of RO 80.6m** have been declared and distributed to shareholders. In addition, stock dividends totalling **RO 33.3m** have been distributed since inception.

Paid-up Share Capital amounted to RO 63,579K as of 31 December 2016, of which RO 8m was paid in November 1983 when the Company was incorporated.

The **market capitalisation** of the Parent Company as of the year ended 31 December 2016 stood at **RO 326m (2015: RO 260m)**.

## Internal Controls

The Board has collective responsibility for the establishment and maintenance of a system of Internal Controls that provides reasonable assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. However, the Board recognises that any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The system of internal controls is monitored regularly by the Board, its Committees, Management and Internal Audit. The Company's business is conducted with a regulated control framework, underpinned by policy statements, written procedures and control manuals. The Board has established a management structure which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The business performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies fully in compliance with the IFRS which are applied consistently. Operational procedures and controls have been established

to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include the segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

## Risk Management Framework

OMINVEST follows a robust board approved risk management framework. Through the delegation of authority and various policies; the board sets the guidelines and operating parameters for the management. These policies are reviewed periodically to capture the current operating environment.

Risk Management is a core function at OMINVEST that follows a centralized approach with emphasis throughout the Company and its Investments. A proactive risk culture and awareness has been built across the organization. OMINVEST follows a four step process in its Risk Management approach; Identification, Analysis, Monitoring & Control and On-going Review.

Risk Management covers all applicable risks and concerns to ensure a robust and thorough coverage across all fields, including, strategy, business, investments, compliance, financial, operational, legal, human resources and other. Risk Management team uses tools like risk registers to capture and monitor risk events (potential and existing).

A very comprehensive compliance mechanism has been put in place to ensure regulatory and internal compliance.

## CORPORATE SOCIAL RESPONSIBILITY ("CSR")

OMINVEST has always been committed to the development and growth of the Omani society and economy. At OMINVEST we are driven by our core values of Teamwork, Performance, Integrity, Discipline, Reputation, Empowerment with Accountability.

In-line with our business strategy and activities; our CSR philosophy focuses on the following main pillars:

- Social Responsibility,
- Environmental Responsibility,
- Good Corporate Citizen; and
- Other Regulatory Commitments.

In light of our values and to incorporate the pillars as part of our CSR activities, we have partnered with Zubair SEC; an incubator of Small Enterprises, and The Environment Society of Oman ("ESO"); a promotor for the conservation of the environment. OMINVEST has on-going relationship with both partners; providing assistance in various fields.

CSR culture is spread out across all our group companies. Consequently, during this year OMINVEST teamed up with its' subsidiary Oman Arab Bank SAOC. The partnership consisted of building play areas to be set up at various government hospitals across Oman. The objective is to provide an area for the children to play; this is in order to protect them against any infections from inside the hospitals.

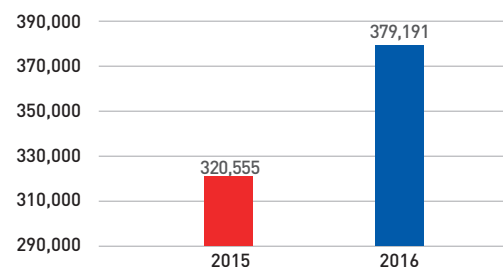
In August 2016 the play area was successfully completed and installed at The Royal Hospital in Bausher for a total cost of OMR 5,500; in which 50% of the total amount was contributed by OMINVEST totalling at OMR 2,750.

A subsequent social endeavor consisted of a Children's Summer Workshop held during June to August 2016 at Bait Al Baranda; a history museum part of the Muscat Municipality located in Mutrah. Since its inception in 2006, they have dedicated themselves to inculcate art workshops for children during their summer holidays. The target was to spread art culture to the underprivileged children within the neighbourhood. The workshops topics focused mainly on recycling, handicraft, painting, sculpture etc. The total cost of the workshops amounted to OMR 2,000.

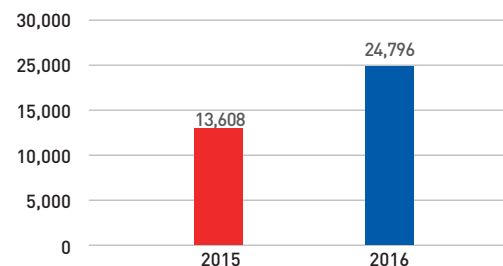
At OMINVEST we apply best industry practises and give high priority to the protection of our surroundings and compliance with the relevant regulations and standards. Within our framework of high standards of corporate governance; we wish to work with a purpose to reinforce our relationships with all of our stakeholders and to ensure sustainability. Corporate sustainability is an approach OMINVEST follows that creates long-term shareholder value by ensuring our CSR activities are sustainable.

Going-forward OMINVEST shall create further synergies focusing on detailed sustainable CSR programs that target our philosophy.

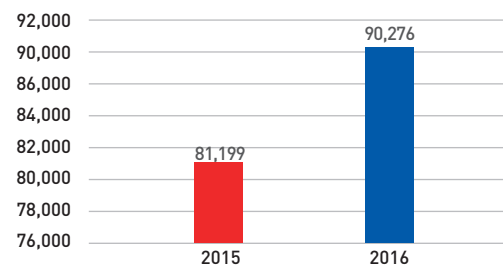
#### Total Assets - Parent Company (in RO '000)



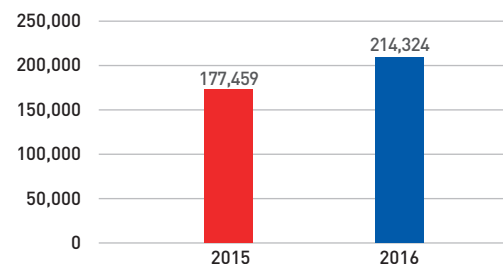
#### Profit for the year - Parent Company (in RO '000)



#### Investments in Associates - Parent Company (in RO '000)



#### Investments in Subsidiaries - Parent Company (in RO '000)







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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG**

**Report on the audit of the consolidated and separate financial statements**

**Opinion**

We have audited the consolidated and separate financial statements (the "financial statements") of Oman International Development and Investment Company SAOG (the "Company" or the "Parent Company") and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group and separate financial position of the Company as at 31 December 2016 and their respective financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other matter**

The financial statements of the Company and the Group for the year ended 31 December 2015 were audited by another auditor, who expressed an unmodified opinion on those statements on 29 February 2016.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)

*Key audit matters (continued)*

*Early adoption of IFRS 9 Financial Instruments ("IFRS 9") in the separate and consolidated financial statements*  
The International Accounting Standards Board issued IFRS 9 – "Financial Instruments" which replaces "IAS 39 – Financial Instruments" in three phases as follows:

- Phase 1 – Classification and measurement of financial assets and financial liabilities;
- Phase 2 – Impairment methodology; and
- Phase 3 – Hedge accounting.

Effective 1 January 2016, the Group has early adopted IFRS 9 ahead of its mandatory effective date of 1 January 2018. As allowed by IFRS 9, the classification and measurement and impairment requirements have been applied retrospectively without restating comparatives.

The key change arising from early adoption of Phase 1 of IFRS 9 are:

- Classification and measurement of financial assets are based on business model within which they are held and their contractual cash flow characteristics.
- The Group's credit losses are now based on an expected loss model rather than an incurred loss model.

There were no significant changes arising from the early adoption of hedge accounting requirements under IFRS 9. We have considered early adoption of IFRS 9 as a key audit matter; as it involved significant audit effort and significant judgement is involved to determine the classification and impairment provision for financial assets under the standard. Refer to the accounting policy relating to the early adoption of IFRS 9 and relevant disclosures in notes 2.5, A, 8 and 42.2.3 respectively, to the financial statements.

Our procedures, amongst others, included the following:

- Obtained the IFRS 9 impact assessment calculations prepared by the external expert and involved our internal experts to check these calculations. Further, we performed procedures to ensure the competence, objectivity and independence of the external expert;
- Performed the detailed procedures including reviewing the results of business model assessment and cash flow characteristics test performed by the management and their external experts that are used to determine the appropriate classification and measurement of financial assets;
- For Expected Credit Loss Provision (ECL) against financial assets on early adoption of IFRS9, we obtained an understanding of the Group's provisioning methodology, the underlying assumptions and the sufficiency of the data used by the management. Our procedures in this regard are discussed in detail under the key audit matter "impairment provision for loans and advances to customers in the consolidated financial statements"; and
- Assessed the appropriateness of the disclosures in the financial statements in accordance with IFRS.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)

*Key audit matters (continued)*

***Impairment provision for loans and advances to customers in the consolidated financial statements***

The valuation of loans and advances to customers of the Group's banking subsidiary represents a significant part of the Group's total assets and due to the significance of the judgments used in classifying loans and advances to customers into various stages stipulated in IFRS 9 and determining related provision requirements, this audit area is considered a key audit risk.

The basis of the banking subsidiary's impairment provision policy is presented in the accounting policies in note 2.5 A (c) to the financial statements. The critical accounting estimates and judgements, related disclosures and the credit risk management are set out in notes 3, 9 and 42.2 to the financial statements.

Our audit procedures, amongst others, included the following:

- Assessed the modelling techniques and methodology against the requirement of IFRS9;
- Assessed and tested the material modelling assumptions as well as overlays with focus on the:
  - Key modelling assumptions adopted by the Group
  - Basis for and data used to determine overlays; and
  - Sensitivity of the ECL provisions to changes in modelling assumptions
- Examined a sample of exposures and performed procedures to evaluate the:
  - Timely identification of exposure with a significant deterioration in credit quality; and
  - Expected loss calculation for exposures assessed on an individual basis
- Assessed and tested relevant controls over credit granting, booking, monitoring and settlement and those relating to the calculation of credit provisions.
- For exposures determined to be individually impaired (stage 3), we tested a sample of loans and advances to customers and examined management's estimate of future cash flows and checked the resultant provision calculations; and
- Assessed whether the financial statement disclosures appropriately reflect the requirements of IFRS.

***Sale of Investment Management Group (IMG) business in the consolidated financial statements***

We considered the accounting for the sale and subsequent derecognition of the banking subsidiary's IMG business as a key audit matter due to its material effect on the financial statements. Refer to accounting policy relating to the discontinued operations and relevant disclosures in notes 2.30 and 32 respectively, to the financial statements.

We read the sale purchase agreement entered by the banking subsidiary of the group for the sale of IMG business and discussed the clauses associated with completion of the sale transaction and whether all the relevant accounting implications have been considered relating to the disposal of the IMG business. We read the relevant regulatory approvals obtained by the banking subsidiary and agreed the receipt of the cash consideration. We checked the profit calculation relating to the sale transaction. Given the material nature of the matter, we particularly focused on evaluating the adequacy of disclosures, accounting treatment and financial statement impact of the transaction.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)

*Estimates used in calculation of insurance funds in the consolidated financial statements*

National Life and General Insurance Company SAOC (NLIGC), a Group company, has material insurance liabilities as on reporting date. Due to the magnitude of the balances and the estimation uncertainty and subjectivity involved in the assessment of these liabilities, we have considered the valuation of the insurance funds as a key audit matter. The estimation of insurance funds, in particular the actuarial / mathematical and unexpired risk reserve - life assurance and incurred but not reported reserves, involves a significant degree of judgement. These liabilities are based on the best-estimate of the ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We assessed the management's calculation of the insurance funds by performing the following procedures:

- Understood and tested the governance process in place to determine the insurance funds, including testing the associated financial reporting control framework;
- Assessed the experience and competency of the NLGIC's independent actuary to perform the year-end valuation for life assurance.
- Tested the underlying company data used in estimation to the source documentation;
- Involved our actuarial specialist team members, to apply industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices;
- Using actual claims history, we compared the methodology models and assumptions used in the estimation against historical claims paid;
- We have tested the liability calculation used by the management for its unexpired risk reserve and incurred but not reported reserves;
- Tested the adequacy and completeness the disclosures on the insurance contract liabilities, presented in 19 of the financial statements.

*Fair valuation of investment securities in the consolidated and separate financial statements*

The Group invests in several securities, which are classified as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost in the statement of financial position. Valuation technique for majority of these financial assets at fair value through profit or loss and other comprehensive income is performed at level 1 of the fair value hierarchy under IFRS, using quoted prices.

The Group's financial assets at fair value through profit or loss and other comprehensive income portfolio represents a material component of total assets, thus we have identified this as a key audit matter. The accounting policies relating to financial assets at fair value through profit or loss and through other comprehensive income and the related disclosures are set out in notes 2.5 A, 2.5 B and 8 to the financial statements, respectively.

For valuation of financial assets at fair value through profit or loss and other comprehensive income, we have performed the following procedures:

- Obtained an understanding of the process surrounding the fair valuation of those securities and performed a test of transaction to confirm our understanding;
- On a sample basis, checked availability of prices in the liquid market and validated the fair valuation of those securities;
- For the samples selected, ensured that the related changes in fair values of securities is appropriately recognised; and
- Assessed the appropriateness of the disclosures in the financial statements in accordance with IFRS.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)**

***Other information included in the Group's 2016 Annual Report***

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2016 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of management and those charged with governance for the financial statements***

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)

**Auditor's responsibilities for the audit of the financial statements (continued)**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

*Eagle Young LLC*

*Sanjay*

Sanjay Kawatra

Muscat

9 March 2017

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	Group		Parent Company	
		2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000) (Restated)
<b>Assets</b>					
Balances with banks and money at call		269,405	193,267	1,564	1,112
Deposits with banks	6	71,492	116,484	-	-
Premium and insurance balance receivable	7	34,607	28,386	-	-
Re-insurance share in insurance funds	19	26,685	22,688	-	-
Investment securities	8	200,293	192,920	11,080	11,091
Investments in associates	8(d)	90,276	81,275	90,276	81,199
Investments in subsidiaries	8(e)	-	-	214,324	177,459
Loans and advances to customers	9	1,590,799	1,504,571	-	-
Due from subsidiaries		-	-	49,831	39,578
Other assets	10	51,299	44,855	2,830	786
Investment properties	11(a)	10,475	10,311	9,143	9,036
Projects work in progress	11(b)	2,970	5,484	-	-
Property and equipment	11(c)	30,189	29,609	143	294
Intangible assets	12	18,054	18,998	-	-
<b>Total assets</b>		<b>2,396,544</b>	<b>2,248,848</b>	<b>379,191</b>	<b>320,555</b>
<b>Equity and liabilities</b>					
<b>Capital and reserve</b>					
Share capital	13(a)	63,579	55,286	63,579	55,286
Share premium	14(a)	61,036	69,329	61,036	69,329
Legal reserve	14(b)	27,523	26,682	27,523	26,682
General reserve	14(e)	13,033	13,543	13,033	13,543
Other non-distributable reserves	15	48,419	39,044	30,573	21,198
Cumulative changes in fair value reserve		(5,033)	(9,060)	(149)	(4,176)
Retained earnings		32,578	25,113	42,008	33,622

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (continued)

	Notes	Group		Parent Company	
		2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000) (Restated)
<b>Equity attributable to equity holders of the Parent Company</b>		<b>241,135</b>	219,937	<b>237,603</b>	215,484
Perpetual Tier I capital bonds	13(b)	30,000	-	-	-
		<u>271,135</u>	219,937	<u>237,603</u>	215,484
<b>Non-controlling interests</b>		<b>125,336</b>	111,706	-	-
<b>Total equity</b>		<b>396,471</b>	331,643	<b>237,603</b>	215,484
<b>Liabilities</b>					
Due to banks	17	150,856	97,404	138,900	102,500
Deposits from customers	18	1,625,381	1,593,225	-	-
Insurance funds	19	67,833	59,614	-	-
Subordinated debt	20	70,000	70,000	-	-
Other liabilities	21	81,037	92,143	2,688	2,571
Taxation	22	4,966	4,819	-	-
<b>Total liabilities</b>		<b>2,000,073</b>	1,917,205	<b>141,588</b>	105,071
<b>Total equity and liabilities</b>		<b>2,396,544</b>	2,248,848	<b>379,191</b>	320,555
<b>Net assets per share (Rial Omani)</b>	46	<b>0.379</b>	0.398	<b>0.374</b>	0.390

The financial statements were authorised for issue by the Board of Directors on 28 February 2017 and signed by:

**Khalid Bin Muhammad Al Zubair**  
Chairman

**AbdulAziz Al Balushi**  
Group CEO

The attached notes 1 to 46 form part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Group		Parent Company	
		2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000) (Restated)
<b>Continuing operations</b>					
Gross premium earned	23	95,953	30,035	-	-
Interest income	24	78,604	64,351	2,538	-
Investment income – net	26	10,373	8,497	2,089	1,728
Fee and commission income – net	27	18,055	19,984	-	-
Other operating income	28	6,561	14,198	961	97
Share of results from subsidiaries		-	-	21,604	13,921
Share of results from associates		7,985	3,774	7,985	3,774
<b>Total revenue</b>		<b>217,531</b>	<b>140,839</b>	<b>35,177</b>	<b>19,520</b>
Premium ceded to re-insurers	23	(38,566)	(13,461)	-	-
Net claims	19	(48,466)	(13,282)	-	-
Interest expense	25	(30,244)	(16,804)	(4,045)	(1,978)
Operating expenses	29	(59,003)	(48,911)	(4,627)	(3,898)
Provision for impairment of due from a subsidiary		-	-	(1,709)	(17)
Provision for impairment of project work in progress	11(b)	(2,411)	(2,200)	-	-
Allowance for loan impairment, net of recoveries		(7,679)	(5,350)	-	-
<b>Total expenses</b>		<b>(186,369)</b>	<b>(100,008)</b>	<b>(10,381)</b>	<b>(5,893)</b>
<b>Profit before tax from continuing operations</b>		<b>31,162</b>	<b>40,831</b>	<b>24,796</b>	<b>13,627</b>
Income tax expense	22	(3,469)	(4,067)	-	(19)
<b>Profit for the year from continuing operations</b>		<b>27,693</b>	<b>36,764</b>	<b>24,796</b>	<b>13,608</b>
<b>Discontinuing operations</b>					
Profit after tax for the year from discontinuing operations	32	9,882	429	-	-
<b>Profit for the year</b>		<b>37,575</b>	<b>37,193</b>	<b>24,796</b>	<b>13,608</b>

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

	Notes	Group		Parent Company	
		2016 (R0'000)	2015 (R0'000)	2016 (R0'000)	2015 (R0'000) (Restated)
<b>Profit for the year attributable to:</b>					
Equity holders of the Parent Company		23,875	22,949	24,796	13,608
Non-controlling interests		13,700	14,244	-	-
		<u>37,575</u>	<u>37,193</u>	<u>24,796</u>	<u>13,608</u>
<b>Basic earnings per share attributable to the equity holders of the Parent Company (R0)</b>	45	<u>0.038</u>	<u>0.046</u>	<u>0.039</u>	<u>0.027</u>
<b>Other comprehensive income / (expense):</b>					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation reserve	14(g)	<u>(104)</u>	<u>(1,239)</u>	<u>(104)</u>	<u>(1,239)</u>
<i>Items not to be reclassified subsequently to profit or loss:</i>					
Fair value changes of financial assets fair value through other comprehensive income		2,936	(15,907)	2,972	(10,076)
Share of change in revaluation reserve of associates		-	71	-	71
Share of change in fair value reserve of associates		-	(393)	-	(393)
		<u>2,936</u>	<u>(16,229)</u>	<u>2,972</u>	<u>(10,398)</u>
<b>Other comprehensive income / (expense) for the year</b>		<u>2,832</u>	<u>(17,468)</u>	<u>2,868</u>	<u>(11,637)</u>
<b>Total comprehensive income for the year</b>		<u>40,407</u>	<u>19,725</u>	<u>27,664</u>	<u>1,971</u>
<b>Total comprehensive income for the year attributable to:</b>					
Equity holders of the Parent Company		26,743	6,429	27,664	1,971
Non-controlling interests		13,664	13,296	-	-
		<u>40,407</u>	<u>19,725</u>	<u>27,664</u>	<u>1,971</u>

The attached notes 1 to 46 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

CONSOLIDATED	Attributable to equity holders of the Parent Company								Perpetual Tier 1 Capital bonds (R'O'000)	Sub-total (R'O'000)	Non-controlling interests (R'O'000)	Total (R'O'000)
	Share capital (R'O'000)	Share premium (R'O'000)	Legal reserve (R'O'000)	General reserve (R'O'000)	Other non-distributable reserves (R'O'000)	Cumulative changes in fair value (R'O'000)	Retained earnings (R'O'000)	Total (R'O'000)				
At 1 January 2015	33,674	-	24,802	12,064	34,820	6,292	21,017	132,669	-	132,669	104,323	236,992
Profit for the year	-	-	-	-	-	-	22,949	22,949	-	22,949	14,244	37,193
Other comprehensive expense	-	-	-	-	(1,168)	(15,352)	-	(16,520)	-	(16,520)	(948)	(17,468)
Total comprehensive income (expense) for the year	-	-	-	-	(1,168)	(15,352)	22,949	6,429	-	6,429	13,296	19,725
Transfer from/ (to) retained earnings	-	-	1,880	1,479	5,392	-	(8,751)	-	-	-	-	-
Issue of new shares pursuant to merger (note 5)	18,245	69,329	-	-	-	-	-	87,574	-	87,574	-	87,574
Additional non-controlling interests arising on the acquisition of ONICH (note 5)	-	-	-	-	-	-	-	-	-	-	909	909
Bonus shares issued (note 13(a))	3,367	-	-	-	-	-	(3,367)	-	-	-	-	-
Dividend paid (note 16)	-	-	-	-	-	-	(6,735)	(6,735)	-	(6,735)	(6,822)	(13,557)
<b>At 1 January 2016 (as previously stated)</b>	<b>55,286</b>	<b>69,329</b>	<b>26,682</b>	<b>13,543</b>	<b>39,044</b>	<b>(9,060)</b>	<b>25,113</b>	<b>219,937</b>	<b>-</b>	<b>219,937</b>	<b>111,706</b>	<b>331,643</b>
Transition adjustment on adoption of IFRS 9 (note 4.3.2)	-	-	-	-	-	1,058	(1,058)	-	-	-	-	-

