FINANCIAL STATEMENTS

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Muscat International Centre
Location: MBD Area
P.O. Box 258, Ruwi
Postal Code 112
Sultanate of Oman

Tel: +968 2481 7775
Fax: +968 2481 5581
www.deloitte.com

Independent auditor's report to the shareholders of Oman Arab Bank SAOC

Report on the financial statements

We have audited the accompanying financial statements of **Oman Arab Bank SAOC** ("the Bank"), which comprise of the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 3 to 64.

Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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Independent auditor's report
to the shareholders of
Oman Arab Bank SAOC (continued)

Opinion

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

Report on other legal and regulatory requirements

Also, in our opinion, the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended.

Deloitte & Touche

P.O. Box 258, P.C 112
Sultanate of Oman
Deloitte & Touche (M.E.) & Co. LLC

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
10 March 2016

OMAN ARAB BANK SAOC

Statement of financial position at 31 December 2015

	Notes	2015 RO'000	2014 RO'000
ASSETS			
Cash and balances with the Central Bank of Oman	7	192,124	114,397
Certificates of deposit	8	-	200,000
Due from banks	9	83,226	95,758
Loans & advances and financing to customers	10	1,519,571	1,259,836
Investment securities	11	118,357	74,891
Other assets	12	40,856	41,887
Property and equipment	13	28,565	29,322
Total assets		1,982,699	1,816,091
LIABILITIES			
Due to banks	14	9,404	5,891
Deposits from customers	15	1,601,162	1,468,313
Other liabilities	16	71,751	74,792
Subordinated debt	17	70,000	50,000
Taxation	18	4,363	4,236
Total liabilities		1,756,680	1,603,232
EQUITY			
Share capital	19	116,000	116,000
Legal reserve	20	33,368	30,467
General reserve	21	26,560	23,659
Subordinated debt reserve	22	40,000	30,000
Cumulative changes in fair value		(3,260)	(1,329)
Retained earnings		13,351	14,062
Total equity		226,019	212,859
Total equity and liabilities		1,982,699	1,816,091
Contingent liabilities and commitments	35(a)	859,862	915,014

The financial statements were authorised for issue by the Board of Directors on 10 March 2016 and signed by:

Rashad Muhammed Al Zubair
Chairman

Amin Husseini
Chief Executive Officer

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

OMAN ARAB BANK SAOC

Statement of profit or loss and other comprehensive income for the year ended 31 December 2015

	Notes	2015 RO'000	2014 RO'000
Interest income	24	64,455	57,910
Interest expense	25	(15,321)	(14,067)
Net interest income		49,134	43,843
Fee and commission income - net	26	21,276	19,475
Investment income	27	2,462	2,844
Other operating income	28	6,882	5,654
Total income		79,754	71,816
Operating expenses	29	(43,523)	(37,416)
Allowance for loan impairment	10(a)	(13,327)	(8,885)
Recoveries/release from allowance for loan impairment	10(a)	7,977	6,871
Impairment of available-for-sale investments	11	(406)	-
Profit from sale of non-banking asset	30	2,400	-
Profit before tax		32,875	32,386
Income tax expense	18	(3,864)	(3,986)
Profit for the year		29,011	28,400
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net movement in unrealized loss on available-for-sale investments		(1,931)	(2,693)
Total comprehensive income for the year		27,080	25,707
Earnings per share:			
Basic and diluted	31	RO 0.0250	RO 0.0245

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

OMAN ARAB BANK SAOC

Statement of changes in equity
for the year ended 31 December 2015

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Cumulative changes in fair value RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2015		**116,000**	**30,467**	**23,659**	**30,000**	**(1,329)**	**14,062**	**212,859**
Profit for the year		-	-	-	-	-	**29,011**	**29,011**
Other comprehensive income		-	-	-	-	**(1,931)**	-	**(1,931)**
Total comprehensive income		-	-	-	-	**(1,931)**	**29,011**	**27,080**
Transfer to legal reserve	20	-	**2,901**	-	-	-	**(2,901)**	-
Transfer to general reserve	21	-	-	**2,901**	-	-	**(2,901)**	-
Transfer to subordinated debt reserve		-	-	-	**10,000**	-	**(10,000)**	-
Dividend paid relating to 2014		-	-	-	-	-	**(13,920)**	**(13,920)**
At 31 December 2015		**116,000**	**33,368**	**26,560**	**40,000**	**(3,260)**	**13,351**	**226,019**

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

OMAN ARAB BANK SAOC

Statement of changes in equity
for the year ended 31 December 2015 (continued)

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Cumulative changes in fair value RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2014		116,000	27,627	20,819	20,000	1,364	12,942	198,752
Profit for the year		-	-	-	-	-	28,400	28,400
Other comprehensive income		-	-	-	-	(2,693)	-	(2,693)
Total comprehensive income		-	-	-	-	(2,693)	28,400	25,707
Transfer to legal reserve	20	-	2,840	-	-	-	(2,840)	-
Transfer to general reserve	21	-	-	2,840		-	(2,840)	-
Transfer to subordinated debt reserve	22	-	-	-	10,000	-	(10,000)	-
Dividend paid relating to 2013	23	-	-	-	-	-	(11,600)	(11,600)
At 31 December 2014		116,000	30,467	23,659	30,000	(1,329)	14,062	212,859

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

OMAN ARAB BANK SAOC

Statement of cash flows
for the year ended 31 December 2015

	Notes	2015 RO'000	2014 RO'000
Operating activities			
Profit before tax		**32,875**	32,386
Adjustments:			
Depreciation	**13**	**3,411**	2,536
Tax refund for prior years		**186**	
Allowance for loan impairment and reserved interest	**10(a)**	**13,327**	8,885
Recoveries/release from allowance for loan impairment	**10(a)**	**(7,977)**	(6,871)
Allowance for impairment in AFS investment		**406**	-
Income from held-to-maturity investments	**11**	**(1,198)**	(803)
Profit on sale of property and equipment	**13**	**(2,440)**	(22)
Change in the fair value of financial assets		**-**	
at fair value through profit or loss	**27**	**133**	(50)
Operating profit before changes in operating assets and liabilities		**38,723**	38,754
Changes in operating assets and liabilities			
Loans and advances		**(265,085)**	(185,559)
Financial assets at fair value through profit or loss		**296**	830
Other assets		**1,031**	(9,902)
Deposits from customers		**132,845**	319,160
Other liabilities		**(3,036)**