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

CONSOLIDATED	Attributable to equity holders of the Parent Company								Perpetual Tier 1 Capital bonds (RO'000)	Sub-total (RO'000)	Non-controlling interests (RO'000)	Total (RO'000)
	Share capital (RO'000)	Share premium (RO'000)	Legal reserve (RO'000)	General reserve (RO'000)	Other non-distributable reserves (RO'000)	Cumulative changes in fair value (RO'000)	Retained earnings (RO'000)	Total (RO'000)				
<b>At 1 January 2016 (restated)</b>	55,286	69,329	26,682	13,543	39,044	(8,002)	24,055	219,937	-	219,937	111,706	331,643
Profit for the year	-	-	-	-	-	-	23,875	23,875	-	23,875	13,700	37,575
Other comprehensive income (expense)	-	-	-	-	(104)	2,972	-	2,868	-	2,868	(36)	2,832
Total comprehensive income / (expense) for the year	-	-	-	-	(104)	2,972	23,875	26,743	-	26,743	13,664	40,407
Transfer from/ (to) retained earnings	-	-	841	(510)	9,479	-	(9,810)	-	-	-	-	-
Other movements	-	-	-	-	-	(3)	(14)	(17)	-	(17)	(17)	(34)
Bonus shares issued (note 13(a))	8,293	(8,293)	-	-	-	-	-	-	-	-	-	-
Contribution by non-controlling interests	-	-	-	-	-	-	-	-	-	-	5,722	5,722
Issue of Perpetual Tier 1 capital bonds	-	-	-	-	-	-	-	-	30,000	30,000	-	30,000
Dividend paid (note 16)	-	-	-	-	-	-	(5,528)	(5,528)	-	(5,528)	(5,739)	(11,267)
<b>At 31 December 2016</b>	<b>63,579</b>	<b>61,036</b>	<b>27,523</b>	<b>13,033</b>	<b>48,419</b>	<b>(5,033)</b>	<b>32,578</b>	<b>241,135</b>	<b>30,000</b>	<b>271,135</b>	<b>125,336</b>	<b>396,471</b>

The attached notes 1 to 46 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

PARENT COMPANY	Share capital (RO'000)	Share premium (RO'000)	Legal reserve (RO'000)	General reserve (RO'000)	Other non-distributable reserves (RO'000)	Cumulative changes in fair value (RO'000)	Retained earnings (RO'000)	Total (RO'000)
At 1 January 2015 (as previously stated)	33,674	-	9,072	-	-	6,970	10,191	59,907
Impact of change in accounting policy (note 4.3.1)	-	-	15,730	12,064	16,974	(677)	28,676	72,767
At 1 January 2015 (restated)	33,674	-	24,802	12,064	16,974	6,293	38,867	132,674
Profit for the year	-	-	-	-	-	-	13,608	13,608
Other comprehensive expense	-	-	-	-	(1,168)	(10,469)	-	(11,637)
Total comprehensive income for the year	-	-	-	-	(1,168)	(10,469)	13,608	1,971
Transfers from / (to) retained earnings	-	-	1,880	1,479	5,392	-	(8,751)	-
Bonus shares issued (note 13(a))	3,367	-	-	-	-	-	(3,367)	-
Dividend paid (note 16)	-	-	-	-	-	-	(6,735)	(6,735)
Issue of new shares pursuant to merger (note 5)	18,245	69,329	-	-	-	-	-	87,574
<b>At 1 January 2016</b>	<b>55,286</b>	<b>69,329</b>	<b>26,682</b>	<b>13,543</b>	<b>21,198</b>	<b>(4,176)</b>	<b>33,622</b>	<b>215,484</b>
Transition adjustment on adoption of IFRS 9 (note 4.3.2)	-	-	-	-	-	1,058	(1,058)	-
	<b>55,286</b>	<b>69,329</b>	<b>26,682</b>	<b>13,543</b>	<b>21,198</b>	<b>(3,118)</b>	<b>32,564</b>	<b>215,484</b>
Profit for the year	-	-	-	-	-	-	24,796	24,796
Other comprehensive income / (expense)	-	-	-	-	(104)	2,972	-	2,868
Total comprehensive income / (expense) for the year	-	-	-	-	(104)	2,972	24,796	27,664
Transfer from / (to) retained earnings	-	-	841	(510)	9,479	-	(9,810)	-
Other movements	-	-	-	-	-	(3)	(14)	(17)
Bonus shares issued (note 13(a))	8,293	(8,293)	-	-	-	-	-	-
Dividend paid (note 16)	-	-	-	-	-	-	(5,528)	(5,528)
<b>At 31 December 2016</b>	<b>63,579</b>	<b>61,036</b>	<b>27,523</b>	<b>13,033</b>	<b>30,573</b>	<b>(149)</b>	<b>42,008</b>	<b>237,603</b>

The attached notes 1 to 46 form part of these financial statements.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Group		Parent Company	
		2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000) (Restated)
<b>Operating activities</b>					
Profit before tax from continuing operations		31,162	40,831	24,796	13,627
Profit before tax from discontinued operations	32	123	488	-	-
		<u>31,285</u>	<u>41,319</u>	<u>24,796</u>	<u>13,627</u>
Adjustments for:					
Depreciation on property and equipment and investment property		4,618	3,763	328	215
Amortisation of intangible assets	12	944	347	-	-
Share of results from associates		(7,985)	(3,774)	(7,985)	(3,774)
Share of results from subsidiaries		-	-	(21,604)	(13,921)
Gain on business combination	5	-	(4,823)	-	-
Allowance for loan impairment net of recoveries	9	7,679	5,350	-	-
Provision for impairment of project work in progress	11(b)	2,411	2,200	-	-
Provision for impairment on investments		-	715	-	309
Provision for impairment of due from subsidiaries		-	-	1,709	17
Gain on sale of property and equipment		(33)	(2,440)	-	-
Gain on sale of an investment property		-	(652)	-	(652)
Change in the fair value of financial assets at fair value through profit or loss		(955)	354	(1,340)	(109)
(Profit) / loss on sale of investments		(3,407)	(2,055)	(81)	4,632
Income from amortised cost / held-to-maturity investments		(1,406)	(1,198)	-	-
<b>Operating profit/ (loss) before working capital changes</b>		<u>33,151</u>	<u>39,106</u>	<u>(4,177)</u>	<u>344</u>
<b>Changes in operating assets and liabilities</b>					
Investment securities		1,196	(83,642)	1,831	16,339
Loans and advances to customers		(93,907)	(269,585)	-	-
Due from subsidiaries		-	-	(11,962)	(36,820)
Other assets		(6,444)	2,634	(2,044)	559
Deposits from customers		32,156	128,019	-	-
Premiums and insurance balances receivables		(6,221)	5,641	-	-
Re-insurance share in insurance funds		(3,997)	4,199	-	-
Insurance funds		8,219	(9,349)	-	-
Other liabilities		(11,620)	1,224	117	(899)
<b>Cash used in operations</b>		<u>(47,467)</u>	<u>(181,753)</u>	<u>(16,235)</u>	<u>(20,477)</u>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

	Notes	Group		Parent Company	
		2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000) (Restated)
Tax paid		(4,669)	(3,760)	-	(19)
<b>Net cash flow used in operating activities</b>		<b>(52,136)</b>	<b>(185,513)</b>	<b>(16,235)</b>	<b>(20,496)</b>
<b>Investing activities</b>					
Investments in / rights issue by subsidiaries		-	-	(21,278)	(19,600)
Acquisition of investment in associates		(4,588)	-	(4,320)	-
Sale of investment in associates		268	-	-	-
Dividend received from associates		3,221	872	3,221	872
Dividend received from subsidiaries		-	-	8,477	7,098
Proceeds from disposal of an investment property		-	1,100	-	1,100
Net cash transfer on business combination		-	8,946	-	(23,022)
Proceeds from disposal of investment division by banking subsidiary		12,000	-	-	-
Capital expenditure on investment property		(409)	(70)	(283)	(70)
Projects work in progress		8	(145)	-	-
Additions to property and equipment		(5,226)	(2,910)	(7)	(84)
Proceeds from sale of property and equipment		138	2,455	5	-
<b>Net cash flow generated from / (used in) investing activities</b>		<b>5,412</b>	<b>10,248</b>	<b>(14,185)</b>	<b>(33,706)</b>
<b>Financing activities</b>					
Bank borrowings		50,800	63,500	36,400	58,500
Subsidiary rights issue (non-controlling interests)		5,722	-	-	-
Proceeds from issue of subordinated bonds		30,000	20,000	-	-
Other movements		(36)	-	-	-
Dividends paid		(11,267)	(13,557)	(5,528)	(6,735)
<b>Net cash generated from financing activities</b>		<b>75,219</b>	<b>69,943</b>	<b>30,872</b>	<b>51,765</b>
<b>Net change in cash and cash equivalents</b>		<b>28,495</b>	<b>(105,322)</b>	<b>452</b>	<b>(2,437)</b>
Cash and cash equivalents at the beginning of the year		299,847	405,169	1,112	3,549
<b>Cash and cash equivalents at the end of the year</b>	30	<b>328,342</b>	<b>299,847</b>	<b>1,564</b>	<b>1,112</b>

The attached notes 1 to 46 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

## 1. GENERAL INFORMATION

Oman International Development and Investment Company SAOG ('the Company' or 'the Parent Company' or "OMINVEST") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in investment related activities. The Parent Company is listed on the Muscat Securities Market.

The Parent company's principal place of business and registered address is Al Shatti Al Qurum, Way No. 3036, Building No. 2832, Fourth Floor, P O Box 3886, Ruwi, Postal Code 112, Sultanate of Oman.

These consolidated financial statements for the year ended 31 December 2016 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The separate financial statements represent the financial statements of the Parent Company on a stand-alone basis. The consolidated and separate financial statements are collectively referred to as "the financial statements".

As further explained in note 5, on 19 August 2015, the operations of Oman National Investment Corporation Holding Company SAOG (ONICH) were merged with Ominvest against an issue of 33% shares of the combined entity to the shareholders of ONICH.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. The financial statements comply with the relevant requirements of the Commercial Companies Law of 1974, as amended and the Capital Market Authority.

### 2.2 Basis of preparation

The Group early adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2016. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The related accounting policies are set out in note 2.5A and 2.5B for IFRS 9 and IAS 39 respectively.

The financial statements are prepared under the historical cost convention except for Financial assets at fair value through other comprehensive income (applicable from 1 January 2016), available-for-sale investments (applicable before 1 January 2016) and financial investments at fair value through profit or loss that have been measured at fair value.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 3.

The financial statements are presented in Omani Rials ("RO"), which is the Group's functional and presentation currency.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Changes in accounting policies and disclosures

The accounting policies are consistent with those used in the previous financial year except for where the Parent Company and Group has adopted certain new standards, amendments and interpretations to IFRS. Details are set out in note 4.3.

### 2.4 Basis of consolidation

The financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2016. Control is achieved, when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect the investee's returns

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

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

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

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

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

- derecognises the assets (including goodwill) and liabilities of the subsidiaries
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Basis of consolidation (continued)

- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

In the Parent Company's separate financial statements, the investment in the subsidiaries are accounted for using equity method. Details are set out in note 4.3.

#### Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

#### Investment in associates

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

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Basis of consolidation (continued)

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

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

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

In the Parent Company's separate financial statements, the investment in the associates are accounted for using equity method. Details are set out in note 4.3.

### 2.5 Financial instruments

#### 2.5A Accounting policies applied from 1 January 2016

##### 2.5A.1 Financial assets and liabilities

###### a) Recognition and measurement

The Group recognises financial assets and liabilities in the statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument.

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

All regular way purchases and sales of financial assets and liabilities classified as FVTPL are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the financial asset or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the trade date, which is the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the timeframe generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

#### i) Financial assets at amortised cost

Financial assets are measured at amortised cost using the effective interest rate method if:-

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of these two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

Additionally, even if a financial asset meets the amortised cost criteria, the Group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

#### ii) Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election to classify an equity investment that is not held for trading as FVTOCI.

For this purpose, a financial asset is deemed to be held for trading if the equity investment meets any of the following conditions:-

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

The irrevocable election is on an instrument-by-instrument basis. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the profit and loss.

#### iii) Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

#### Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method.

#### b) Modification of assets and liabilities

##### Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of comprehensive income.

##### Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of comprehensive income.

#### c) Impairment of financial assets

Impairment allowances for expected credit losses (ECL) are recognised for financial instruments that are not measured at FVTPL. No impairment loss is recognised on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:-

- debt investment securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments for which the credit risk has not increased significantly since their initial recognition.

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL.
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

12-month ECL (stage 1) is the portion of ECL that results from probable default events on a financial instrument within 12 months after the reporting date.

Lifetime ECL (stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

For stage 3 financial instruments, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

Provisions for credit-impairment are recognised in the consolidated statement of comprehensive income and are reflected in an allowance account against loans and advances, investment securities, and placements.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in allowance for loan impairment net of recoveries.

Financial assets that are measured at amortised cost are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Financial assets which have been renegotiated or modified are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to on-going review to determine whether they remain impaired or should be considered past due. All renegotiated or modified facilities are classified as stage 2 or stage 3 for a minimum period of 12 months from the date of renegotiation. The ECL on renegotiated financial instruments is measured based on whether the terms of renegotiation resulted in the derecognition of an existing asset.

### 2.5B Accounting policies applied prior to 1 January 2016

#### 2.5B.1 Financial assets – Initial recognition and subsequent measurement

The Group classifies its financial assets in the following categories: at fair value through profit or loss, available for sale, loans and advances and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The related notes for cash and cash equivalents, borrowings and other liabilities are set out in notes 2.12, 2.13 and 2.14 respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

#### 2.5B.2 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

#### 2.5B.3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial securities held-for-trading which are acquired principally for the purpose of selling in the short-term and instruments so designated by management upon inception. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Unrealised gains or losses arising from changes in fair value are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

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

#### 2.5B.4 Available-for-sale investments

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

The Group has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

Unrealised gains and losses are recognised directly in other comprehensive income in the cumulative changes in fair value. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the Effective Interest Rate (EIR). Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of profit or loss and other comprehensive income as investment income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of profit or loss and removed from the cumulative changes in fair value.

#### 2.5B.5 Financial investments held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. In the case where the Group sells more than an insignificant amount of held to maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity investments are initially recognised at fair value plus transaction costs. These are subsequently carried at amortised cost using the effective interest method.

#### 2.5B.6 Loans and advances to customers and due from banks

Loans and receivables to customers and due from banks are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised when cash is advanced to customers and are carried at amortised cost using the effective interest method.

#### 2.5B.7 Derecognition of financial assets and liabilities

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

#### 2.5B.8 Impairment of financial assets

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

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

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

#### a) Assets carried at amortised cost

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

#### a) Assets carried at amortised cost (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss.

#### b) Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from equity and recognised in the statement of profit or loss.

Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

#### (c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

#### 2.5.8 Fair value measurement principles

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

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

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

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

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

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

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Financial instruments (continued)

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

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

### 2.6 Segment reporting

The Group's segmental reporting is based on the following operating segment:

- Investments
- Banking activities
- Insurance activities
- Real Estate.

The segment information is set out in note 33.

### 2.7 Foreign currencies

#### 2.7.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using Rial Omani which is the currency of the primary economic environment in which the entity operates (the functional currency). These financial statements are presented in Rial Omani, which is the Group's functional and presentation currency.

#### 2.7.2 Transactions and balances

- Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.
- Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.
- Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Foreign currencies (continued)

- iv) On consolidation, the assets and liabilities of foreign operations are translated into Rial Omani at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

### 2.8 Investment properties

Investment properties comprise land and buildings that is held for long-term rental yields and not occupied by the Group. Investment properties are carried at cost less accumulated depreciation, less impairment, if any. Any required impairment charge is recorded in the statement of comprehensive income. Depreciation on the assets except land is calculated using the straight-line basis to allocate their cost over the estimated useful lives, as follows:

Freehold property - 25 years

### 2.9 Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Freehold building	- 25 years
Leasehold buildings	- lower of 25 years and un expired lease period
Furniture, fixtures and equipment	- up to 5 years
Motor vehicles	- up to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Freehold land and land with factory buildings are considered as a separate class of assets by the Group's associate companies. These are revalued on a regular basis.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statements of profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Projects work-in-progress

Projects work-in-progress is recognised at cost and not depreciated. The carrying values of projects work-in-progress are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

### 2.10 Intangible assets

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Amortisation is recognised on a straight-line basis over their estimated useful lives as follows:

Hospital network	15 years
License	6 years

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

#### Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

#### Impairment of intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

### 2.11 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **2.12 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities up to three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in the statement of financial position.

### **2.13 Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the statements of profit or loss over the period of the borrowings using the effective interest method.

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

### **2.14 Other liabilities**

Other liabilities are stated at amortised cost using the effective interest method.

### **2.15 Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in other comprehensive income.

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

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

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

### **2.16 Employees' end of service benefits**

End of service benefits are accrued in accordance with the terms of employment of the Group's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to the Omani Government Social Security Scheme under Royal Decree No. 72/91 for Omani employees in accordance with the Omani Social Insurance Law 1991 are recognised as an expense in the statements of profit or loss as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### 2.18 Revenue recognition

#### • Interest income and expense

Interest income and expense are recognised in the profit or loss for all instruments measured at amortised cost using the effective interest method, unless collectability is in doubt. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

#### • Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised pro-rata over the period the service is provided. The same revenue recognition criteria are applied for custody services that are continuously provided over an extended period of time.

#### • Dividend income

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

#### • Life business

Premiums are taken into income over the term of the policies to which they relate. Unearned premiums represent the proportion of premiums written relating to periods of insurance subsequent to the reporting date. For short term policies, premiums are pro-rated by reference to the unexpired term of cover. An appropriate actuarial reserve is determined by the appointed independent actuary following their annual investigation of the life fund and is calculated initially on a statutory basis to comply with the reporting requirements under the Insurance Companies Law of 1979.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Revenue recognition (continued)

In addition, provision is made where necessary for any further loss expected to arise on unexpired risks after taking into account future investment income on related insurance funds, to cover anticipated liabilities arising from existing contracts.

- **General business**

Premiums are taken into income over the terms of the policies. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

- **Insurance policy fees**

Insurance and investment contract policyholders are charged for policy administration services, surrenders and other contract fees. These fees are recognised as revenue at the time policies are written or at the time the fees are charged, which is generally at the time when the policies are written.

### 2.19 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are shown as off-balance sheet items in these financial statements.

### 2.20 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair value adjustments are recorded in the profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### 2.21 Trade and settlement date accounting

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

### 2.22 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.23 Dividends

Dividend distribution to the Parent company's shareholders is recognised as a liability in these financial statements in the period in which the dividends are approved by the Parent company's shareholders.

### 2.24 Directors' remuneration

Directors' remuneration is calculated based on the Group profit for the year (before Directors' remuneration), applying the overall limits set out by the current regulations governing the determination of Directors' remuneration including sitting fees.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.25 Earnings per share

The Group and the Parent Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group and the Parent Company by the weighted average number of ordinary shares outstanding during the period.

### 2.26 Insurance contracts

#### a) Classification

The Group issues contracts that transfer insurance risk and classifies contracts as insurance contracts when these transfer significant insurance risk. Such contracts may also transfer financial risk.

The Group classifies investment contracts as those contracts that transfer financial risk with no significant insurance risk.

The Group issues certain insurance contracts which contain a Discretionary Participation Feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the company; and
- that are contractually based on the surplus generated on a specified pool of contracts.

There are no local statutory regulations which set out the bases for the determination of the amounts on which the additional discretionary benefits are based, the amounts payable being determined by the subsidiary company's board of directors on an annual basis.

#### b) Recognition and measurement

Life and medical insurance contracts are classified into five main categories which are described below. In addition, the company writes short term individual medical and personal accident policies.

##### (i) Individual life policies

These consist of the following types of policies:

- With profits conventional policies (i.e., policies with a discretionary participation feature) which insure events associated with human life (for example, death or survival) over a long duration. Premiums are recognised as revenue when they are received. Provisional premiums are recognised at year end for premium receivables of policies which have not lapsed. Benefits are recorded as an expense when they are incurred. Each policy has a defined benefit amount payable which is guaranteed.

Apart from this reversionary and terminal bonuses are declared by the subsidiary from time to time based on the profitability of the individual life portfolio. Reversionary bonuses convert into guaranteed benefits once declared and a certain minimum level of bonus is guaranteed for certain policies

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.26 Insurance contracts (continued)

#### b) Recognition and measurement (continued)

##### (i) Individual life policies (continued)

The liability for such policies is determined on a net premium basis by determining the present value of benefits less the present value of future net premiums, a theoretical net premium being calculated using conservative assumptions for mortality and discounting and an adjustment to recognise acquisition costs. For paid up policies, a provision for expenses required to maintain policies is also made. The subsidiary also performs a liability adequacy test to ensure that the reserve set aside is not less than the liability determined as the sum of the expected discounted value of the benefit payments, commissions payable and the future administration expenses that are directly related to the contract, less the expected discounted value of premiums that are receivable (making realistic assumptions as to mortality, persistency and maintenance expenses and using a discount rate inherent in the pricing of fixed income securities held by the subsidiary).

- Term assurance where the benefits are payable only in the event of death of the insured. These include policies where the insured amount is constant throughout the term of the policy and decreasing term assurance policies where the sum assured reduces at a pre-decided rate every year. The premium is paid either over the term of the policy or as a single premium. Premiums are recognised as revenue when they are received. Provisional premiums are recognised at year end for premiums receivables of policies which have not lapsed. These are without profit policies.

For single premium policies the liability is determined as the discounted value of expected future claims as well as expenses which are expected to be incurred in administering the policies. For regular premium policies the liability is determined on a net premium basis along the same lines as conventional with profits policies.

##### (ii) Individual credit life policies

These are life insurance contracts underwritten on single premium and on an individual basis and issued to protect financial institution for their outstanding loan from the customer. These contracts protect the financial institutions from the consequences of events (such as death or disability) that would effect on the ability of the customer to repay his outstanding loan. These are without profit policies. These contracts are issued for the duration of loans with the insurance premium being received as a single premium. Further amounts are received if and when loans are topped up. Similarly refunds are allowed in case of pre-closure or change in terms of the loan.

Single premiums are recognised as revenue when due. An unearned risk premium reserve net of reinsurance has been kept for each contract. The risk premium has been worked out based on gross premium less acquisition costs. Claims are charged to statement of comprehensive income as incurred, based on the estimated liability for compensation owed to policy holders. Claims reported are recognised at the time of being reported.

##### (iii) Group life policies

These are short term life insurance contracts underwritten on a group basis, the lives covered usually being employees of a common employer. These contracts protect the subsidiary's customers (the employer) from the consequences of events (such as death or disability) that would effect on the ability of the employee or his/her dependants to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the customer. There are no maturity or surrender benefits.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.26 Insurance contracts (continued)

#### b) Recognition and measurement (continued)

##### (iii) Group life policies (continued)

For all these contracts, premiums are recognised as revenue when the policy or endorsement is issued, but are deemed to be earned proportionally over the period of coverage. The portion of premium written on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned premium liability. Premiums are disclosed before deduction of commission and excluding taxes levied on premiums.

Claims are charged to statement of comprehensive income as incurred based on the estimated liability for compensation owed to policyholders. Claims reported are recognised at the time of being reported. A separate provision for incurred but not reported claims is made based on the company's experience relating to claims reporting patterns in the past.

As indicated above an unearned premiums reserve is set up at the valuation date for premiums which are deemed to be earned in future periods. The subsidiary also tests whether the liability so set up is adequate to meet expected future claims.

##### (iv) Group medical policies

These are short term medical insurance contracts underwritten on a group basis, the lives covered usually being employees of a common employer. These contracts protect the company's customers (the employer) from losses resulting from medical treatment of employees as a result of ill-health or accident, covering both hospitalisation and out-patient expenses. The bulk of hospital claims are disbursed directly by the subsidiary to healthcare providers. There are no maturity or surrender benefits for these policies.

For all these contracts, premiums are recognised as revenue when the policy or endorsement is issued, but are deemed to be earned proportionally over the period of coverage. The portion of premium written on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned premium liability. Premiums are shown before deduction of commission and excluding taxes levied on premiums.

Claims are charged to statement of comprehensive income as incurred, based on the estimated liability for compensation owed to policy holders. Claims reported are recognised at the time of being reported. A separate provision for incurred but not reported claims is made based on the subsidiary's experience relating to claims reporting patterns in the past.

As indicated above an unearned premiums reserve is set up at the valuation date for premiums which will deem to be earned in future periods. The subsidiary also tests whether the liability so set up is adequate to meet expected future claims.

##### (v) Group credit life policies

These are life insurance contracts underwritten on a group basis and issued to financial institutions to protect their outstanding loan portfolios. These contracts protect the company's customers (financial institutions) from the consequences of events (such as death or disability) that would effect on the ability of the customer's borrowers to repay outstanding loans. These are without profit policies.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.26 Insurance contracts (continued)

#### b) Recognition and measurement (continued)

#### (v) Group credit life policies (continued)

These contracts are issued on two basis:

- For the duration of loans with the insurance premium being received as a single premium. Further premiums are received if and when loans are topped up.
- Short term contracts covering the risk for a year at a time, with premiums being determined and paid monthly on outstanding balances.

Single premiums are recognised as revenue when due. A liability for unexpired risk is determined as the discounted value of expected future claims as well as expenses which are expected to be incurred in administering the policies.

Monthly premiums are recognised upon declaration by financial institutions of the amount payable. As such, premiums are usually recognised once they have been fully earned and no unearned premium reserve is determined to be necessary. The company does, however, at the end of the year, evaluate the profitability of the portfolio to determine if any premium deficiency reserve is required.

Claims are charged to statement of comprehensive income as incurred based on the estimated liability for compensation owed to policy holders. Claims reported are recognised at the time of being reported. A separate provision for incurred but not reported claims is made based on the subsidiary's experience relating to claims reporting patterns in the past.

#### (vi) Liability adequacy test

The subsidiary carries out a liability adequacy test to ensure the adequacy of contract liabilities as set out in the financial statements. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. The results of the tests indicate that the liability recognised is adequate.

#### (vii) General insurance contracts

For general insurance contracts, premiums are taken into income over the terms of the policies. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is recognised in the statement of comprehensive income in order that revenue is recognised over the period of risk.

Unearned premium is calculated based on higher of 1/24 method or the amount calculated at 45% of the net retained premiums for the year for all classes of business as required by the Insurance Companies Law of Oman. Acquisition costs and reinsurance commissions are recognised as expenses or income over the period of the policy by deferring it using 1/24 method.

Estimates have to be made for both the expected ultimate costs of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of comprehensive income as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.26 Insurance contracts (continued)

#### b) Recognition and measurement (continued)

##### (vii) General insurance contracts (continued)

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at the reporting date are made on the basis of individual case estimates. In addition, a provision based on the company's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the accounting year in which the change in provision or settlement is made.

##### Allowances in claims liability

Some insurance contracts permit the company to collect excess, depreciation, or sell a (usually damaged) vehicle or a property required in settling a claim (i.e. salvage). The company may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

Estimates of excess, depreciation, salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvaged vehicles or property acquired are recognised in outstanding claims when the liability is accrued. The allowance for salvage is the amount that can reasonably be recovered from the disposal of the vehicle or property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

##### (viii) Reinsurance contracts held

In order to protect itself against adverse experience, the subsidiary has entered into contracts with reinsurers under which it is compensated for losses on one or more contracts issued by the subsidiary. Insurance contracts entered into by the subsidiary under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the subsidiary is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily reinsurance premiums payable for reinsurance contracts and are recognised as an expense when due.

The subsidiary assesses its reinsurance assets for impairment on an annual basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.27 Premiums and insurance balances receivable

Premiums and insurance balances receivable are initially recognised at fair value and subsequently are stated at amortised cost using the effective interest method less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the subsidiary will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

### 2.28 Deferred acquisition costs and commission income

#### Deferred acquisition costs (DAC)

Direct and indirect costs incurred during the financial period arising from the writing of long term life insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums.

Subsequent to initial recognition, these costs are amortised on a straight line basis based on the term of expected future premiums, currently estimated as four years.

Direct and indirect costs incurred for writing short term life and medical insurance contracts are deferred and this is built into the 'unexpired risk reserve' shown in the statement of financial position.

Acquisition costs for writing of general insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. Subsequent to initial recognition, these costs are amortised over the period of the policy (generally one year) using 1/24 method.

Amortisation is recorded in the statement of comprehensive income. Changes in the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period and is treated as a change in an accounting estimate.

#### Deferred reinsurance commission incomes (DCI)

Commission incomes attributable to the unexpired reinsurance ceded premiums for short time life and medical are deferred and it is built into "reinsurers' share of unexpired risk reserve" in the statement of financial position.

Commission incomes attributable to the unexpired reinsurance ceded premiums for general insurance are deferred to the extent that these are recoverable out of future ceded premiums.

Subsequent to initial recognition, these incomes are amortised over the period of the policy (generally one year) using 1/24 method.

### 2.29 Business combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.29 Business combination (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### 2.30 Discontinued operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or,
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in note 32. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the consolidated financial statements, as per IFRS, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the reporting date and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities.

#### 3.1 Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### 3.2 Impairment losses on loans and advances- Prior to 1 January 2016

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows and in line with the Central Bank of Oman guidelines in this respect. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### 3.3 Measurement of the expected credit loss allowance - From 1 January 2016

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 2.5.A, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

#### 3.4 Business models and SPPI as significant judgments

As well as ECL, determining the appropriate business models and assessing the SPPI requirements for financial assets may require significant accounting judgement and have a significant impact on the financial statements. When this is the case, these judgements should also be disclosed or cross-referenced in this section.

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)**

#### **3.5 Held-to-maturity investments- Prior to 1 January 2016**

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. In such situations, the investments would therefore be measured at fair value and not at amortised cost.

#### **3.6 Useful lives of property and equipment and investment properties**

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

#### **3.7 Useful lives of intangible assets**

Amortisation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles using its best estimates.

#### **3.8 Taxes**

The Group and the Parent Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments. The amount of such provisions is based on factors such as experience of previous tax assessments and interpretations of tax regulations by the Group and the responsible tax authority.

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

#### **3.9 Impairment of available-for-sale equity investments - Prior to 1 January 2016**

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Group evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

#### **3.10 Impairment loss on investments in subsidiaries and associates**

The Group reviews its investments in subsidiaries and associates periodically and evaluates the objective evidence of impairment. Objective evidence includes the performance of the subsidiaries, associate, the future business model, local economic conditions and other relevant factors. Based on the objective evidences, the Group determines the need for impairment loss on investments in subsidiaries and associates.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

#### 3.11 Insurance contracts - key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

The subsidiary makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimation of the ultimate liability arising from claims made under insurance contracts is a key estimate made in measuring liabilities under insurance contracts and especially under group medical, group life and group credit life contracts. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims.

For incurred but not reported claims two separate methods are used. For group life and group credit life claims, the chain-ladder method has been used to determine the pattern of reporting claims which has then been slightly modified to determine Incurred But Not Reported (IBNR) reserves and the loss ratio estimates are used for the latest accident year.

For group medical claims, an estimate of the IBNR is made on the basis of accounting periods for which claims from providers have not been received. A chain ladder method (CLM) has been adopted blended with the projection of ultimate incurred claims in the last three months. The CLM technique involves analysis of historic losses to obtain development factors. Average development factors are arrived at and applied to the paid losses to date for each incurred month to calculate a final estimate of incurred claims. The projection of ultimate incurred claims is used for the most recent months. Trends in per member claim costs by month are analysed from historical data to derive a per member per month (PMPM) claim cost projection for the most recent months. These PMPM claim projections are applied to the number of members to get ultimate claim estimate. The blending of the two methods described above using the credibility factors developed based on the inherent volatility in the data. The methodology implicitly assumes that there have been no material changes to the underlying products and no changes in internal administration processes which would cause delays in payment lags or significant changes in the external environment. The impact that any of the above changes may have on the trends in the emerging claims experience is only allowed for to the extent that the impact has already been observed within the data provided.

For general insurance claims, the chain-ladder method has been used to determine the pattern of reporting claims which has then been modified to determine IBNR reserves.

Estimate of future benefit payments and premiums arising from long-term insurance contracts, and related deferred acquisition costs and other intangible assets

The determination of the liabilities under long-term insurance contracts (which basically consist of individual life policies and group credit life policies issued for the whole loan period on a single premium basis) is dependent on a number of estimates made by the company with respect to:

- Mortality and disability
- Investment returns (discount rate applied)
- Expenses

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

#### 3.11 Insurance contracts - key sources of estimation uncertainty (continued)

##### Mortality and disability

The mortality rates are derived from mortality table Permanent Assurances, combined – AMC00 and AFC00 for males and females respectively. 146% of the AMC00 table has been used as best estimate mortality for the insured population in Oman. This table has two years of selection mortality. The so called Carenz period has been applied in the calculations. All children are assumed to be boys. A margin of prudence of 25% over the best estimate derived has been applied based on a mortality experience study of the portfolio on an amount and life basis.

For long term group and individual credit life contracts reinsurance risk premium rates are used for both mortality and disability.

Were the numbers of deaths in future years to differ by 10% from management's estimate, the liability would increase by RO 74,892 (0.92%) or decrease by RO 74,779 (0.92%) [2015 – increase by RO 88,747 (0.99%) or decrease by RO 80,058 (0.89%)].

##### Investment income / discount rate

Under the net premium valuation method used by the company for valuing most policies in the individual life portfolio, the valuation rate of interest serves as both the estimate of investment income and the discount rate. The valuation interest rate used for conventional guaranteed business should reflect a conservative long-term interest rate. This rate is used to discount the future benefits and future premiums to arrive at the liability figure. A valuation interest rate of 3% per annum was used for the purpose of the valuation of the basic reserves for individual life portfolio. The same valuation discount rate has been used for valuing bonuses as well.

The subsidiary's estimate of return on fixed income securities matching the duration of the company's liability under such policies is around 4.2% p.a. However, rate of 3% p.a. has been considered suitable allowing for both the credit spread as well as prudence in the valuation basis. An earning in excess of the interest rate are usually a source of surplus for with profits policyholders.

Uncertainty relating to interest rate assumptions lies in the investment of net future cash flows; reinvestment risk of coupon payments received on fixed income contracts; and the uncertainty surrounding both returns from and the value of equity investments. Were the interest rate assumptions to vary by 50 basis point from management's estimate for 2016, the gross liability would increase by RO 119,968 (1.9%) or decrease by RO 115,360 (1.8%) [2015 – increase by 180,938 (2.2%) or decrease by RO 146,509 (1.8%)].

##### Impairment of premiums and insurance balances receivable

An estimate of the collectible amount of premiums and insurance balances receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

## 4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### 4.1 New and amended standards and interpretations to IFRS relevant to the Group

For the year ended 31 December 2016, the group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2016.

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements 2012-2014
  - IFRS 5 Non- Current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying consolidation exception

Other than amendments to IAS 27, the adoption of other standards and interpretations has not resulted in changes to the Group's accounting policies and has not affected the amounts reported for the current and prior periods. Impact of adoption of IAS 27 is set out in note 4.3.

### 4.2 Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2016:

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

## 4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

### 4.2 Standards issued but not yet effective (continued)

**IFRS 16 – Leases:** the IASB issued IFRS 16 Leases which requires lessees to recognise assets and liabilities for most leases. For lessors there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for the annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with customers, has been applied, or is applied at the same date as IFRS 16. The Group plans to adopt the new standard on the required effective date.

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

### 4.3 CHANGES IN ACCOUNTING POLICY FROM 1 JANUARY 2016

#### 4.3.1 IAS 27 Separate Financial Statements

Consequent to the amendments in IAS 27 effective from 1 January 2016, the Parent Company has adopted equity method to account for its investments in associates and subsidiaries in the separate financial statements. These investments were earlier recorded at cost less impairment. These amendments have been applied retrospectively. The following is the summary of changes in the Parent Company's financial statements due to change in its accounting policy:

Effect on the Parent Company's statement of financial position as at 31 December 2014

	Previously reported as on 31 December 2014 (RO '000)	Adjustment (RO '000)	Restated as on 31 December 2014 (RO '000)
Investment in associates	6,249	7,583	13,832
Investment in subsidiaries	50,536	65,183	115,719
Retained earnings	10,191	28,676	38,867
Legal reserve	9,072	15,730	24,802
General reserve	-	12,064	12,064
Subordinate debt reserve	-	15,297	15,297
Cumulative changes in fair value reserve	6,970	(677)	6,293
Revaluation reserve	-	1,677	1,677

#### 4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

##### 4.3 CHANGES IN ACCOUNTING POLICY FROM 1 JANUARY 2016 (continued)

Effect on the Parent Company's statement of financial position as at 31 December 2015

	Previously reported as on 31 December 2015 (RO '000)	Adjustment (RO '000)	Restated as on 31 December 2015 (RO '000)
Investment in associates	71,035	10,164	81,199
Investment in subsidiaries	107,176	70,283	177,459
Due from subsidiaries	39,596	(18)	39,578
Retained earnings	2,696	30,926	33,622
Legal reserve	9,362	17,320	26,682
General reserve	-	13,543	13,543
Subordinate debt reserve	-	20,396	20,396
Cumulative changes in fair value reserve	(1,619)	(2,557)	(4,176)
Foreign exchange revaluation reserve	-	(1,239)	(1,239)
Contingency reserve	-	293	293
Revaluation reserve	-	1,748	1,748

Effect on the Parent Company's statement of comprehensive income for the year ended 31 December 2015

	Previously reported for year ended 31 December 2015 (RO '000)	Adjustment (RO '000)	Restated for the year ended 31 December 2015 (RO '000)
Share of results of subsidiaries	-	13,921	13,921
Provision for impairment of due from a subsidiary	-	(17)	(17)
Dividend from subsidiaries	7,099	(7,099)	-
Provision for subsidiary receivable	(1,003)	1,003	-
Other comprehensive income	-	(3,047)	(3,047)
Share of results of associates	-	3,774	3,774
Dividend from associates	872	(872)	-

## 4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

### 4.3 CHANGES IN ACCOUNTING POLICY FROM 1 JANUARY 2016 (continued)

#### 4.3.2. IFRS 9 Financial Instruments

The impact of change relating to classification and measurement as at 1 January 2016 has been to decrease retained earnings by RO 1.06 million.

Expected loss model of IFRS 9 resulted in a lower provision requirement of RO 5 million as of 1 January 2016 as compared to loan loss provision maintained by the Group. The Group has not incorporated this adjustment in the financial statements on materiality basis as well as considering the fact that the related regulatory requirements addressing the implementation of IFRS 9 are yet to be issued in Oman. The impact on the current year provision amounted to RO 2 million. Further details are set out in note 42.2.2.

## 5. BUSINESS COMBINATION

On 19 August 2015, the operations of Oman National Investment Corporation Holding Company SAOG (ONICH) were merged with Ominvest SAOG against an issue of 33% shares of the combined entity to the shareholders of ONICH. As a result of the merger, OMINVEST acquired 100% of the ONICH for a total consideration of RO 87,573,284 in the form of issue of new shares. The merger is accounted under IFRS 3 due to OMINVEST acquiring a controlling stake in ONICH through the issue of new shares of OMINVEST. Accordingly, Ominvest is treated as the "accounting acquirer" and ONICH is treated as the "accounting acquiree" for an accounting purposes. The fair value of the shares issued as part of the consideration paid for ONICH was based on the published share price of OMINVEST on 19 August 2015 of RO 0.480 per share.

The fair values of identifiable assets acquired and the liabilities assumed at 19 August 2015 were as follows:

Particulars	Fair value recognized on acquisition RO '000	Carrying value immediately prior to acquisition RO '000
<b>Assets</b>		
Cash and bank balances	1,789	1,789
Bank and other deposits	30,795	30,795
Premiums and insurance balances receivables *	34,027	34,027
Reinsurers share of outstanding claims	10,878	10,878
Reinsurers share of actuarial / mathematical and unexpired risk reserves	16,009	16,009
Investments at fair value through profit or loss	12,461	12,461
Investments at amortised cost	648	648
Available for sale investments	1,389	1,389
Other receivables and prepayment	4,138	4,138

## 5. BUSINESS COMBINATION (continued)

Particulars	Fair value recognized on acquisition RO '(000)	Carrying value immediately prior to acquisition RO '(000)
Investment in associates	59,615	49,672
Deferred tax assets	114	114
Investment properties	7,800	7,800
Property and equipment	736	736
Goodwill	-	146
Trade name	9,117	-
Hospital network	7,597	-
License	2,631	-
<b>Total assets</b>	<b>199,744</b>	<b>170,602</b>
Gross outstanding claims	22,714	22,714
Actuarial / mathematical and unexpired risk reserve	46,249	46,249
Due to reinsurers	4,197	4,197
Bank term loans	18,192	18,192
Investment property loan	5,446	5,446
Other liabilities	9,310	9,310
Income tax payable	331	331
<b>Total liabilities</b>	<b>106,439</b>	<b>106,439</b>
<b>Fair value of net assets of the acquiree</b>	<b>93,305</b>	
Non-controlling interests	(909)	
<b>Total identifiable net assets acquired</b>	<b>92,396</b>	
Total consideration transferred in the form of issuance of new shares	(87,573)	
<b>Bargain on business combination</b>	<b>4,823</b>	

\* Premium and insurance balances receivable is after provision of doubtful debts of RO 665,615.

## 5. BUSINESS COMBINATION (continued)

The Group had recognised a gain of RO 4.8 million on acquisition of ONICH Holding SAOG due to the synergies expected from the combined operations such as:

- a) reduction in operating costs;
- b) shared back office solutions;
- c) the banking company financing the Group's new leasing companies; and
- d) bancassurance

In the merger, Ominvest has acquired five separate businesses classified as investments in associates across different sectors in which their fair market values are significantly higher than their carrying values.

For the non-controlling interests in National Life and General Insurance SAOC, the Group elected to recognise the non-controlling interests in at its proportionate share of the acquired net identifiable assets.

Transaction costs of RO 0.2 million have been expensed and are included in operating expenses (note 29).

The acquired business contributed revenues of RO 31 million and net profit of RO 3.66 million to the Group for the period from 19 August to 31 December 2015. If the acquisition had occurred on 1 January 2015, consolidated pro-forma revenue and profit for the year ended 31 December 2015 would have been RO 197.4 million and RO 37.659 million respectively. These amounts have been calculated using the subsidiary's and associate's results.

Net cash flows on merger	Group (RO'000)	Parent Company (RO'000)
Cash and bank balances	1,789	116
Bank and other deposits	30,795	-
Cash and bank acquired	32,584	116
Bank term loans	(18,192)	(17,692)
Investment property loan	(5,446)	(5,446)
Borrowing assumed	(23,638)	(23,138)
	8,946	(23,022)

There were no acquisitions in the year ended 31 December 2016.

## 6. DEPOSITS WITH BANKS

Group	2016 (RO'000)	2015 (RO'000)
Money market placements	16,659	24,400
Current accounts	13,421	58,826
Capital deposits	500	500
Deposits	27,370	24,216
Subordinated deposits	13,542	8,542
	<b>71,492</b>	<b>116,484</b>

At 31 December 2016, 60% of the Group's Money market placements were with Oman Housing Bank SAOC, which is owned by Government of Oman. (2015– 63% of the Bank's placements were with two banks rated Aa3 to A1).

Capital deposits represents RO 500,000 (2015 - RO 500,000) being a capital deposit with the Central Bank of Oman in terms of regulations applicable to the banking subsidiary which earn interest at 1% (2015–1%) per annum. This deposit cannot be withdrawn without prior approval of the Central Bank of Oman.

Deposits are held with leasing companies and commercial banks in the Sultanate of Oman and United Arab Emirates, denominated in Rial Omani of RO 22,690,854 (2015 – RO 19,817,000) and denominated in UAE Dirhams of RO 4,678,502 (2015 – RO 4,398,928) and carry effective annual interest rates ranging between 1.25% to 5% per annum (2015 - 0.71% to 4.10% per annum).

Subordinated deposits are held with commercial banks in the Sultanate of Oman and Bahrain, denominated in Rial Omani of RO 11,000,000 (2015 –RO 6,000,000) and denominated in US Dollars of RO 2,542,320 (2015 – 2,542,320) and carry annual interest rates ranging between 4.5% to 7.88% per annum (2015 - 4.5% to 7.88% per annum)

## 7. PREMIUM AND INSURANCE BALANCES RECEIVABLE

Group	2016			2015		
	Life RO	General RO	Total RO	Life RO	General RO	Total RO
Premium receivable	27,735	2,123	29,858	23,681	1,045	24,726
Premium receivable from a related party	99	1	100	336	1	337
Reinsurance balances receivable	4,827	508	5,335	3,454	506	3,960
	32,661	2,632	35,293	27,471	1,552	29,023
Allowance for impaired debts	(537)	(149)	(686)	(440)	(197)	(637)
	32,124	2,483	34,607	27,031	1,355	28,386
<b>Movement in allowance for impaired debts</b>						
At 1 January/acquisition date	440	197	637	393	181	574
Provided during the year	97	7	104	119	23	142
Written off during the year	-	(55)	(55)	(72)	(7)	(79)
At 31 December	537	149	686	440	197	637

## 8. INVESTMENT SECURITIES

As at the reporting date, investment securities comprised the following:

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Financial assets at fair value through profit or loss (note a)	19,000	8,936	9,161	1,264
Financial assets at fair value through other comprehensive income (note (b)(i))	84,869	-	1,919	-
Available-for-sale investments (note (b)(ii))	-	86,483	-	9,827
Investments at amortised cost (note (c)(i))	96,424	-	-	-
Held-to-maturity investments (note (c)(ii))	-	97,501	-	-
	200,293	192,920	11,080	11,091

## 8. INVESTMENT SECURITIES (continued)

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

#### (i) Financial assets designated at fair value through profit or loss

As at the reporting date, financial assets designated at fair value through profit or loss comprised the following:

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
<b>Quoted investments</b>				
Local investments by sector				
Financial sector	5,586	3,268	3,516	1,179
Services	2,459	3,145	717	15
Industrial	3,558	1,683	492	65
	<u>11,603</u>	<u>8,096</u>	<u>4,725</u>	<u>1,259</u>
Oman Al Arabi Fund	-	438	-	-
Local quoted investments	<u>11,603</u>	<u>8,534</u>	<u>4,725</u>	<u>1,259</u>
Foreign quoted investments	<u>7,396</u>	<u>5</u>	<u>4,436</u>	<u>5</u>
Quoted investments	<u>18,999</u>	<u>8,539</u>	<u>9,161</u>	<u>1,264</u>
Unquoted local investments	<u>1</u>	<u>323</u>	<u>-</u>	<u>-</u>
Total financial assets designated at fair value through profit or loss	<u>19,000</u>	<u>8,862</u>	<u>9,161</u>	<u>1,264</u>

#### (ii) Financial assets held for trading

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Total financial assets held for trading	-	74	-	-
<b>Total financial assets designated at fair value through profit or loss</b>	<u>19,000</u>	<u>8,936</u>	<u>9,161</u>	<u>1,264</u>

Investment in the Financial Settlement Guarantee Fund (FSGF) has been sold as part of the sale of Investment Banking unit of the banking subsidiary (refer note 32). As at 31 December 2016, the outstanding investment in FSGF is RO Nil (2015 - RO 203,307). Refer note 41 for the maturity profile of the investment securities.

## 8. INVESTMENT SECURITIES (continued)

### (b) (i) Financial assets at fair value through other comprehensive income

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
<b>Local investments</b>				
Quoted investments (cost)	77,196	-	-	-
Fair value reserve	548	-	-	-
Unquoted investments (cost)	1,389	-	861	-
Fair value reserve	213	-	436	-
Total local investments	79,346	-	1,297	-
<b>Foreign investments</b>				
Quoted investments (cost)	4,727	-	-	-
Fair value reserve	(826)	-	-	-
Unquoted investments (cost)	3,373	-	1,578	-
Fair value reserve	(1,751)	-	(956)	-
Total foreign investments	5,523	-	622	-
<b>Total Investments at fair value through other comprehensive income</b>	<b>84,869</b>	<b>-</b>	<b>1,919</b>	<b>-</b>

## 8. INVESTMENT SECURITIES (continued)

### (b) (ii) Available-for-sale investments

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
<b>Local investments</b>				
Quoted investments (cost)	-	77,505	-	2,512
Fair value reserve	-	(6,295)	-	(150)
Unquoted investments (cost)	-	1,050	-	861
Fair value reserve	-	(15)	-	-
Total local investments	-	72,245	-	3,223
<b>Foreign investments</b>				
Quoted investments (cost)	-	15,184	-	7,664
Less: Provision for impairment	-	(715)	-	(309)
Fair value reserve	-	(1,876)	-	(1,410)
Unquoted investments (cost)	-	3,380	-	1,579
Less: Provision for impairment	-	(861)	-	(861)
Fair value reserve	-	(776)	-	(59)
Deferred tax liability on fair value reserve	-	(98)	-	-
Total foreign investments	-	14,238	-	6,604
<b>Total available-for-sale investments</b>	-	86,483	-	9,827

Investments amounting to RO 5.4 million (2015 – RO 4.97 million) are held in the name of associate companies / brokers in trust on behalf of the Group.

## 8. INVESTMENT SECURITIES (continued)

### (c) (i) Investment at amortised cost

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Treasury bills				
- held by the banking subsidiary	40,290	-	-	-
Oman Government Development Bonds and Sukuks				
- held by the banking subsidiary	55,633	-	-	-
Banks and Corporate Bonds				
- held by insurance subsidiary	501	-	-	-
<b>Total Investments at Amortised Cost</b>	<b>96,424</b>	<b>-</b>	<b>-</b>	<b>-</b>

### (c) (ii) Held-to-maturity investments

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Treasury bills				
- held by the banking subsidiary	-	43,000	-	-
Oman Government Development Bonds				
- held by the banking subsidiary	-	53,855	-	-
Banks and Corporate Bonds				
- held by insurance subsidiary	-	646	-	-
<b>Total Held-to-maturity investments</b>	<b>-</b>	<b>97,501</b>	<b>-</b>	<b>-</b>

## 8. INVESTMENT SECURITIES (continued)

The Government Development Bonds are denominated in Rial Omani and carry interest rates varying between 2.75% to 5.5% (2015 – 2.75% to 5.5%) per annum. The treasury bills are denominated in Rial Omani and carry yield rates ranging between 0.46% to 0.86% (2015: 0.64% to 0.72%). The maturity profiles of these investments, based on the remaining maturity from the reporting date, are as follows:

	2016 RO'000 Amortised cost	2015 RO'000 Held to maturity
<b>Treasury bills</b>		
Upto 3 months	40,290	36,000
Between 3 and 9 months	-	7,000
<b>Government bonds</b>		
1 to 5 years	49,684	50,419
Above 5 years	5,313	2,800
<b>Sukuk bonds</b>		
1 to 5 years	636	636
Corporate bond 1 to 5 years	501	646
<b>Total</b>	<u>96,424</u>	<u>97,501</u>

## 8. INVESTMENT SECURITIES (continued)

### (d) Investments in associates

As at the reporting date, investments in associates represented holdings in the following companies:

Parent Company	Holding [%]	2016 Carrying value (RO'000)	Holding [%]	2015 Carrying value (RO'000)
<b>Quoted</b>				
Oman Orix Leasing Company SAOG	35.00%	15,377	35.00%	14,202
National Finance Company SAOG	25.56%	11,748	25.56%	10,932
Oman Chlorine SAOG	15.11%	7,320	15.11%	7,121
National Detergent Company SAOG	20.94%	2,814	20.94%	2,707
National Biscuit Industries Ltd. SAOG	28.92%	1,426	28.92%	1,283
		<u>38,685</u>		<u>36,245</u>
<b>Unquoted</b>				
International General Insurance Holding Limited	20.00%	30,352	20.00%	28,326
Al Ahlia Insurance Company SAOC	20.03%	9,226	20.03%	8,973
Ubhar Capital SAOC	36.00%	4,320	-	-
National Finance House B.S.C.	17.47%	2,819	17.47%	2,685
Modern Steel Mill LLC	19.49%	3,653	19.49%	3,787
Shamal Plastic Industries LLC	15.00%	709	15.00%	690
Gulf Acrylic Industries LLC	15.00%	512	15.00%	493
		<u>51,591</u>		<u>44,954</u>
<b>Total</b>		<u><u>90,276</u></u>		<u><u>81,199</u></u>

All the Group's quoted associate companies' shares are listed on the Muscat Securities Market (MSM). The quoted price of investments in associate companies as of the reporting date amounted to RO 28,676,499 (2015 - RO 29,024,075).

During 2015, the Parent Company had gained significant influence in Modern Steel Mills LLC, Shamal Plastic Industries LLC and Gulf Acrylic Industries LLC due to representation on the Board and participation in key policy making decisions in collaboration with other shareholders. Accordingly, these available-for-sale investments were transferred to investments in associates.

## 8. INVESTMENT SECURITIES (continued)

### (d) Investments in associates (continued)

Total assets, liabilities and revenues of the Group's associates, all of which are registered in the Sultanate of Oman, except International General Insurance Holding Limited and National Finance House B.S.C. which are registered in Jordan and Bahrain respectively, are shown below, along with the Group's share of the results of these associates:

Name of the associate	Assets (RO'000)	Liabilities (RO'000)	Revenues (RO'000)	Share of results (RO'000)
<b>2016</b>				
National Finance Company SAOG	199,220	153,565	17,211	1,623
National Biscuit Industries SAOG	7,809	3,072	11,021	187
National Detergent Company SAOG	26,102	11,972	22,016	232
International General Insurance Holding Limited	315,191	195,388	60,407	3,137
Oman Orix Leasing Company SAOG	182,260	143,541	18,472	1,936
Al Ahlia Insurance Company SAOC	71,680	35,962	24,206	414
Oman Chlorine SAOG	75,006	47,844	7,247	297
National Finance House B.S.C.	52,257	38,045	3,423	226
Modern Steel Mill LLC	15,160	1,550	8,298	(134)
Gulf Acrylic Industries LLC	1,949	830	2,916	42
Shamal Plastic Industries LLC	1,998	410	2,667	25
				<u>7,985</u>
<b>2015</b>				
National Finance Company SAOG	190,433	147,969	15,879	1,539
National Biscuit Industries SAOG	7,101	2,861	10,927	187
National Detergent Company SAOG	25,422	11,805	22,577	134
International General Insurance Holding Limited	292,268	183,351	59,813	1,104
Oman Orix Leasing Company SAOG	161,721	126,360	15,925	701
Al Ahlia Insurance Company SAOC	70,341	35,647	27,054	73
Oman Chlorine SAOG	59,690	34,496	7,621	121
National Finance House B.S.C.	49,227	35,801	3,227	86
Modern Steel Mill LLC	15,059	567	11,561	(224)
Gulf Acrylic Industries LLC	1,839	816	1,961	12
Shamal Plastic Industries LLC	1,875	433	3,165	41
				<u>3,774</u>

## 8. INVESTMENT SECURITIES (continued)

### (e) Investments in subsidiaries

As at the reporting date, investments held by the Parent Company in subsidiaries are:

	Country of Incorporation	2016		2015	
		Holding %	Carrying value (RO'000)	Holding %	Carrying value (RO'000)
Oman Arab Bank SAOC (Principal activity: Banking)	Oman	50.99	129,056	50.99	115,248
National Life and General Insurance Co SAOC (Principal activity: Insurance)	Oman	97.93	57,436	97.93	39,569
Oman National Investment Corporation SAOC (Principal activity: Investments)	Oman	98.00	25,382	98.00	19,174
Oman Real Estate Investment & Services SAOC (Principal activity: Investments)	Oman	99.98	719	99.98	729
Salalah Resorts SAOC (Principal activity: Integrated Tourism Project)	Oman	99.98	-	99.98	-
Al Jabal Al Aswad Investment LLC (Principal activity: Real Estate)	Oman	99.98	100	99.98	100
Budva Beach Properties doo (Principal activity: Tourism project)	Montenegro	100.00	1,631	100.00	2,639
<b>Total investments in subsidiaries</b>			<b>214,324</b>		<b>177,459</b>

## 8. INVESTMENT SECURITIES (continued)

### (e) Investments in subsidiaries (continued)

Total assets, liabilities and revenues of the Group's subsidiaries are shown below, along with the Group's share of the results:

Name of the subsidiary	Assets (RO'000)	Liabilities (RO'000)	Revenues (RO'000)	Share of results (RO'000)
<b>2016</b>				
Oman Arab Bank SAOC	2,065,972	1,782,873	110,590	14,172
National Life and General Insurance Co SAOC	135,251	90,873	99,853	4,603
Oman National Investment Corporation SAOC	73,789	48,007	7,121	3,750
Salalah Resorts SAOC	458	2,125	58	-
Oman Real Estate Investment and Services SAOC	1,699	922	128	(10)
Al Jabal Al Aswad Investment LLC (including Budva Beach Properties doo)	3,073	1,341	-	(911)
<b>Total</b>				<b>21,604</b>
<b>2015</b>				
Oman Arab Bank SAOC	1,928,699	1,756,680	95,075	14,793
National Life and General Insurance Co SAOC	103,361	77,227	31,013	1,550
Oman National Investment Corporation SAOC	56,531	36,957	-	(1)
Salalah Resorts SAOC	1,949	1,966	-	(1,310)
Oman Investment Services SAOC	1,500	771	1	(77)
Al Jabal Al Aswad Investment LLC (Budva Beach Properties doo)	3,964	1,223	12	(1,034)
<b>Total</b>				<b>13,921</b>

#### Budva Beach properties doo

The subsidiary is planning to develop a real estate tourism project in Montenegro. During the year, management has provided for impairment of project work in progress of RO 0.8 million.

## 8. INVESTMENT SECURITIES (continued)

### (e) Investments in subsidiaries (continued)

#### Salalah Resorts SAOC

The subsidiary is in the process of developing a real estate tourism project in Salalah. A suitable business partner is considered for the joint investment and the Board of Directors are committed to develop the project irrespective of whether they find a joint venture partner. Although the subsidiary is in a net liability position the Board of Directors, based on their business model and projections, are of the opinion that the development is viable. During the year, management has provided for impairment of project work in progress of RO 1.6 million.

#### Al Ahlia Securities Company SAOC

The consolidated financial statements of the Group do not include the results of Al Ahlia Securities Company SAOC (ASC), a company that is under liquidation and is 99% owned by the Group. In accordance with the terms of the sale and purchase agreement for the sale of the business of ASC in 2001, ASC shareholders approved a plan to liquidate ASC at an extra-ordinary general meeting held on 17 December 2002. A liquidator was appointed on 3 May 2003 and the liquidation process is still in progress. The investment in ASC is fully provided for by the Parent Company.

### (f) Details of significant investments

As at reporting date, the Group's investments for which either, the Group's holding represents 10% or more of the issuer's share capital, or, the Group's holding exceeds 10% of the market value of the Group's investment securities portfolio, are detailed as follows:

Quoted securities 2016	Holding %	Number of shares	Market value (RO'000)	Carrying value (RO'000)
<b>Group</b>				
National Biscuit Industries Ltd SAOG	29.22	292,197	1,085	1,427
National Finance Co SAOG	25.87	70,144,996	9,189	11,857
National Detergent Co. SAOG	20.94	3,561,700	2,507	2,814
Oman Orix Leasing Co. SAOG	35.00	87,863,758	10,983	15,377
Oman Chlorine SAOG	16.26	11,074,289	5,404	7,702
Takaful Oman SAOG	17.95	17,946,248	3,123	3,123
Bank Muscat SAOG	3.52	87,932,393	41,504	41,504
Ahli Bank SAOG	8.50	121,062,695	23,728	23,728

## 8. INVESTMENT SECURITIES (continued)

### (f) Details of significant investments (continued)

As at reporting date, the Parent company's investments for which either, the Parent company's holding represents 10% or more of the issuer's share capital, or, the Parent company's holding exceeds 10% of the market value of the Parent company's investment securities portfolio, are detailed as follows:

Quoted securities	Holding %	Number of shares	Market value (RO'000)	Carrying value (RO'000)
<b>2016</b>				
<b>Parent Company</b>				
National Biscuit Industries Ltd SAOG	28.92	289,197	1,084	1,426
National Finance Co. SAOG	25.56	69,310,130	9,080	11,748
National Detergent Co. SAOG	20.94	3,561,700	2,507	2,814
Oman Orix Leasing Co. SAOG	35.00	87,863,758	10,983	15,377
Oman Chlorine SAOG	15.11	10,290,935	5,022	7,320
Takaful Oman SAOG	17.35	17,347,934	3,019	3,019
<b>2015</b>				
<b>Group</b>				
National Biscuit Industries Ltd SAOG	29.22	292,197	1,096	1,293
National Finance Co SAOG	25.87	68,101,939	9,126	11,074
National Detergent Co. SAOG	20.94	3,561,700	2,265	2,707
Oman Orix Leasing Co. SAOG	35.00	84,484,383	11,659	14,201
Oman Chlorine SAOG	16.26	10,546,943	5,379	7,502
Takaful Oman SAOG	17.11	17,111,959	1,711	1,711
Bank Muscat SAOG	3.05	69,926,454	33,005	33,005
Ahli Bank SAOG	8.13	115,905,731	21,718	21,718
<b>2015</b>				
<b>Parent Company</b>				
National Biscuit Industries Ltd SAOG	28.92	289,197	1,084	1,283
National Finance Co. SAOG	25.56	67,291,389	9,017	10,932

## 8. INVESTMENT SECURITIES (continued)

### (f) Details of significant investments (continued)

Quoted securities	Holding %	Number of shares	Market value (RO'000)	Carrying value (RO'000)
National Detergent Co. SAOG	20.94	3,561,700	2,265	2,707
Oman Orix Leasing Co. SAOG	35.00	84,484,383	11,659	14,202
Oman Chlorine SAOG	15.11	9,800,891	4,998	7,121
Takaful Oman SAOG	17.11	17,111,959	1,711	1,711
Unquoted securities 2016	Holding %	Number of shares	Carrying value (RO'000)	
<b>Group</b>				
<b>Subsidiaries</b>				
Oman Real Estate Investment & Services SAOC		99.98	999,800	719
Oman Arab Bank SAOC		51.00	647,700,000	129,183
National Life & General Insurance Co SAOC		97.93	25,952,324	61,140
Oman National Investment Corporation SAOC		100.00	200,000,000	25,382
Salalah Resorts SAOC		99.98	29,994,000	-
Budva Beach Properties doo		100.00	9,500,000	1,631
Al Jabal Al Aswad investment LLC		99.98	99,980	100
NLGIC Support Service Private Limited		100.00	853,220	35
<b>Others</b>				
International General Insurance Holding Limited		20.00	28,675,104	30,352
Al Ahlia Insurance Co. SAOC		20.03	2,003,091	9,226
National Finance House B.S.C		17.47	13,100,000	2,819
Ubhar Capital SAOC		36.00	43,200,000	4,320
Shamal Plastic Industries LLC		20.00	200,000	709
Modern Steel Mills LLC		19.49	136,395	3,653
Gulf Acrylic Industries LLC		20.00	100,000	560

## 8. INVESTMENT SECURITIES (continued)

### (f) Details of significant investments (continued)

Unquoted securities	Holding %	Number of shares	Carrying value (RO'000)
<b>2016</b>			
<b>Parent Company</b>			
Subsidiaries			
Oman Arab Bank SAOC	50.99	647,573,000	129,056
National Life & General Insurance Co. SAOC	97.93	25,951,628	57,436
Oman National Investment Corporation SAOC	98.00	196,000,000	25,382
Salalah Resort SAOC	99.98	29,994,000	-
Oman Real Estate Investment and Services SAOC (formerly Oman Investment Services SAOC)	99.98	999,800	719
Budva Beach Properties doo	100.00	9,500,000	1,631
Al Jabal Al Aswad investment LLC	99.98	99,980	100
<b>Others</b>			
International General Insurance Holding Limited	20.00	28,675,104	30,352
Al Ahlia Insurance Co. SAOC	20.03	2,003,091	9,226
National Finance House B.S.C	17.47	13,100,000	2,819
Al Shamal Plastics LLC	15.00	150,000	709
Modern Steel Mills LLC	19.49	136,395	3,653
Gulf Acrylic Industries LLC	15.00	75,000	512
Ubhar Capital SAOC	36.00	43,200,000	4,320
<b>2015</b>			
<b>Group</b>			
Subsidiaries			
Oman Investment Services SAOC	99.98	999,800	729
Oman Arab Bank SAOC	51.00	59,160,000	115,375
National Life and General Insurance Co SAOC	97.93	10,282,715	44,198
Oman National Investment Corporation SAOC	100.00	200,000,000	19,574
Salalah Resorts SAOC	99.98	29,994,000	-
Budva Beach Properties doo	100.00	9,500,000	2,639
Al Jabal Al Aswad investment LLC	99.98	99,980	100

## 8. INVESTMENT SECURITIES (continued)

### (f) Details of significant investments (continued)

Unquoted securities	Holding %	Number of shares	Carrying value (RO'000)
Others			
International General Insurance Holding Limited	20.00	28,675,104	28,326
Al Ahlia Insurance Co. SAOC	20.03	2,003,091	8,973
National Finance House B.S.C	17.47	13,100,000	2,685
Al Shamal Plastics LLC	20.00	200,000	762
Modern Steel Mills LLC	19.49	136,395	3,787
Gulf Acrylic Industries LLC	20.00	100,000	541
2015			
Parent Company			
Subsidiaries			
Oman Arab Bank SAOC	50.99	591,484,000	115,248
National Life & General Insurance Co. SAOC	97.93	10,282,715	39,569
Oman National Investment Corporation SAOC	98.00	19,600,000	19,174
Salalah Resort SAOC	99.98	29,994,000	-
Oman Investment Services SAOC	99.98	999,800	729
Budva Beach Properties doo	100.00	9,500,000	2,639
Al Jabal Al Aswad investment LLC	99.98	99,980	100
Others			
International General Ins. Holding	20.00	28,675,104	28,326
Al Ahlia Insurance Co. SAOC	20.03	2,003,091	8,973
National Finance House B.S.C	17.47	13,100,000	2,685
Al Shamal Plastics LLC	15.00	150,000	690
Modern Steel Mills LLC	19.49	136,395	3,787
Gulf Acrylic Industries LLC	15.00	75,000	493

## 9. LOANS AND ADVANCES TO CUSTOMERS

a) Loans and advances to customers extended by the banking subsidiary were as follows:

Group	2016 (RO' 000)	2015 (RO' 000)
<b>Corporate loans</b>		
Term loans	650,920	724,293
Overdrafts	143,753	137,336
Bills discounted	87,278	31,842
Islamic finance	33,320	20,625
	<u>915,271</u>	<u>914,096</u>
<b>Personal loans</b>		
Consumer loans	451,242	416,716
Mortgage loans	235,171	159,010
Overdrafts	1,807	24,756
Credit cards	4,657	4,716
Islamic finance	32,714	30,090
	<u>725,591</u>	<u>635,288</u>
Gross loans and advances	1,640,862	1,549,384
Less: allowance for loan impairment and unrecognised contractual interest (note 9(b))	(50,063)	(44,813)
<b>Net loans and advances</b>	<u><u>1,590,799</u></u>	<u><u>1,504,571</u></u>

## 9. LOANS AND ADVANCES TO CUSTOMERS (continued)

### b) Allowance for loan impairment and unrecognised contractual interest

The movement in the allowance for loan impairment and unrecognised contractual interest was as follows:

Group	Allowance for loan impairment (RO'000)	Unrecognised contractual interest (RO'000)	Total (RO'000)
<b>2016</b>			
At 1 January	37,432	7,381	44,813
Provided during the year	14,384	2,943	17,327
Amounts written off	(2,416)	(2,956)	(5,372)
Amounts released/recovered	(5,612)	(1,093)	(6,705)
At 31 December	<u>43,788</u>	<u>6,275</u>	<u>50,063</u>
<b>2015</b>			
At 1 January	30,651	6,339	36,990
Provided during the year	12,883	2,575	15,458
Amounts written off	(93)	(9)	(102)
Amounts released/recovered	(6,453)	(1,524)	(7,977)
At 31 December	<u>37,432</u>	<u>7,381</u>	<u>44,813</u>

At 31 December 2016, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 47,938K (31 December 2015 - RO 44,842K).

## 9. LOANS AND ADVANCES TO CUSTOMERS (continued)

### c) Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

Group	Personal (RO' 000)	Corporate (RO' 000)	Total (RO' 000)
<b>2016</b>			
Musharaka	24,758	15,160	39,918
Murabaha	4,227	12,428	16,655
Ijarah Muntahia Bittamleek	3,729	5,732	9,461
<b>At 31 December</b>	<b>32,714</b>	<b>33,320</b>	<b>66,034</b>
<b>2015</b>			
Musharaka	23,418	13,427	36,845
Murabaha	2,672	6,265	8,937
Ijarah Muntahia Bittamleek	4,000	933	4,933
<b>At 31 December</b>	<b>30,090</b>	<b>20,625</b>	<b>50,715</b>

d) All loans and advances were made to customers within the Sultanate of Oman. The concentration of loans and advances by sector is as follows:

Group	2016 RO' 000	2015 RO' 000
Personal loans	725,591	635,288
Construction	299,485	244,916
Manufacturing	112,047	111,138
Mining and quarrying	110,621	70,700
Services	77,860	67,928
Import trade	54,744	58,462
Transportation	52,528	128,063
Electricity, water and gas	49,112	47,434
Wholesale and retail trade	46,089	59,196
Financial institutions	31,173	48,326
Agriculture and allied activities	4,998	7,067
Export trade	663	-
Government	-	1,958
Others	75,951	68,908
	<b>1,640,862</b>	<b>1,549,384</b>

## 10. OTHER ASSETS

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Customers' indebtedness against acceptances	24,133	21,133	-	-
Interest receivable	6,899	5,743	-	-
Prepayments	3,992	2,312	1,874	153
Receivable from investment customers (Note a)	-	2,126	-	-
Positive fair value of derivatives (Note 38)	166	148	-	-
Others	16,109	13,393	956	633
	<b>51,299</b>	<b>44,855</b>	<b>2,830</b>	<b>786</b>

### Note a:

The banking subsidiary sold its IMG business (note 32) during the year and as a result, balances receivable from investment customers were settled.

## 11 (a). INVESTMENT PROPERTIES

Group	Land (RO'000)	Buildings (RO'000)	Capital work- in-progress (RO'000)	Total (RO'000)
<b>Cost</b>				
At 1 January 2015	2,531	973	-	3,504
Additions including merger with ONICH	-	7,800	70	7,870
Disposal	-	(973)	-	(973)
<b>At 1 January 2016</b>	<b>2,531</b>	<b>7,800</b>	<b>70</b>	<b>10,401</b>
Additions	126	-	283	409
<b>At 31 December 2016</b>	<b>2,657</b>	<b>7,800</b>	<b>353</b>	<b>10,810</b>
<b>Depreciation</b>				
At 1 January 2015	-	524	-	524
Charge for the year	-	90	-	90
Disposal	-	(524)	-	(524)
<b>At 1 January 2016</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>90</b>
Charge for the year	-	245	-	245
<b>At 31 December 2016</b>	<b>-</b>	<b>335</b>	<b>-</b>	<b>335</b>

## 11 (a). INVESTMENT PROPERTIES (continued)

Group	Land (R0'000)	Buildings (R0'000)	Capital work- in-progress (R0'000)	Total (R0'000)
<b>Carrying value</b>				
<b>At 31 December 2016</b>	<u>2,657</u>	<u>7,465</u>	<u>353</u>	<u>10,475</u>
At 31 December 2015	<u>2,531</u>	<u>7,710</u>	<u>70</u>	<u>10,311</u>
Parent Company	Land (R0'000)	Buildings (R0'000)	Capital work- in-progress (R0'000)	Total (R0'000)
<b>Cost</b>				
At 1 January 2015	2,531	973	-	3,504
Additions including merger with ONICH	-	6,500	70	6,570
Disposal	-	(973)	-	(973)
<b>At 1 January 2016</b>	<u>2,531</u>	<u>6,500</u>	<u>70</u>	<u>9,101</u>
Additions	-	-	283	283
<b>At 31 December 2016</b>	<u>2,531</u>	<u>6,500</u>	<u>353</u>	<u>9,384</u>
<b>Depreciation</b>				
At 1 January 2015	-	524	-	524
Charge for the year	-	65	-	65
Disposal	-	(524)	-	(524)
<b>At 1 January 2016</b>	<u>-</u>	<u>65</u>	<u>-</u>	<u>65</u>
Charge for the year	-	176	-	176
<b>At 31 December 2016</b>	<u>-</u>	<u>241</u>	<u>-</u>	<u>241</u>
<b>Carrying value</b>				
<b>At 31 December 2016</b>	<u>2,531</u>	<u>6,259</u>	<u>353</u>	<u>9,143</u>
At 31 December 2015	<u>2,531</u>	<u>6,435</u>	<u>70</u>	<u>9,036</u>

## 11 (a). INVESTMENT PROPERTIES (continued)

At the reporting date, fair value of the land is RO 3.4 million (2015 - RO 3.9 million) and buildings is RO 6.4 million (RO 6.6 million) in the Parent Company. The fair value measurements of the Group's investment properties as at 31 December 2016 were performed by M/s Brokers International LLC, independent valuers not related to the Group. M/s Brokers International LLC have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations. Fair value was determined by the Parent Company using market comparable approach based on recent market prices (level 2 hierarchy). There has been no change to the valuation technique during the year.

## 11 (b). PROJECTS WORK IN PROGRESS

At 31 December 2016, projects work in progress includes:

Group	2016 (RO' 000)	2015 (RO' 000)
<b>Salalah Resorts SAOC</b>		
Initial stage	168	168
Consultancy charges	2,581	2,579
Provision for impairment (Note a)	(2,749)	(1,197)
Total	-	1,550
<b>Budva Beach Properties doo, Montenegro:</b>		
Cost of land	5,231	5,231
Consultancy and other costs	935	945
Foreign currency translation reserve (Note b)	(1,334)	(1,239)
Provision for impairment of land (Note b)	(1,862)	(1,003)
Total	2,970	3,934
Grand Total	2,970	5,484

## 11 (b). PROJECTS WORK IN PROGRESS (continued)

### Note a:

During the year, management had reassessed certain components of project costs for impairment analysis and had recorded an impairment loss of RO 1,553 thousands (2015: RO 1,197 thousands).

### Note b:

During the year, management had reassessed certain components of project costs for impairment analysis and had recorded an impairment loss of RO 859 thousands (2015: RO 1,003 thousands).

At 31 December 2016, the Group has recognised RO 0.1 million (2015: RO 1.239 million) of foreign currency translation reserve on Budva Beach Properties doo, Montenegro on translation of their financial statements into Rials Omani.

The movement in provision for impairment of work-in-progress is as follows:

	2016 (RO' 000)	2015 (RO' 000)
At 1 January	2,200	-
Charged during the year	2,411	2,200
<b>At 31 December</b>	<b>4,611</b>	<b>2,200</b>

## 11 (c). PROPERTY AND EQUIPMENT

	Land and buildings (RO'000)	Furniture, fixtures and equipment (RO'000)	Motor vehicles (RO'000)	Capital work in progress (RO'000)	Total (RO'000)
<b>Group</b>					
<b>Cost:</b>					
At 1 January 2015	24,140	26,258	609	1,246	52,253
Additions	-	1,831	208	875	2,914
Transfers	-	3,361	231	(1,693)	1,899
Disposals	(2,569)	(686)	(145)	-	(3,400)
At 1 January 2016	21,571	30,764	903	428	53,666
Additions	-	4,166	130	930	5,226

## 11 (c). PROPERTY AND EQUIPMENT (continued)

	Land and buildings (R0'000)	Furniture, fixtures and equipment (R0'000)	Motor vehicles (R0'000)	Capital work in progress (R0'000)	Total (R0'000)
Transfers	-	17	-	(17)	-
Disposals	-	(961)	-	(98)	(1,059)
<b>At 31 December 2016</b>	<b>21,571</b>	<b>33,986</b>	<b>1,033</b>	<b>1,243</b>	<b>57,833</b>
<b>Depreciation:</b>					
At 1 January 2015	3,553	18,637	394	-	22,584
Charge for the year	590	2,961	122	-	3,673
Transfers	-	1,052	118	-	1,170
Disposals	(2,569)	(687)	(114)	-	(3,370)
At 1 January 2016	1,574	21,963	520	-	24,057
Charge for the year	590	3,641	141	-	4,372
Disposals	-	(687)	(98)	-	(785)
<b>At 31 December 2016</b>	<b>2,164</b>	<b>24,917</b>	<b>563</b>	<b>-</b>	<b>27,644</b>
<b>Carrying value</b>					
<b>At 31 December 2016</b>	<b>19,407</b>	<b>9,069</b>	<b>470</b>	<b>1,243</b>	<b>30,189</b>
At 31 December 2015	19,997	8,801	383	428	29,609
<b>Parent Company</b>					
<b>Cost:</b>					
At 1 January 2015	-	805	44	-	849
Additions	-	80	35	-	115
Disposals	-	(24)	(39)	-	(63)
At 1 January 2016	-	861	40	-	901
Additions	-	7	-	-	7
Disposals	-	(7)	-	-	(7)
<b>At 31 December 2016</b>	<b>-</b>	<b>861</b>	<b>40</b>	<b>-</b>	<b>901</b>

## 11 (c). PROPERTY AND EQUIPMENT (continued)

	Land and buildings (R0'000)	Furniture, fixtures and equipment (R0'000)	Motor vehicles (R0'000)	Capital work in progress (R0'000)	Total (R0'000)
<b>Depreciation:</b>					
At 1 January 2015	-	486	17	-	503
Charge for the year	-	136	14	-	150
Disposals	-	(24)	(22)	-	(46)
At 1 January 2016	-	598	9	-	607
Charge for the year	-	141	12	-	153
Disposals	-	(2)	-	-	(2)
<b>At 31 December 2016</b>	<b>-</b>	<b>737</b>	<b>21</b>	<b>-</b>	<b>758</b>
<b>Carrying value</b>					
<b>At 31 December 2016</b>	<b>-</b>	<b>124</b>	<b>19</b>	<b>-</b>	<b>143</b>
At 31 December 2015	-	263	31	-	294

## 12. INTANGIBLE ASSETS

Intangible assets acquired as a result of business combination are set out below (refer note 5):

	Trade name (RO'000)	Hospital network (RO'000)	License (RO'000)	Total (RO'000)
<b>Group</b>				
<b>Cost</b>				
At 1 January 2015	-	-	-	-
Additions	9,117	7,597	2,631	19,345
<b>At 1 January 2016</b>	<b>9,117</b>	<b>7,597</b>	<b>2,631</b>	<b>19,345</b>
Additions	-	-	-	-
<b>At 31 December 2016</b>	<b>9,117</b>	<b>7,597</b>	<b>2,631</b>	<b>19,345</b>
<b>Amortisation:</b>				
At 1 January 2015	-	-	-	-
Charge for the year	-	186	161	347
<b>At 1 January 2016</b>	<b>-</b>	<b>186</b>	<b>161</b>	<b>347</b>
Charge for the year	-	506	438	944
<b>At 31 December 2016</b>	<b>-</b>	<b>692</b>	<b>599</b>	<b>1,291</b>
<b>Carrying value</b>				
<b>At 31 December 2016</b>	<b>9,117</b>	<b>6,905</b>	<b>2,032</b>	<b>18,054</b>
At 31 December 2015	9,117	7,411	2,470	18,998

The Group carried out an impairment analysis of its intangibles with indefinite lives relating to intangibles acquired as a result of business combination as at reporting date. The impairment analysis was performed using P/B ratio and resultant multiple used was 2.0x. The results showed no impairment loss.

## 13 (a). SHARE CAPITAL

The Parent Company's authorised share capital is 900,000,000 (2015 –900,000,000) shares of 100 baisa each (2015– 100 baisa).

At 31 December 2016, 635,790,892 (2015 –552,861,642) shares of 100 baisa (2015- 100 baisa) each have been issued and are fully paid.

During the year 82,929,250 (2015: 33,674,300) shares were issued as stock dividend as approved in the Annual General Meeting, held on 30 March 2016.

### 13 (a). SHARE CAPITAL (continued)

On 19 August 2015, the Parent Company issued 182,444,342 new shares of RO 0.100 each for obtaining control over ONICH (the acquired entity). The fair value of the consideration paid was determined using the Parent Company's share price of RO 0.480 as on acquisition date resulting in the share premium of RO 0.380 per share totalling to RO 69,328,850.

Shareholders of the Parent Company who own 10% or more of its shares at the reporting date are as follows:

	2016		2015	
	Holding %	Shares	Holding %	Shares
Al Hilal Investment Co. LLC	20.06%	127,518,925	17.73	98,018,253
Oman Investment Fund	20.00%	127,158,179	13.79	76,262,558
Civil Service Employees' Pension Fund	11.10%	70,590,196	10.11	55,918,284

### 13 (b). PERPETUAL TIER 1 CAPITAL BONDS

On 29 December 2016, the banking subsidiary issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the banking subsidiary's discretion. The bonds form part of Tier 1 Capital of the banking subsidiary and comply with Basel-3 and Central Bank of Oman regulation.

The Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the banking subsidiary and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the banking subsidiary at its sole discretion on 29 January 2021 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

## 14. RESERVES

### a) Share Premium

On 19 August 2015, the Parent Company issued 182,444,342 new shares with a nominal value of RO 0.100 each and share premium of RO 0.380 for obtaining control over ONICH (the acquired entity). The total share premium as at 31 December 2015 was RO 69,328,850.

This reserve is available for distribution to the shareholders. During the year, 82,929,250 shares at 100 baisa per share were issued as stock dividend by transferring RO 8,292,925 from share premium to share capital.

### b) Legal reserve

As required by Article 106 of the Commercial Companies Law of Oman, the Parent Company and each of its Omani subsidiaries are required to transfer 10% of their profit for the year to this reserve until such time as the legal reserve amounts to at least one third of the respective entity's paid-up share capital. The reserve is not available for distribution. The balance at the end of the year represents amounts relating to the Parent Company and its share of the legal reserve of its Omani subsidiaries.

## 15. OTHER NON-DISTRIBUTABLE RESERVES

CONSOLIDATED	Capital reserve	Contingency reserve	Special reserve	Sub. debt reserve	Foreign currency revaluation reserve	Revaluation reserve	Total
At 1 January 2015	17,846	-	-	15,297	-	1,677	34,820
Transfer to retained earnings	-	293	-	5,099	-	-	5,392
Other comprehensive income/ (expense)	-	-	-	-	(1,239)	71	(1,168)
At 1 January 2016	<u>17,846</u>	<u>293</u>	<u>-</u>	<u>20,396</u>	<u>(1,239)</u>	<u>1,748</u>	<u>39,044</u>
Transfer to special reserve	-	-	1,224	-	-	-	1,224
Transfer to contingency reserve	-	1,116	-	-	-	-	1,116
Transfer to subordinate debt reserve	-	-	-	7,139	-	-	7,139
Other comprehensive expense	-	-	-	-	(104)	-	(104)
At 31 December 2016	<u>17,846</u>	<u>1,409</u>	<u>1,224</u>	<u>27,535</u>	<u>(1,343)</u>	<u>1,748</u>	<u>48,419</u>

PARENT COMPANY	Contingency reserve	Special reserve	Sub. debt reserve	Foreign currency revaluation reserve	Revaluation reserve	Total
At 1 January 2015- (restated)	-	-	15,297	-	1,677	16,974
Other comprehensive income / (expense)	-	-	-	(1,239)	71	(1,168)
Transfer from retained earnings	293	-	5,099	-	-	5,392
At 1 January 2016	<u>293</u>	<u>-</u>	<u>20,396</u>	<u>(1,239)</u>	<u>1,748</u>	<u>21,198</u>
Transfer to special reserve	-	1,224	-	-	-	1,224
Transfer to contingency reserve	1,116	-	-	-	-	1,116
Transfer to subordinate debt reserve	-	-	7,139	-	-	7,139
Other comprehensive expense	-	-	-	(104)	-	(104)
At 31 December, 2016	<u>1,409</u>	<u>1,224</u>	<u>27,535</u>	<u>(1,343)</u>	<u>1,748</u>	<u>30,573</u>

## 15. OTHER NON-DISTRIBUTABLE RESERVES (continued)

### Capital reserve

Oman Arab Bank SAOC, the banking subsidiary, had increased its paid up share capital through capitalisation of retained profits and issue of rights in previous years. The Parent Company's share of the increased paid up share capital through capitalisation of retained profits was transferred to a non-distributable capital reserve in the Group's financial statements.

	2016 (RO'000)	2015 (RO'000)
Capital reserve	<u>17,846</u>	<u>17,846</u>

### Contingency reserve

In accordance with article 10 (bis) (2)(c) and 10 (bis) (3)(b) of Regulations for Implementing Insurance Companies Law (Ministerial Order 5/80), as amended, 10% of the net outstanding claims in case of the general insurance business amounting to RO 220,637 and 1% of the life assurance premiums for the year in case of life insurance business amounting to RO 919,588 at the reporting date is transferred from retained earnings to a contingency reserve. The insurance subsidiary may discontinue this transfer when the reserve equals to the issued share capital. No dividend shall be declared in any year until the deficit in the reserve is covered from the retained profits. The reserves shall not be used except by prior approval of the Capital Market Authority.

### General reserve

This discretionary reserve held by the banking subsidiary is available for distribution.

### Subordinated debt reserve

The subordinated debt reserve has been created by a transfer of 20% of the subordinated bonds out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated bonds and loans which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated bonds and loans.

### Foreign currency translation reserve

As at the reporting date, the assets and liabilities of the foreign subsidiary entities are translated into the functional currency of the Group (the Rial Omani) at the rate of exchange ruling at the reporting date and its profit or loss is translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a foreign currency translation reserve in other comprehensive income. Associate companies share of translation reserve is also accounted.

### Revaluation reserve

The revaluation reserve represents the Parent Company's share of the revaluation reserve arising from the revaluation of land in associated companies.

### Special reserve

During 2015, the banking subsidiary sold its old head office premises at Ruwi since the head office operations have moved to the new premises at Al Ghubrah. The profit on sale of the premises has been set aside as a special reserve, which requires prior approval of the Central Bank of Oman for any distribution.

## 16. DIVIDEND PROPOSED AND PAID

### Parent Company

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the forthcoming Annual General Meeting, to be held on 29 March 2017, a cash dividend of RO 0.015 per share (2015 - RO 0.010 per share) amounting to RO 9,536,863 (2015 - RO 5,528,216) and a stock dividend of RO 0.010 per share (2015 - RO 0.015) amounting to RO 6,357,909 (2015 - RO 8,292,925) in respect of year ended 31 December 2016 is to be proposed by the Board of Directors.

The financial statements for the year ended 31 December 2016 do not reflect proposed dividend, which will be accounted for in shareholders' equity as an appropriation of share premium / retained profits in the year ending 31 December 2017.

## 17. DUE TO BANKS

As at the reporting date, due to banks are as follows:

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Due to banks – current accounts	12,056	9,404	-	-
Terms loans	138,800	88,000	138,900	102,500
	<b>150,856</b>	<b>97,404</b>	<b>138,900</b>	<b>102,500</b>

Term loans are unsecured and carry interest ranging from 2.64% to 4.75% (2015: 2% to 3.25%).

The maturity profile of terms loans is as follows:

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Due within one year	61,000	38,000	61,100	52,500
Due in more than one year	77,800	50,000	77,800	50,000
	<b>138,800</b>	<b>88,000</b>	<b>138,900</b>	<b>102,500</b>

## 18. DEPOSITS FROM CUSTOMERS

	2016 (RO'000)	2015 (RO'000)
<b>Group</b>		
Term deposits	758,755	689,265
Demand and call accounts	625,551	664,986
Saving accounts	241,075	238,974
	<u>1,625,381</u>	<u>1,593,225</u>

The concentration of customers' deposits by Private and Government sector is as follows:

	2016 (RO'000)	2015 (RO'000)
Private	1,236,618	1,172,522
Government	388,763	420,703
	<u>1,625,381</u>	<u>1,593,225</u>

### Islamic customer's deposits

Included in the above customers' deposits are the following Islamic customer deposits:

	2016 (RO'000)	2015 (RO'000)
Wakalah acceptances	58,162	41,416
Current accounts – Qard	6,814	6,042
Mudarabah accounts	2,486	1,927
	<u>67,462</u>	<u>49,385</u>

## 19. INSURANCE FUNDS

	Gross RO '000	Reinsurers' share RO '000	Net RO'000
<b>31 December 2016</b>			
Actuarial / mathematical and unexpired risk reserve – life assurance	42,930	(17,409)	25,521
Unexpired risk reserve – general insurance	4,323	(511)	3,812
Closing claims outstanding (including IBNR)	20,580	(8,765)	11,815
	<u>67,833</u>	<u>(26,685)</u>	<u>41,148</u>
<b>31 December 2015</b>			
Actuarial / mathematical and unexpired risk reserve – life assurance	39,005	(14,187)	24,818
Unexpired risk reserve – general insurance	3,237	(602)	2,635
Closing claims outstanding (including IBNR)	17,372	(7,899)	9,473
	<u>59,614</u>	<u>(22,689)</u>	<u>36,926</u>

Movement during the year:

	2016 (RO'000)	2015 (RO'000)
<b>Actuarial / mathematical and unexpired reserve (Life assurance):</b>		
At 1 January / Acquisition date	24,818	27,790
Adjustment in opening numbers by subsidiary	831	-
Movement in the statement of comprehensive income	(128)	(2,972)
<b>At 31 December</b>	<u>25,521</u>	<u>24,818</u>
<b>Unexpired risk reserves (General Insurance)</b>		
At 1 January / Acquisition date	2,634	2,450
Adjustment in opening numbers by subsidiary	(116)	-
Movement in the statement of comprehensive income	1,294	185
<b>At 31 December</b>	<u>3,812</u>	<u>2,635</u>

## 19. INSURANCE FUNDS (continued)

The amount in the provision for outstanding claims and the related reinsurers' share is as follows

Group 31 December 2016	Gross outstanding claims RO '000	Reinsurers' share of outstanding claims RO '000	Net outstanding claims RO '000
At 1 January (including IBNR)	17,372	(7,899)	9,473
Adjustment in opening numbers by subsidiary	429	(458)	(29)
Claims provided during the year	83,881	(35,415)	48,466
Claims paid during the year	(81,102)	35,007	(46,095)
Closing claims outstanding (including IBNR)	<b>20,580</b>	<b>(8,765)</b>	<b>11,815</b>
Group 31 December 2015			
At acquisition date claims outstanding (including IBNR)	22,714	(10,878)	11,836
Claims provided during the period	23,498	(10,216)	13,282
Claims paid during the period	(28,840)	13,195	(15,645)
Closing claims outstanding (including IBNR)	<b>17,372</b>	<b>(7,899)</b>	<b>9,473</b>

Substantially all of the claims are expected to be paid within twelve months of the reporting date. The amounts due from reinsurers are contractually due within three months from the date of submission of accounts to the reinsurer.

The Group estimates its insurance liabilities and reinsurance assets principally based on previous experience. IBNR estimates for the life business are based on an independent actuary's report. Claims requiring Court or arbitration decisions are estimated individually.

## 20. SUBORDINATED DEBT

In order to enhance the capital adequacy and to meet the funding requirements, the banking subsidiary has raised capital in the form of subordinated bonds and loans.

	2016 (RO'000)	2015 (RO'000)
Subordinated bonds (i)	50,000	50,000
Subordinated loans (ii)	20,000	20,000
	<b>70,000</b>	<b>70,000</b>

## 20. SUBORDINATED DEBT (continued)

### i) Subordinated bonds

The banking subsidiary issued non-convertible unsecured subordinated bonds of RO 50 Million (50,000,000 units of RO 1 each) for a tenor of five years and one month in April 2012 through private placement. The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 5.5% per annum (2015: 5.5% per annum), payable semi-annually with the principal payable on maturity.

### ii) Subordinated loans

The banking subsidiary obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity.

## 21. OTHER LIABILITIES

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Liabilities against acceptances	24,133	21,133	-	-
Payable to investment customers	-	19,403	-	-
Accrued expenses and other payables	28,513	33,429	2,292	2,182
Interest payable	18,344	9,620	145	53
Cheques and trade settlement payable	5,605	3,956	-	134
Staff terminal benefits (note 31)	2,990	2,953	251	202
Interest and commission received in advance	1,309	1,508	-	-
Negative fair value of derivatives (Note 38)	143	141	-	-
	<b>81,037</b>	<b>92,143</b>	<b>2,688</b>	<b>2,571</b>

## 22. TAXATION

### (a) Recognised in the statements of comprehensive income

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
<b>Statement of comprehensive income</b>				
Current year	4,881	4,327	-	-
Prior year	224	(167)	-	19
Current tax expense for the year	5,105	4,160	-	19
Deferred tax	(289)	(34)	-	-
<b>Tax expense</b>	<b>4,816</b>	<b>4,126</b>	<b>-</b>	<b>19</b>
Tax expenses for continued operations	3,469	4,067	-	19
Tax expenses for discontinued operations (note 32)	1,347	59	-	-
<b>Tax expense</b>	<b>4,816</b>	<b>4,126</b>	<b>-</b>	<b>19</b>
<b>Statement of financial position</b>				
Current year	5,084	4,652	-	-
Deferred tax	(118)	167	-	-
	<b>4,966</b>	<b>4,819</b>	<b>-</b>	<b>-</b>
<b>Deferred tax asset (liability)</b>				
At 1 January	(167)	(319)	-	-
Acquired through ONIC	-	115	-	-
Movement for the year	285	37	-	-
At 31 December	<b>118</b>	<b>(167)</b>	<b>-</b>	<b>-</b>

The Parent Company and each of its Omani subsidiaries are subject to income tax at the rate of 12% of taxable income in excess of RO 30,000. There is no concept of Group taxation in Oman. The Corporate tax rate in Oman has been increased to 15% with effect from 1 January 2017.

## 22. TAXATION (continued)

### (b) Reconciliation of income tax expense

The following is a reconciliation of income tax calculated at the applicable tax rate with the income tax expense:

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Profit before tax from continuing operations	31,162	40,831	24,796	13,627
Profit before tax from discontinuing operations	11,229	488	-	-
	<b>42,391</b>	41,319	<b>24,796</b>	13,627
Income tax at the rates mentioned above	5,072	4,955	2,972	1,635
Tax-exempt revenues	(2,195)	(1,738)	(3,712)	(2,657)
Bargain gain on acquisition	-	(546)	-	-
Non-deductible expenses	1,619	1,453	793	1,212
Deferred tax expense / (income) not recognised	177	89	-	(194)
Effect of tax losses lapsed	80	-	61	-
Current tax-prior year	249	(53)	-	19
Deferred tax – prior year	(190)	(41)	(118)	-
Others	4	7	4	4
Income tax expense	<b>4,816</b>	4,126	-	19

The Company and its subsidiaries are subject to income tax at the rate of 12% of taxable income in excess of RO 30,000.

### (c) Movement

At 1 January	4,819	4,236	-	-
NLIGC balance at acquisition date (current)	-	332	-	-
NLIGC balance at acquisition date (deferred)	-	(115)	-	-
Charged during the year - current	5,105	4,160	-	19
Charged during the year - deferred	(289)	(34)	-	-
Paid in current year	(4,669)	(3,760)	-	(19)
<b>At 31 December</b>	<b>4,966</b>	4,819	-	-

## 22. TAXATION (continued)

### (d) Movement of deferred tax asset / (liability)

Group	As at 1 January 2016 (R'O'000)	Recognised in other comprehensive income (R'O'000)	Recognised in income statement (R'O'000)	As at 31 December 2016 (R'O'000)
Property, plant and equipment	(298)	-	231	(67)
Amortisation of intangibles	(17)	-	-	(17)
Revaluation reserve	(54)	-	-	(54)
Provision for decline in value of overseas investments	-	-	25	25
Revaluation of investments in real estate	-	-	12	12
Provision for doubtful debts	100	-	9	109
Unrealised gain on local unquoted investments	(130)	-	-	(130)
Fair value reserve on available for sale investments	99	(4)	-	95
Offset of deferred tax assets and liabilities	133	-	12	145
<b>Total</b>	<b>(167)</b>	<b>(4)</b>	<b>289</b>	<b>118</b>

Group	As at 1 January 2015 (R'O'000)	NLIGC balance at acquisition date (R'O'000)	Recognised in other comprehensive income (R'O'000)	Recognised in income statement (R'O'000)	As at 31 December 2015 (R'O'000)
Property, plant and equipment	(319)	(10)	-	31	(298)
Amortisation of goodwill	-	(17)	-	-	(17)
Revaluation reserve	-	(54)	-	-	(54)
Unrealised gain on local unquoted investments	-	-	-	(130)	(130)
Tax losses	-	-	-	133	133
Provisions for debts	-	100	-	-	100
Fair value reserve	-	96	3	-	99
<b>Total</b>	<b>(319)</b>	<b>115</b>	<b>3</b>	<b>34</b>	<b>(167)</b>

## 22. TAXATION (continued)

The Group has tax losses available for carry forward as at 31 December 2016 of approximately RO 9.3 million. The Company has recognised a deferred tax asset on losses of approximately RO 1.2 million. On the balance of tax losses (approximately RO 8.1 million) and on the provision for impairment of investment in subsidiary of RO 1.7 million (2015: RO 1 million), the Group has not recognised a deferred tax asset on the basis that the income of the Group companies is predominantly exempt from income tax and it will not have sufficient future taxable profits against which to utilise the tax losses. Each of the Group companies can only utilise its own tax losses against its own taxable income. The tax losses are subject to expiry under the Oman Income Tax Law and will expire between 2017 to 2020.

Parent company 2016	As at 1 January 2016 (RO'000)	Recognised in income statement (RO'000)	At 31 December 2016 (RO'000)
Unrealized gain on foreign quoted investments	-	(8)	(8)
Property, plant and equipment	(3)	(4)	(7)
Unrealised gain on local unquoted investments	(130)	-	(130)
Tax losses	133	12	145
Total	-	-	-

Parent company 2015	As at 1 January 2015 (RO'000)	Recognised in income statement (RO'000)	At 31 December 2015 (RO'000)
Property, plant and equipment	-	(3)	(3)
Unrealised gain on local unquoted investments	-	(130)	(130)
Tax losses	-	133	133
Total	-	-	-

The Parent Company has tax losses available for carry forward as at 31 December 2016 of RO 7.7 million (2015: RO 8.1 million). It has recognised a deferred tax asset on tax losses of approximately RO 1.2 million.

On the balance tax losses (approximately RO 6.5 million) and on the provision for impairment of investment in subsidiary of RO 1.7 million (2015: RO 1 million), the Parent Company is not recognising a deferred tax asset on the basis that its income is predominantly exempt from income tax and it will not have sufficient future taxable profits against which to utilise the tax losses. The tax losses are subject to expiry under Oman Tax Law and will expire between 2017 to 2020.

## 22. TAXATION (continued)

The assessments of the Parent Company have been completed by the Tax Department up to and including the tax year 2009. The Parent Company has filed an Appeal with the Tax Committee for the year 2008. The Appeal decision is awaited.

Assessments of the tax returns filed for the years 2010 to 2015 have not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. The Board of Directors believes that any additional taxes that may arise on completion of the tax assessments for the open tax years will not be significant to the Ominvest's financial position at 31 December 2016.

### e) Status of tax assessments of subsidiaries

The tax assessments of subsidiaries are at different stages of completion. Management is not aware and does not expect any additional tax liabilities to be incurred relating to the open tax years.

## 23. GROSS PREMIUMS AND PREMIUMS CEDED TO REINSURERS

	(RO '000)		
	Life	General	Total
<b>2016</b>			
<b>Group</b>			
Gross written premiums	91,957	9,247	101,204
Movement in unearned premiums	(3,923)	(1,328)	(5,251)
<b>Gross premium, earned</b>	<b>88,034</b>	<b>7,919</b>	<b>95,953</b>
Reinsurance premiums ceded	(41,422)	(1,231)	(42,653)
Movement in unearned premiums	4,052	35	4,087
<b>Premium ceded to reinsurers</b>	<b>(37,370)</b>	<b>(1,196)</b>	<b>(38,566)</b>
<b>Net insurance premium revenue</b>	<b>50,664</b>	<b>6,723</b>	<b>57,387</b>
<b>2015</b>			
<b>Group</b>			
Gross written premiums	23,943	2,085	26,028
Movement in unearned premiums	4,102	(95)	4,007
Gross premium, earned	28,045	1,990	30,035
Reinsurance premiums ceded	(11,819)	(422)	(12,241)
Movement in unearned premiums	(1,131)	(89)	(1,220)
Premium ceded to reinsurers	(12,950)	(511)	(13,461)
Net insurance premium revenue	15,095	1,479	16,574

## 24. INTEREST INCOME

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Loans and advances to customers	74,841	62,270	-	-
Oman Government Development Bonds	1,408	1,198	-	-
Placements with banks and other money market placements	1,836	584	-	-
Certificates of deposit	427	246	-	-
Other interest income	92	53	2,538	-
	<b>78,604</b>	<b>64,351</b>	<b>2,538</b>	<b>-</b>

## 25. INTEREST EXPENSE

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Time deposits	18,194	10,414	-	-
Subordinated bonds	3,861	2,839	-	-
Call accounts	1,373	1,001	-	-
Savings accounts	302	295	-	-
Bank borrowings	6,514	2,255	4,045	1,978
	<b>30,244</b>	<b>16,804</b>	<b>4,045</b>	<b>1,978</b>

## 26. INVESTMENT INCOME

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Dividend from investments	5,662	1,860	251	948
<u>Quoted local investments</u>				
Profit / (loss) on sale	386	1,907	30	(4,780)
Changes in fair value	1,148	(354)	1,277	109
<u>Unquoted local investments</u>				
Changes in fair value	12	-	-	-
Gain on transfer to associate	-	4,845	-	4,845
<u>Quoted foreign investments</u>				
Profit on sale	3,021	169	51	169
Changes in fair value	(205)	-	63	-
<u>Unquoted foreign investments</u>				
Gain/(loss) on sale	-	(21)	-	(21)
Provision on investments	-	(715)	-	(309)
<u>Investment properties</u>				
Profit on sale of an investment property	-	652	-	652
Rental income	349	154	417	115
	<b>10,373</b>	<b>8,497</b>	<b>2,089</b>	<b>1,728</b>

## 27. FEE AND COMMISSION INCOME – NET

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Fee and commission income	28,097	24,969	-	-
Fee and commission expense	(10,042)	(4,985)	-	-
	<b>18,055</b>	<b>19,984</b>	<b>-</b>	<b>-</b>

## 28. OTHER OPERATING INCOME

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Foreign exchange (net)	5,374	5,239	-	-
Bargain gain on business combination (note 5)	-	4,823	-	-
Other income	1,154	1,736	961	97
Gain on sale of property and equipment	33	2,400	-	-
	<b>6,561</b>	<b>14,198</b>	<b>961</b>	<b>97</b>

## 29. OPERATING EXPENSES

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Staff costs (refer below)	35,964	28,706	3,286	2,742
Other operating expenses	17,071	15,748	813	741
Depreciation and amortisation	5,504	4,063	328	215
<u>Directors' sitting fees and remuneration:</u>				
Parent Company	200	200	200	200
Subsidiaries (net of intra-group adjustments)	264	194	-	-
	<b>59,003</b>	<b>48,911</b>	<b>4,627</b>	<b>3,898</b>
<b>Staff costs:</b>				
Salaries	30,178	23,170	2,917	2,351
End of service benefits	1,241	467	74	55
Social security costs	2,171	1,870	86	71
Other costs	2,374	3,199	209	265
	<b>35,964</b>	<b>28,706</b>	<b>3,286</b>	<b>2,742</b>

### 30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in statements of cash flows comprise the following:

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Balances with banks and money at call	269,406	193,267	1,564	1,112
Deposits with banks (note 6)	71,492	116,484	-	-
Due to banks – current accounts (note 17)	(12,056)	(9,404)	-	-
Capital deposits (note 6)	(500)	(500)	-	-
	<u>328,342</u>	<u>299,847</u>	<u>1,564</u>	<u>1,112</u>

### 31. END OF SERVICE BENEFITS

In accordance with the Labour Law of Oman, the Group and Parent Company accrues for employees' end of service benefits for its non-Omani employees.

Movements in the liability recognised in the financial statements are as follows:

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
At 1 January	2,953	2,610	202	281
Charge for the year	1,241	467	74	55
Additions due to acquisition of ONICH	-	430	-	60
Paid during the year	(1,204)	(554)	(25)	(194)
<b>At 31 December</b>	<u>2,990</u>	<u>2,953</u>	<u>251</u>	<u>202</u>

The above balance is recorded under other liabilities in the statement of financial position.

### 32. PROFIT FROM SALE OF DISCONTINUING OPERATIONS

On 30 March 2016, the banking subsidiary signed a Memorandum of Understanding with the Parent Company, Arab Bank Switzerland and Oman Investment Fund to sell its investment banking activities, which is under the banking subsidiary's Investment Management Group (IMG). The Board of Directors of the banking subsidiary determined that IMG was a non-core business of the banking subsidiary and that selling it would permit the banking subsidiary to focus on its core business. The sale includes all the existing systems, human resources, licences, assets and liabilities of IMG. The sale was approved by the banking subsidiary's shareholders in an Extraordinary General Meeting held on 15 December 2016.

### 32. PROFIT FROM SALE OF DISCONTINUING OPERATIONS (continued)

A new company, Ubhar Capital SAOC, was incorporated by OMINVEST, Arab Bank Switzerland and Oman Investment Fund. The Business Sale Purchase Agreement was signed between the banking subsidiary and Ubhar Capital. The sale of IMG business was completed on 31 December 2016 for a consideration of RO 12 million and a net gain on sale of RO 11.1 million was recorded. As at 31 December 2016, IMG is classified as a discontinued operation and following assets were sold to Ubhar Capital SAOC and liabilities related to discontinued operations amounted to RO 514 thousand were settled by the banking subsidiary.

- i) Property and equipment sold amounting to RO 170 thousand; and
- ii) Investment in FSGF amounting to RO 210 thousand.

During the year, the Group has early adopted para 31 A of IAS 28 Investment in Associates and Joint Ventures, whereby, the Group has recorded the full gain on account of sale of IMG transaction between the banking subsidiary and its associate.

The results of IMG for the year are presented below:

	2016 RO'000	2015 RO'000
Brokerage and other investment income -net	<u>1,822</u>	<u>2,049</u>
<b>Expenses</b>		
Salaries and related costs	(1,241)	(1,060)
General and administrative expenses	(400)	(453)
Depreciation on equipment	<u>(58)</u>	<u>(48)</u>
<b>Total expenses</b>	<u>(1,699)</u>	<u>(1,561)</u>
Profit before tax for the year from discontinuing operations	123	488
Gain on disposal	11,106	-
Income tax expense (including tax on gain on disposal)	<u>(1,347)</u>	<u>(59)</u>
<b>Profit after tax for the year from discontinuing operations</b>	<u><u>9,882</u></u>	<u><u>429</u></u>
<b>Earnings per share for profit for the year from discontinuing operations</b>		
Basic and diluted (RO)	0.008	-

IMG is part of the banking subsidiary and is not a taxable entity. The taxation in accordance with the income tax law of the Sultanate of Oman is recorded in the subsidiary bank's accounting records.

### 32. PROFIT FROM SALE OF DISCONTINUING OPERATIONS (continued)

The net cash flows incurred by the discontinuing operations are as follows:

	2016 RO'000	2015 RO'000
Operating	514	(5,103)
Investing	380	-
	<b>894</b>	<b>(5,103)</b>

### 33. SEGMENTAL INFORMATION

The Group is organised into four main business segments:

- 1) Banking Segment – incorporating corporate, retail and treasury and investment banking activities carried out by the Group's banking subsidiary; and
- 2) Investment Segment – incorporating investment activities for both short-term and long-term purposes.
- 3) Insurance Segment – incorporating insurance related activities for Life and General Insurance.
- 4) Real Estate Segment – incorporating activities in real estate sector.

Transactions between the business segments are on normal commercial terms and conditions and are entered into between the subsidiaries and the rest of the Group. Such transactions are eliminated on consolidation.

2016	Investments (RO'000)	Banking (RO'000)	Insurance (RO'000)	Real Estate (RO'000)	Adjustments (RO'000)	Total (RO'000)
Segment revenues	41,880	100,708	99,853	603	(25,513)	217,531
Segment assets	394,007	2,065,972	135,251	14,372	(213,058)	2,396,544
Segment results	28,541	27,793	4,700	(2,506)	(20,953)	37,575
Capital commitments	-	1,945	-	9,045	-	10,990
2015	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Segment revenues	22,103	95,426	31,013	780	(8,483)	140,839
Segment assets	259,564	1,982,699	103,361	5,911	(102,687)	2,248,848
Segment results	17,471	28,582	1,583	(3,531)	(7,341)	36,764
Capital commitments	-	363	-	837	-	1,200

### 34. RELATED PARTY TRANSACTIONS

- (a) These represent transactions with related parties defined in International Accounting Standard 24 – Related Party Disclosures. Pricing policies and the terms of the transactions are approved by the Parent Company's and subsidiaries' respective Boards of Directors.
- (b) Transactions and balances with related parties of the Parent Company or holders of 10% or more of the Parent company's shares or their family members, included in the statements of comprehensive income, statement of financial position and off-balance sheet are as follows:

	Total (RO'000)	Directors (RO'000)	Associates (RO'000)	Key management (RO'000)	Other related parties (RO'000)	Non- controlling interests (RO'000)
<b>Group – 2016</b>						
<b>Statement of comprehensive income</b>						
Interest and commission income	2,066	230	1,046	13	512	265
Interest expense	703	-	118	7	-	578
Directors' sitting fees and remuneration (Note 29)	464	464	-	-	-	-
Premium and claims	1,209	1	396	3	809	-
Staff costs	3,001	-	-	3,001	-	-
Terminal benefits	156	-	-	156	-	-
Operating expenses	381	-	-	-	381	-
<b>Statement of financial position</b>						
Loans and advances	75,244	5,905	26,631	370	27,599	14,739
Current and deposits from customers	17,567	738	6,682	820	5,712	3,615
Insurance balance receivable	240	2	160	-	78	-
Payables	476	142	40	-	294	-
<b>Off balance sheet</b>						
Letters of credit and guarantees	216,478	-	-	-	6,759	209,719

### 34. RELATED PARTY TRANSACTIONS (continued)

	Total (RO'000)	Major shareholders (RO'000)	Directors (RO'000)	Associates (RO'000)	Key management (RO'000)	Non- controlling interests (RO'000)
<b>Group – 2015</b>						
<b>Statement of comprehensive income</b>						
Interest and commission income	851	8	9	472	-	362
Interest expense	463	-	-	-	-	463
Directors' sitting fees and remuneration	394	-	394	-	-	-
Premium and claims	461	15	-	446	-	-
Staff costs	2,615	-	-	-	2,615	-
Terminal benefits	183	-	-	-	183	-
Operating expenses	57	-	57	-	-	-
<b>Statement of financial position</b>						
Loans and advances	53,387	2,000	290	29,333	-	21,764
Deposits from customers	6,206	32	193	116	-	5,865
Property and equipment	68	-	68	-	-	-
Other assets	683	6	12	665	-	-
<b>Off balance sheet</b>						
Letters of credit and guarantees	205,675	-	-	-	-	205,675

- (c) The Banking subsidiary has a management agreement with Arab Bank plc, Jordan, which owns 49% of the Banking subsidiary's share capital. In accordance with the terms of the management agreement, Arab Bank plc provides banking related technical assistance and other management services, including secondment of managerial staff. The annual management fee is RO 74 thousands (2015- RO 87 thousands).

### 34. RELATED PARTY TRANSACTIONS (continued)

Parent Company	2016			
	Subsidiaries (R0'000)	Directors (R0'000)	Key management (R0'000)	Other related parties (R0'000)
<b>Statement of comprehensive income</b>				
Directors' sitting fees and remuneration	-	200	-	-
Staff cost recharge	364	-	-	-
Staff Cost	-	-	1,187	-
Terminal benefits	-	-	53	-
Operating expenses	-	-	-	77
Interest expenses	490	-	-	-
Premiums	101	-	-	-
Claims	54	-	-	-
Dividend from subsidiary companies	8,477	-	-	-
Rental and other income	197	-	-	-
Interest Income	2,538	-	-	-
Brokerage	2	-	-	-
Dividend from associate companies	-	-	-	3,221
<b>Statements of financial position</b>				
Bank borrowings	4,000	-	-	-
Bank balances	1,189	-	-	-
Due from subsidiaries	51,383	-	-	-

### 34. RELATED PARTY TRANSACTIONS (continued)

Parent Company	2015			
	Subsidiary (R0'000)	Directors (R0'000)	Key management (R0'000)	Other related parties (R0'000)
Statement of comprehensive income				
Directors' sitting fees and remuneration	-	200	-	-
Staff costs	-	-	1,011	-
Terminal benefits	-	-	28	-
Operating expenses	-	-	-	57
Interest expenses	143	-	-	-
Premiums	2	-	-	-
Claims	13	-	-	-
Dividend from subsidiary companies	7,098	-	-	-
Dividend from associate companies	-	-	-	872
Statements of financial position				
Property and equipment	-	-	-	68
Bank borrowings	15,000	-	-	-
Bank balances	715	-	-	-
Sale of Investments	52,368	-	-	-
Due from subsidiaries	39,596	-	-	-
Due to a subsidiary	100	-	-	-
Prepayments	-	-	-	27

### 35. FIDUCIARY ACTIVITIES

As at 31 December 2016, balances stated at cost arising from fiduciary activities are as follows:

	Group		Parent Company	
	2016 (R0'000)	2015 (R0'000)	2016 (R0'000)	2015 (R0'000)
Investments syndicated by the Group and registered in its name:				
Parent Company	926	926	926	926
Funds under management:				
Banking subsidiary	-	288,283	-	-
	<u>926</u>	<u>289,209</u>	<u>926</u>	<u>926</u>

These investments are held beneficially for and on behalf of investors and, accordingly, are not treated as assets of the Group and the Parent Company. These are included in the Group's and Parent company's financial statements as off balance sheet items.

The banking subsidiary's fiduciary activities consist of investment management activities conducted as trustee and manager for investment funds and individuals. During the year, the banking subsidiary disposed off its IMG business. Details are set out in note 32.

### 36. COMMITMENTS

As of the reporting date, the Group and the Parent Company had the following outstanding commitments which are expected to crystallise within one year:

	Group (R0' 000)	Parent Company (R0' 000)
<b>2016</b>		
Construction	10,990	9,045
Undrawn loan commitments	97,975	-
<b>2015</b>		
Construction	1,200	837
Undrawn loan commitments	58,448	-

### 36. COMMITMENTS (continued)

The Group's commitments set out above are expected to crystallise in the following periods:

	Up to 1 year (R0'000)	1 to 5 years (R0'000)	Over 5 years (R0'000)	Total (R0'000)
<b>2016</b>				
Capital commitments	9,081	1,909	-	10,990
Undrawn loan commitments	-	97,975	-	97,975
<b>2015</b>				
Capital commitments	1,200	-	-	1,200
Undrawn loan commitments	-	58,448	-	58,448

### 37. CONTINGENT LIABILITIES

The outstanding contract values or the notional amounts of these instruments at 31 December were as follows:

	2016 R0'000	2015 R0'000
Letters of credit	197,931	233,862
Guarantees	482,070	484,750
Financial guarantees	141,638	141,250
	<b>821,639</b>	<b>859,862</b>

### 37. CONTINGENT LIABILITIES (continued)

The concentration of letters of credit, guarantees and financial guarantees by industry sector is as follows:

	Group		Parent Company	
	2016 (RO'000)	2015 (RO'000)	2016 (RO'000)	2015 (RO'000)
Export trade	152,983	183,361	-	-
Construction	287,085	278,561	-	-
Government	70,014	73,018	-	-
Transportation	17,801	20,326	-	-
Import trade	40,319	50,100	-	-
Utilities	235,761	235,108	-	-
Services	4,462	3,589	-	-
Wholesale and retail trade	10,670	12,841	-	-
Manufacturing	2,544	2,958	-	-
	<b>821,639</b>	<b>859,862</b>	<b>-</b>	<b>-</b>

Letters of credit and guarantees amounting to RO 510,560 thousand (2015 - RO 644,109 thousand) were counter guaranteed by other banks.

Letters of credit and guarantees include RO 468 thousand (2015: RO 159 thousand) relating to non-performing loans.

#### Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The banking subsidiary has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Banking subsidiary makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Banking subsidiary had certain unresolved legal claims which are not expected to have any significant implication on the Group financial statements.

The Insurance subsidiary, consistent with the majority of insurers, is subject to litigation in the normal course of its business. The Insurance subsidiary, based on independent legal advice, does not believe that the outcome of the court cases will have a material impact on its income or financial position.

#### Insurance contingencies

At 31 December 2016, there were contingent liabilities in respect of guarantees issued by commercial banks on behalf of the Group amounting to RO 475,457 (2015 - RO 272,018) given in the normal course of business from which it is anticipated that no material liabilities will arise.

### 38. DERIVATIVES

A derivative financial instrument is a financial contract between two parties when payments are dependent upon movement in price in one or more underlying financial instrument, reference rate or index.

#### Group

At the reporting date, there were outstanding forward foreign exchange contracts, all maturing within one year, entered into on behalf of customers for the sale and purchase of foreign currencies. These financial instruments have been recognised at prices in active markets for identical assets or liabilities. These fair values and the notional contracted amounts are summarised below:

	Positive fair value (R0'000) (note 10)	Negative fair value (R0'000) (note 21)	Notional amount (R0'000)	Within 3 months (R0'000)	3 – 12 months (R0'000)
<b>31 December 2016</b>					
Purchase contracts	166	-	13,199	7,193	6,006
Sale contracts	-	(143)	(13,176)	(7,176)	(6,000)
	<u>166</u>	<u>(143)</u>	<u>23</u>	<u>17</u>	<u>6</u>
<b>31 December 2015</b>					
Purchase contracts	148	-	12,377	8,326	4,051
Sale contracts	-	(141)	(12,370)	(8,321)	(4,049)
	<u>148</u>	<u>(141)</u>	<u>7</u>	<u>5</u>	<u>2</u>

### 39. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

Group - 2016	Sultanate of Oman (RO'000)	North America (RO'000)	UK and Europe (RO'000)	Other countries (RO'000)	Total (RO'000)
<b>Assets</b>					
Balances with banks and money at call	255,546	-	113	13,746	269,405
Deposits with banks	44,505	388	8,126	18,473	71,492
Premium and insurance balance receivables	10,753	-	91	23,763	34,607
Re-insurance share in Insurance Funds	520	-	2,720	23,445	26,685
Investment securities	186,730	1,652	515	11,396	200,293
Investments in associates	57,105	-	-	33,171	90,276
Investment properties	10,475	-	-	-	10,475
Loans and advances to customers	1,590,799	-	-	-	1,590,799
Other assets	50,559	-	17	723	51,299
Projects work in progress	-	-	2,970	-	2,970
Property and equipment	30,027	-	-	162	30,189
Intangible assets	18,054	-	-	-	18,054
<b>Total assets</b>	<b>2,255,073</b>	<b>2,040</b>	<b>14,552</b>	<b>124,879</b>	<b>2,396,544</b>
<b>Liabilities</b>					
Due to banks	143,145	-	764	6,947	150,856
Deposits from customers	1,625,381	-	-	-	1,625,381
Insurance funds	33,250	-	-	34,583	67,833
Subordinated debts	70,000	-	-	-	70,000
Other liabilities	72,346	-	907	7,784	81,037
Taxation	4,966	-	-	-	4,966
<b>Total liabilities</b>	<b>1,949,088</b>	<b>-</b>	<b>1,671</b>	<b>49,314</b>	<b>2,000,073</b>

### 39. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES (continued)

Group – 2015	Sultanate of Oman (RO'000)	North America (RO'000)	UK and Europe (RO'000)	Other countries (RO'000)	Total (RO'000)
Assets					
Balances with banks and money at call	193,140	-	38	89	193,267
Deposits with banks	54,754	17,291	13,733	30,706	116,484
Premium and insurance balance receivables	8,746	-	306	19,334	28,386
Re-insurance share in Insurance Funds	682	-	2,127	19,879	22,688
Investment securities	178,067	5,989	368	8,496	192,920
Investments in associates	50,263	-	-	31,012	81,275
Investment properties	10,311	-	-	-	10,311
Loans and advances to customers	1,504,571	-	-	-	1,504,571
Other assets	44,593	-	17	245	44,855
Projects work in progress	1,547	-	3,937	-	5,484
Property and equipment	29,609	-	-	-	29,609
Intangible assets	18,998	-	-	-	18,998
Total assets	<u>2,095,281</u>	<u>23,280</u>	<u>20,526</u>	<u>109,761</u>	<u>2,248,848</u>
Liabilities					
Due to banks	88,712	-	424	8,268	97,404
Deposits from customers	1,593,225	-	-	-	1,593,225
Insurance funds	32,396	-	-	27,218	59,614
Subordinated debts	70,000	-	-	-	70,000
Other liabilities	83,569	-	354	8,220	92,143
Taxation	4,819	-	-	-	4,819
Total liabilities	<u>1,872,721</u>	<u>-</u>	<u>778</u>	<u>43,706</u>	<u>1,917,205</u>

### 39. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES (continued)

	Sultanate of Oman (RO'000)	North America (RO'000)	UK and Europe (RO'000)	Other countries (RO'000)	Total (RO'000)
<b>Parent Company – 2016</b>					
<b>Assets</b>					
Balances with banks and money at call	1,512	-	27	25	1,564
Investment securities	6,017	1,652	346	3,065	11,080
Investments in associates	57,104	-	-	33,172	90,276
Investments in subsidiaries	212,692	-	1,632	-	214,324
Dues from subsidiaries	48,505	-	-	1,326	49,831
Investments in property	9,143	-	-	-	9,143
Other assets	2,456	-	-	374	2,830
Property and equipment	143	-	-	-	143
<b>Total assets</b>	<b>337,572</b>	<b>1,652</b>	<b>2,005</b>	<b>37,962</b>	<b>379,191</b>
<b>Liabilities</b>					
Due to banks	138,900	-	-	-	138,900
Other liabilities	2,688	-	-	-	2,688
<b>Total liabilities</b>	<b>141,588</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>141,588</b>
<b>Parent Company – 2015</b>					
<b>Assets</b>					
Balances with banks and money at call	995	-	28	89	1,112
Investment securities	4,478	5,989	200	424	11,091
Investments in associates	50,187	-	-	31,012	81,199
Investment in subsidiaries	174,720	-	-	2,739	177,459
Investments in property	9,036	-	-	-	9,036
Other assets	786	-	-	-	786
Due from subsidiaries	38,371	-	1,207	-	39,578
Property and equipment	294	-	-	-	294
<b>Total assets</b>	<b>278,867</b>	<b>5,989</b>	<b>1,435</b>	<b>34,264</b>	<b>320,555</b>
<b>Liabilities</b>					
Due to banks	102,500	-	-	-	102,500
Other liabilities	2,571	-	-	-	2,571
<b>Total liabilities</b>	<b>105,071</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>105,071</b>

#### 40. INTEREST RATE SENSITIVITY ANALYSIS

The Group's and the Parent company's interest rate sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier, are as follows:

	Average effective interest rate %	Within 6 months (R0'000)	6 to 12 months (R0'000)	Over 1 year (R0'000)	Not exposed to interest rate risk (R0'000)	Total (R0'000)
<b>Group – 2016</b>						
Assets						
Balances with banks and money at call	1.00	-	-	500	268,905	269,405
Deposits with banks	0.36	16,659	-	-	54,833	71,492
Premium and insurance balance receivables	NIL	-	-	-	34,607	34,607
Re-insurance share in Insurance funds	NIL	-	-	-	26,685	26,685
Investment securities:						
- At amortised cost	1.67	40,290	20,135	35,498	-	95,923
- Investments	NIL	-	-	-	104,370	104,370
Investments in associates	NIL	-	-	-	90,276	90,276
Investment properties	NIL	-	-	-	10,475	10,475
Loans and advances to customers	4.66	335,702	358,478	896,619	-	1,590,799
Other assets	NIL	6,155	-	-	45,144	51,299
Projects work in progress	NIL	-	-	-	2,970	2,970
Property and equipment	NIL	-	-	-	30,189	30,189
Intangible assets	NIL	-	-	-	18,054	18,054
Total assets		<u>398,806</u>	<u>378,613</u>	<u>932,617</u>	<u>686,508</u>	<u>2,396,544</u>
Liabilities						
Due to banks	3.06	52,800	4,200	81,800	12,056	150,856
Deposits from customers	1.23	377,570	401,887	159,109	686,815	1,625,381
Insurance funds	NIL	-	-	-	67,833	67,833
Other liabilities	NIL	5,247	-	75,790	-	81,037
Subordinated bonds	5.50	-	50,000	20,000	-	70,000
Taxation	NIL	-	-	-	4,966	4,966
Total liabilities		<u>435,617</u>	<u>456,087</u>	<u>336,699</u>	<u>771,670</u>	<u>2,000,073</u>

#### 40. INTEREST RATE SENSITIVITY ANALYSIS (continued)

	Average effective interest rate %	Within 6 months (RO'000)	6 to 12 months (RO'000)	Over 1 year (RO'000)	Not exposed to interest rate risk (RO'000)	Total (RO'000)
Group - 2015						
Assets						
Balances with banks and money at call	1	-	-	500	192,767	193,267
Deposits with banks	0.31 - 1	20,400	-	500	95,584	116,484
Premium and insurance balance receivables	NIL	-	-	-	28,386	28,386
Re-insurance share in Insurance funds	NIL	-	-	-	22,688	22,688
Investment securities:						
- Held to maturity	1.31	36,000	8,510	52,345	-	96,855
- Investments	NIL	-	-	-	96,065	96,065
Investments in associates	NIL	-	-	-	81,275	81,275
Investment properties	NIL	-	-	-	10,311	10,311
Loans and advances to customers	4.63	316,619	220,211	958,926	8,815	1,504,571
Other assets	NIL	5,072	-	-	39,783	44,855
Projects work in progress	NIL	-	-	-	5,484	5,484
Property and equipment	NIL	-	-	-	29,609	29,609
Intangible assets	NIL	-	-	-	18,998	18,998
Total assets		<u>378,091</u>	<u>228,721</u>	<u>1,011,771</u>	<u>630,265</u>	<u>2,248,848</u>
Liabilities						
Due to banks	2.65	88,000	-	-	9,404	97,404
Deposits from customers	0.79	393,298	278,597	219,082	702,248	1,593,225
Insurance Funds	NIL	-	-	-	59,614	59,614
Other liabilities	NIL	9,567	-	-	82,576	92,143
Subordinated bonds	5.50	-	-	50,000	20,000	70,000
Taxation	NIL	-	-	-	4,819	4,819
Total liabilities		<u>490,865</u>	<u>278,597</u>	<u>269,082</u>	<u>878,661</u>	<u>1,917,205</u>

#### 40. INTEREST RATE SENSITIVITY ANALYSIS (continued)

	Average effective interest rate %	Within 6 months (R'O'000)	6 to 12 months (R'O'000)	Over 1 year (R'O'000)	Not exposed to interest rate risk (R'O'000)	Total (R'O'000)
<b>Parent – 2016</b>						
<b>Assets</b>						
Balances with banks and money at call	NIL	-	-	-	1,564	1,564
Investment securities	NIL	-	-	-	11,080	11,080
Investments in associates	NIL	-	-	-	90,276	90,276
Investments in subsidiaries	NIL	-	-	-	214,324	214,324
Investment properties	NIL	-	-	-	9,143	9,143
Due from subsidiaries	5.00	-	-	-	49,831	49,831
Other assets	NIL	-	-	-	2,830	2,830
Property and equipment	NIL	-	-	-	143	143
<b>Total assets</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>379,191</u>	<u>379,191</u>
<b>Liabilities</b>						
Bank borrowings	3.06	48,900	8,200	81,800	-	138,900
Other liabilities	NIL	-	-	-	2,688	2,688
<b>Total liabilities</b>		<u>48,900</u>	<u>8,200</u>	<u>81,800</u>	<u>2,688</u>	<u>141,588</u>
<b>Parent – 2015</b>						
<b>Assets</b>						
Balances with banks and money at call	NIL	-	-	-	1,112	1,112
Investment securities	NIL	-	-	-	11,091	11,091
Investments in associates	NIL	-	-	-	81,199	81,199
Investments in subsidiaries	NIL	-	-	-	177,459	177,459
Investment properties	NIL	-	-	-	9,036	9,036
Due from subsidiaries	NIL	-	-	-	39,578	39,578
Other assets	NIL	-	-	-	786	786
Property and equipment	NIL	-	-	-	294	294
<b>Total assets</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>320,555</u>	<u>320,555</u>
<b>Liabilities</b>						
Bank borrowings	2.65	52,500	-	50,000	-	102,500
Other liabilities	NIL	-	-	-	2,571	2,571
<b>Total liabilities</b>		<u>52,500</u>	<u>-</u>	<u>50,000</u>	<u>2,571</u>	<u>105,071</u>

#### 41. ASSETS AND LIABILITIES MATURITY PROFILE

	Within 3 months (RO'000)	3 to 12 months (RO'000)	1 to 5 years (RO'000)	Over 5 years (RO'000)	Total (RO'000)
<b>Group - 2016</b>					
<b>Assets</b>					
Balances with banks and money at call	230,378	17,564	11,585	9,878	<b>269,405</b>
Deposits with banks	25,543	4,849	36,100	5,000	<b>71,492</b>
Premium and insurance balance receivables	-	34,607	-	-	<b>34,607</b>
Re-insurance share in insurance funds	-	25,097	-	1,588	<b>26,685</b>
Investment securities	63,699	21,123	110,182	5,289	<b>200,293</b>
Investments in associates	-	-	-	90,276	<b>90,276</b>
Investment properties	-	-	-	10,475	<b>10,475</b>
Loans and advances to customers	234,796	125,967	421,011	809,025	<b>1,590,799</b>
Other assets	40,155	9,463	1,253	428	<b>51,299</b>
Projects work in progress	-	-	-	2,970	<b>2,970</b>
Property and equipment	-	-	-	30,189	<b>30,189</b>
Intangible assets	-	-	-	18,054	<b>18,054</b>
<b>Total assets</b>	<b>594,571</b>	<b>238,670</b>	<b>580,131</b>	<b>983,172</b>	<b>2,396,544</b>
<b>Liabilities</b>					
Due to banks	44,856	28,200	77,800	-	<b>150,856</b>
Deposits from customers	402,507	561,178	365,541	296,155	<b>1,625,381</b>
Insurance funds	-	59,818	-	8,015	<b>67,833</b>
Other liabilities	46,748	24,905	6,472	2,912	<b>81,037</b>
Subordinated bonds	-	50,000	20,000	-	<b>70,000</b>
Taxation	4,341	625	-	-	<b>4,966</b>
<b>Total liabilities</b>	<b>498,452</b>	<b>724,726</b>	<b>469,813</b>	<b>307,082</b>	<b>2,000,073</b>

#### 41. ASSETS AND LIABILITIES MATURITY PROFILE (continued)

	Within 3 months (R0'000)	3 to 12 months (R0'000)	1 to 5 years (R0'000)	Over 5 years (R0'000)	Total (R0'000)
Group - 2015					
Assets					
Balances with banks and money at call	138,434	22,916	17,058	14,859	193,267
Certificates of deposit					
Deposits with banks	83,226	4,549	27,849	860	116,484
Premium and insurance balance receivables	-	28,386	-	-	28,386
Re-insurance share in insurance funds	-	22,688	-	-	22,688
Investment securities	66,168	8,662	95,290	22,800	192,920
Investments in associates	-	-	-	81,275	81,275
Investment properties	-	-	-	10,311	10,311
Loans and advances to customers	295,654	164,139	402,083	642,695	1,504,571
Other assets	33,484	9,496	1,365	510	44,855
Projects work in progress	-	-	-	5,484	5,484
Property and equipment	-	-	-	29,609	29,609
Intangible assets	-	-	-	18,998	18,998
Total assets	<u>616,966</u>	<u>260,836</u>	<u>543,645</u>	<u>827,401</u>	<u>2,248,848</u>
Liabilities					
Due to banks	27,404	20,000	50,000	-	97,404
Deposits from customers	445,141	483,106	355,919	309,059	1,593,225
Insurance funds	-	50,610	-	9,004	59,614
Other liabilities	60,873	23,113	6,693	1,464	92,143
Subordinated bonds	-	-	50,000	20,000	70,000
Taxation	4,611	208	-	-	4,819
Total liabilities	<u>538,029</u>	<u>577,037</u>	<u>462,612</u>	<u>339,527</u>	<u>1,917,205</u>

#### 41. ASSETS AND LIABILITIES MATURITY PROFILE (continued)

	Within 3 months (RO'000)	3 to 12 months (RO'000)	1 to 5 years (RO'000)	Over 5 years (RO'000)	Total (RO'000)
<b>Parent Company – 2016</b>					
Assets					
Balances with banks and money at call	1,564	-	-	-	1,564
Investment securities	1,969	-	9,111	-	11,080
Investments in associates	-	-	-	90,276	90,276
Investments in subsidiaries	-	-	-	214,324	214,324
Investment properties	-	-	-	9,143	9,143
Other assets	2,830	-	-	-	2,830
Property and equipment	-	-	-	143	143
Due from subsidiaries	-	-	49,831	-	49,831
<b>Total assets</b>	<b>6,363</b>	<b>-</b>	<b>58,942</b>	<b>313,886</b>	<b>379,191</b>
Liabilities					
Due to banks	32,900	28,200	77,800	-	138,900
Other liabilities	2,437	-	251	-	2,688
<b>Total liabilities</b>	<b>35,337</b>	<b>28,200</b>	<b>78,051</b>	<b>-</b>	<b>141,588</b>
<b>Parent Company – 2015</b>					
Assets					
Balances with banks and money at call	1,112	-	-	-	1,112
Investment securities	1,264	-	9,827	-	11,091
Investments in associates	-	-	-	81,199	81,199
Investments in subsidiaries	-	-	-	177,459	177,459
Investment properties	-	-	-	9,036	9,036
Due from subsidiaries	-	-	39,578	-	39,578
Other assets	786	-	-	-	786
Property and equipment	-	-	-	294	294
<b>Total assets</b>	<b>3,162</b>	<b>-</b>	<b>49,405</b>	<b>267,988</b>	<b>320,555</b>
Liabilities					
Due to banks	17,500	35,000	50,000	-	102,500
Other liabilities	2,370	-	201	-	2,571
<b>Total liabilities</b>	<b>19,870</b>	<b>35,000</b>	<b>50,201</b>	<b>-</b>	<b>105,071</b>

## 42. FINANCIAL RISK MANAGEMENT POLICIES

### 42.1 Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the evaluation, analysis, acceptance and management of risk or combination of risks. As taking risk is core to the financial business and operational risks are an inevitable consequence of any business, the Group's aim is to achieve an appropriate balance between risk and return while minimising the potential adverse effects on the Group's financial performance of the respective Group companies.

The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk in both the trading and the banking book of the respective Group Company. Risk Management is carried out by the Risk Management team in accordance with documented policies approved by the Board of Directors of the respective Group Company.

The principal types of risks at the Group and Parent Company are credit risk, liquidity risk, market risk (market price risk, interest rate risk and currency risk) and operational risk.

### 42.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities at the banking subsidiary and investment activities and other assets in the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees given by the banking subsidiary.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The details of concentrations of credit risk based on counterparties by industry are disclosed in the geographical concentration is disclosed in Note 39.

The Group manages, limits and controls concentrations of credit risk – in particular, to individual counterparties and Groups, and to industries and countries.

The banking subsidiary structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit & Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors of the banking subsidiary.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.2.1 Risk mitigation policies

Some other specific control and mitigation measures are outlined below.

#### (a) Collateral

The banking subsidiary employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- charges over business assets such as premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are unsecured. Additionally, in order to minimise the credit loss the bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

#### (b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The banking subsidiary assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Risk Management team.

#### (c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the banking subsidiary on behalf of a customer authorising a third party to draw drafts on the banking subsidiary up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.2.1 Risk mitigation policies (continued)

An analysis of the loans and advances, other than government soft loans, for which collaterals or other credit enhancements are held is as follows:

	Stage 3 (RO'000)	Gross loans (RO'000)
Loans and advances with collateral available	25,412	550,956
Loans and advances with guarantees available	8,137	34,665
<b>Balance as at 31 December 2016</b>	<b>33,549</b>	<b>585,621</b>
Loans and advances with collateral available	21,661	423,505
Loans and advances with guarantees available	8,006	33,293
Balance as at 31 December 2015	29,667	456,798

### 42.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements

	2016 RO' 000	2015 RO' 000
<b>Items on the statement of financial position</b>		
Cash and balances with Central Bank of Oman	253,106	192,124
Due from banks – Money market placements	30,080	83,226
<i>Loans and advances</i>		
Corporate loans	919,499	929,096
Personal loans	725,363	635,288
Other assets	45,401	40,856
<i>Investments held to maturity</i>		
Government development bonds	55,633	53,855
Treasury bills	40,290	43,000
	<b>2,069,372</b>	<b>1,977,445</b>
<b>Off - balance sheet items</b>		
Financial guarantees	141,638	141,250
Undrawn loan commitments	97,975	58,448
	<b>239,613</b>	<b>199,698</b>

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2016 and 31 December 2015 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

- a) 60% (2015 – 63%) of the inter-bank money market placements is with a local bank rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.
- b) The stage 3 loans have increased from 2.87% at 31 December 2015 to 2.9% at 31 December 2016. The stage 3 personal loans constitute 0.85% of the total loans at 31 December 2016 compared to 0.6% at 31 December 2015.

### 42.2.3 Credit risk management (from 1 January 2016)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and expert credit assessment and inclusion of forward- looking information.

The Group uses an expected credit loss (ECL) model of impairment, i.e. impairment based on forecast of likely future credit losses using reasonable and supportable information.

The Group uses a three stage approach recognising increasing credit risk:

- Stage 1: At origination all assets have at least 12 months expected credit losses;
- Stage 2: Brings forward recognition of impairment when credit risk increases significantly; assets are subject to lifetime expected credit losses;
- Stage 3: As IAS39 credit impaired assets.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

#### Definition of default

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group. The Group also considers relevant prudential requirements.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.2.3 Credit risk management (from 1 January 2016) (continued)

#### Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group consultant and consideration of a variety of external actual and forecast information, the Group formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

#### Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

The Group derives probability of default (PD) using hazard Cox model. The Group uses separate PD models for retail and corporate segments. PD is assigned to each account using Cox survival model for estimating marginal PD for each month-on-book. The PD estimates are converted to cumulative PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12 month PDs.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and industry of the borrower.

The Group calculates PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. At 1 January 2016 and 31 December 2016, the probabilities assigned to the base case, negative case and positive case scenarios.

#### Credit-impaired loans

Credit-impaired loans and advances are graded in the Group's internal credit risk grading systems.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.2.3 Credit risk management (from 1 January 2016) (continued)

#### Modified financial assets

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. The Group grants forbearance on a selective basis if there is evidence that the customer has made all reasonable efforts to honour the original contractual terms and the customer is expected to be able to meet the revised terms. Forbearance is a qualitative indicator of a significant increase in credit risk, and a customer would need to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired, or in default, or the PD has decreased such that the provision for credit-impairment reverts to being measured at an amount equal to the 12-month ECL. The total restructured loans at 31 December 2016 amounted to RO 7,122 thousands (2015: RO 16,586 thousands).

#### Credit risk profile

The credit risk profile based on internal credit ratings and cox model as at 31 December 2016 was as follows:

	Bank balances and deposits (RO'000)	Investments at amortised cost (RO'000)	Loans and advances (RO'000)
Stage 1 (12-month ECL)	340,897	96,424	1,367,332
Stage 2 (Lifetime ECL but not credit-impaired)	-	-	225,592
Stage 3 (Lifetime ECL and credit-impaired)	-	-	47,938
	<u>340,897</u>	<u>96,424</u>	<u>1,640,862</u>

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.2.3 Credit risk management (from 1 January 2016) (continued)

The loan loss provision required under IFRS 9 are set out below:

	At 1 January 2016 (RO'000)	At 31 December 2016 (RO'000)
Stage 1		
Corporate	8,360	8,052
Retail	2,310	2,780
Stage 2		
Corporate	4,480	3,378
Retail	570	590
Stage 3	<u>24,065</u>	<u>28,049</u>
	<u>39,785</u>	<u>42,849</u>

Expected loss model of IFRS 9 resulted in a lower provision requirement of RO 5 million as of 1 January 2016 as compared to loan loss provision maintained by the Group. The Group has not incorporated this adjustment in the financial statements on materiality basis as well as considering the fact that the related regulatory requirements addressing the implementation of IFRS 9 are yet to be issued in Oman. The impact on the current year provision amounted to RO 2 million.

### 42.2.4 Impairment and provisioning policy (prior to 1 January 2016)

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the banking subsidiary about the loss events as well as considering the guidelines issued by the Central Bank of Oman.

The banking subsidiary's credit policy requires the review of individual financial assets on a quarterly basis or earlier when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for:

- (i) portfolios of homogenous assets that are individually not significant; and
- (ii) losses that have been incurred but have not yet been identified, by using the available historical experience and experienced judgment.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.2.5 Loans and advances to customers and due from banks

a) Loans and advances and due from banks are summarised as follows:

31 December 2015

Neither past due nor impaired	1,356,444	83,226	1,439,670
Special Mention loans	124,012	-	124,012
Past due but not impaired	24,086	-	24,086
Impaired	44,842	-	44,842
Gross loans and advances	1,549,384	83,226	1,632,610
Less: allowance for loan impairment and contractual interest not recognized	(44,813)	-	(44,813)
Net loans and advances	<u>1,504,571</u>	<u>83,226</u>	<u>1,587,797</u>

b) The break-up of the loans and advances to customers in respect of the risk ratings adopted by the banking subsidiary are:

31 December 2015

Standard loans	624,433	756,097	1,380,530
Special mention loans	1,430	122,582	124,012
Substandard loans	2,541	1,117	3,658
Doubtful loans	2,196	6,881	9,077
Loss	4,688	27,419	32,107
	<u>635,288</u>	<u>914,096</u>	<u>1,549,384</u>

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.2.5 Loans and advances to customers and due from banks (continued)

c) Age analysis of loans and advances past due but not impaired:

	2015 (RO'000)
Past due up to 30 days	4,226
Past due 30-60 days	14,323
Past due 60-90 days	5,537
Total	24,086
Fair value of collateral	105,314

d) Loans and advances individually impaired

Individually impaired loans	44,842
Fair value of collateral	21,875

### 42.2.6 Loans and advances renegotiated

These arrangements include extended payment arrangements, deferral of payments and modification of interest rates. Following restructuring, a previously past due loan account is reclassified as a normal loan and managed with other similar loans which are neither past due nor impaired. The restructuring arrangements are based on the criteria and indicators which in the judgement of the management will indicate that the payment will most likely continue.

### 42.2.7 Debt securities

The Bank's investments in debt securities are mainly in Government Development Bonds or treasury bills denominated in Rial Omani issued by the Government of Oman. The Bank also invests in debt securities issued by other banks based on their individual external credit rating. These investments are made to deploy the surplus liquid funds with maximum return.

### 42.2.8 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The Bank has not repossessed any collateral during 2016 and 2015.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.3 Market risk

The Group and the Parent Company take on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates for the banking subsidiary.

The market risks on investments listed in the securities markets for the Parent Company are monitored by the Board and Management committees. The Management committee monitor the risks, allocations and returns from local and foreign investments through regular meetings. The Management of the Parent Company has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the investment activities.

#### 42.3.1 Market price risk measurement techniques

The Group and Parent Company manages its market risk in the trading book using various techniques such as position limits, stop loss limits and regular monitoring of risk statistical data.

The impact of 10% change in the market price of the quoted equities and funds which are part of the financial assets at fair value through profit or loss at 31 December 2016 is 0.84% of the Group's total revenues (2015 – 0.61%).

The Parent Company is exposed to equity securities price risk because of investments held and classified as investments at fair value through profit or loss and available for sale financial assets. The Parent Company manages its market risk from its investing activities by diversification based on extensive research on equity or fund positions. Market risks are measured against management targets, past trends in world indices and market specific indices, before taking positions and subsequently monitored regularly.

The impact of 10% change in the market price of the quoted equities which are classified as financial assets at fair value through profit or loss at 31 December 2016 is 2.60% of the Parent company's total revenues (2015 – 1.37%).

#### 42.3.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching/re-pricing of assets and liabilities. The Group is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The banking subsidiary's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the banking subsidiary's profitability. The table in Note 40 summarises the Group's exposure to the interest rate risks. It includes the Group's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

For managing its interest rate risk in the banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year. The EaR at 31 December 2016 is 0.83% (2015 – 0.60%).

The Parent company's interest rate risk exposure is summarised in a table in Note 40.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.3 Market risk (continued)

#### 42.3.3 Currency risk

Currency risk arises where the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Group enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors of the respective Group Company.

The Group's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The individual Group company's management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an on going basis by the management and in the case of the banking subsidiary, the Assets and Liabilities Committee (ALCO).

Oman operates with a fixed exchange rate, and the Omani Rial is pegged to the US Dollar at \$2.6008 per Omani Rial. Accordingly, currency risk arises on assets not denominated in Rial Omani or currencies linked to the US Dollar.

The Parent company's exposure to assets denominated in foreign currencies (excluding US Dollars which the Rials Omani is pegged to) was 2.28% (2015 - 2.62%) of the total assets at the reporting date. Management regularly monitors the currency risk by reviewing the positions and within the overall context of its investment guidelines.

The net open position of the Group and Parent Company at the year-end is set out below:

#### Foreign currency exposures

	Group		Parent Company	
	2016	2015	2016	2015
Assets denominated in US Dollars (included assets denominated in GCC currency pegged with US Dollars)	97,257	80,599	35,636	34,587
Percentage of total assets	4.06%	3.58%	9.4%	10.79%
Assets denominated in other foreign currencies	9,255	8,632	8,657	8,384
Percentage of total assets	0.38%	0.38%	2.28%	2.62%

#### 42.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.4 Liquidity risk (continued)

The Group's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Group maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Group holds certain liquid assets as part of its liquidity risk management strategy.

The Group and the Parent Company hold investment securities listed on the securities markets and other quoted investments. Those investments are liquid in nature and can be sold in response to need for liquidity. As at 31 December 2016, the quoted investments for the Group were 50% of the total investment securities and 83 % for the Parent Company (2015: 41% and 86% respectively).

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

### 42.5 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to the individual Group Company's management at the reporting date. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted by the Group and Parent Company in deriving the fair values are as follows:

#### 42.5.1 Current account balances due to and from banks

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

#### 42.5.2 Loans and advances

The estimated fair value of loans whose interest rates are materially different from the prevailing market interest rates is determined by discounting the contracted cash flows using market interest rates currently charged on similar loans. The fair value of non-performing loans approximates to the book value as adjusted for allowance for loan impairment. For the remainder, the fair value is taken as being equivalent to the carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

#### 42.5.3 Investments at fair value through profit or loss and other comprehensive income

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. The total amount of changes in value estimated using valuation techniques that were recognised in the statement of comprehensive income during the year.

Where quoted market price do not exist and when investments are in closely held entities, the management of the Parent Company presents such investments at cost less impairment losses, by factoring all known elements which could influence the unrealisation for each investment individually. These elements would include both internal and external factors.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.5.4 Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which is equal to the carrying value of those liabilities. The estimated fair value of fixed rate deposits whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contractual cash flows using the market interest rates currently offered for similar deposits.

### 42.5.5 Derivatives

The banking subsidiary usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

The related fair value details are set out in note 44.

### 42.6 Capital management

The Group's objectives of capital management are:

- to comply with the capital requirements set by the regulator for the banking subsidiary i.e. the Central Bank of Oman;
- to safeguard the Group's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.
- to comply with the solvency requirements for the insurance subsidiary

The principal objective of the Central Bank of Oman's (CBO) capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a bank's balance sheet, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS).

The CBO required the banks registered in the Sultanate of Oman to maintain a minimum capital adequacy ratio of 10% based on guidelines of the Basel II Accord from January 2007. The minimum capital adequacy ratio has been increased to 12% from 31 December 2010 onwards.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.6 Capital management (continued)

The ratio for the banking subsidiary calculated in accordance with the CBO and BIS capital adequacy guidelines as per the Basel II Accord is as follows:

	2016 RO' 000	2015 RO' 000
<b>Capital</b>		
Common Equity Tier 1	245,315	214,212
Additional Tier 1	30,000	-
Total Tier 1	275,315	214,212
Tier 2	38,735	50,741
Total capital base	314,050	264,953
<b>Risk weighted assets</b>		
Credit risk	1,849,546	1,725,013
Market risk	2,750	3,613
Operational risk	141,500	134,863
Total risk weighted assets	1,993,796	1,863,489
<b>Capital adequacy ratio %</b>	<b>15.75%</b>	<b>14.22%</b>

The Tier 1 capital consists of paid-up capital and reserves. The Tier 2 capital consists of the subordinated bond and collective provisions made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

The insurance company was in compliance with the regulatory solvency requirements.

## 42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 42.6 Capital management (continued)

The Parent company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During 2016, the Parent company's strategy, which was unchanged from 2015, was to maintain the gearing ratio at an acceptable level. The gearing ratio at 31 December 2016 and 2015 for the Parent Company was 36.63% and 32.00% respectively.

	2016	2015
	RO' 000	RO' 000
Total borrowings	138,900	102,500
Less: bank balances and cash	(1,564)	(1,112)
Net debt	137,336	101,388
Total equity	237,603	215,484
Total capital	374,939	316,872
Gearing ratio	36.63%	32.00%

## 43. INSURANCE RISK MANAGEMENT POLICIES

### Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. In addition the Group has entered into reinsurance contracts in order to mitigate the impact that large individual claims may have on its net results.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

### 43. INSURANCE RISK MANAGEMENT POLICIES (continued)

#### Short-duration life insurance contracts

##### (a) Frequency and severity of claims

These contracts are mainly issued to:

- Employers, providing cover against death, disability or (in the case of group medical policies) health of their employees.
- Financial institutions, providing cover against death of their borrowers.

In the case of group life contracts issued to employers, the risk is affected by the nature of the industry in which the employer operates. The risk of death and disability will vary by industry. Undue concentration of risk by industry will therefore increase the risk of a change in the underlying average mortality or morbidity of employees in a given industry, with significant effects on the overall insurance risk.

For short term group life and group credit life contracts the Group guarantees the premium rate for a period of one year and has a right to change these rates thereafter. In such contracts it therefore minimizes its exposure to mortality risk.

Insurance risk under disability contracts is also dependent on economic conditions in the industry. Historical data indicates that recession and unemployment in an industry will increase the number of claims for disability benefits as well as reducing the rate of recovery from disability.

The Group attempts to manage this risk through its underwriting, claims handling and reinsurance policy.

The Group also mitigates the risk by entering into reinsurance contracts under which the Group cedes risks such as death, accidental death benefit and permanent total disability above RO 10,000.

For its group medical business the risk is mitigated by entering into reinsurance contracts under which the Group reinsurers 50% of its medical portfolio on quota share treaty.

##### (b) Sources of uncertainty in the estimation of future claim payments

Other than for the testing of the adequacy of the liability representing the unexpired risk at the reporting date, there is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration.

##### (c) Process used to decide on assumptions

Assumptions are generally reviewed once a year at the time of the actuarial valuation. Estimates of expenses are based on an expense study done for the year 2016.

#### Claims development

Group maintains strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claims payments are normally resolved within one year.

### **43. INSURANCE RISK MANAGEMENT POLICIES (continued)**

#### **Reinsurance risk**

Consistent with other insurance companies, in order to minimize financial exposure arising from large claims, the Group, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess-of-loss reinsurance contracts.

To minimize its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers. The Group only deals with reinsurers as mandated under the board approved Reinsurance Management strategy manual.

The Group places business only with reinsurers having a minimum rating of "BBB" from Standard & Poor's or "B+" from A. M. Best except regional reinsurers.

#### **Financial risk in insurance subsidiary**

The Group is exposed to a range of financial risks through its financial assets, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are interest rate risk, equity price risk and credit risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Group manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts. The framework essentially consists of an investment strategy which provides for investment of funds representing a particular category of insurance liabilities in line with the nature of those liabilities.

The Group periodically produces reports showing the extent of compliance with the investment strategy which is reviewed by management and corrective action taken where necessary to rebalance the portfolio.

### **44. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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. Consequently, differences can arise between carrying values and fair value estimates.

#### **Parent Company**

The fair values of on balance sheet financial instruments, except for investments in subsidiaries and associates, are not significantly different from the carrying values included in the financial statements. The fair value of investments in associates based on the closing bid prices on the Muscat Securities Market at the reporting date is set out below:

#### 44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	Carrying value (RO'000)	Fair value (RO'000)	Difference (RO'000)
Investments in associates (note 8(d))			
2016	90,276	80,268	10,008
2015	81,199	73,978	7,221

##### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial investments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

##### Transfers between levels

During the reporting period ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

#### 44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 (RO'000)	Level 2 (RO'000)	Level 3 (RO'000)	Total (RO'000)
<b>As at 31 December 2016</b>				
<b>Group</b>				
Financial assets at fair value through profit or loss	18,999	-	1	19,000
Financial assets at fair value through other comprehensive income	81,645	376	2,848	84,869
<i>Derivative financial instruments</i>				
Purchase contracts	-	166	-	166
Sale contracts	-	(143)	-	(143)
<b>Parent Company</b>				
Financial assets at fair value through profit or loss	9,161	-	-	9,161
Financial assets at fair value through other comprehensive income	-	-	1,919	1,919
<b>As at 31 December 2015</b>				
<b>Group</b>				
Financial assets at fair value through profit or loss	8,613	-	323	8,936
Available-for-sale investments	83,749	376	2,358	86,483
<i>Derivative financial instruments</i>				
Purchase contracts	-	148	-	148
Sale contracts	-	(141)	-	(141)
<b>Parent Company</b>				
Financial assets at fair value through profit or loss	1,264	-	-	1,264
Available-for-sale investments	8,307	-	1,520	9,827

Level 1 financial instruments above are valued using quoted bid prices in an active market.

Level 2 above includes financial instruments which are valued using discounted cash flows method. Cash flows are discounted at a rate that reflects risk profile of the counter parties.

Level 3 above includes financial instruments carried at cost or breakup values.

#### 45. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the number of shares outstanding during the year.

	Group		Parent Company	
	2016	2015	2016	2015
Profit for the year attributable to shareholders of the parent (RO'000)	<u>23,875</u>	<u>22,949</u>	<u>24,796</u>	<u>13,608</u>
Weighted average number of shares outstanding during the year	<u>635,790,892</u>	<u>503,006,397</u>	<u>635,790,892</u>	<u>503,006,397</u>
Basic earnings per share (RO)	<u>0.038</u>	<u>0.046</u>	<u>0.039</u>	<u>0.027</u>

During the year, the Parent Company issued stock dividend of shares 82,929,250 (2015 – 33,674,300) without consideration. According to IAS 33 - Earnings per share, the weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted. In the present financial statement, the issue has been treated as if it had occurred at the beginning of 2015 and the basic earnings per share was recalculated accordingly. As there was no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

#### 46. NET ASSETS PER SHARE

The calculation of net assets per share is as follows:

	Group		Parent Company	
	2016	2015	2016	2015
Equity attributable to shareholders of the parent (RO'000)	<u>241,135</u>	<u>219,937</u>	<u>237,603</u>	<u>215,484</u>
Number of shares outstanding at the end of the year	<u>635,790,892</u>	<u>552,861,642</u>	<u>635,790,892</u>	<u>552,861,642</u>
Net assets per share (RO)	<u>0.379</u>	<u>0.398</u>	<u>0.374</u>	<u>0.390</u>











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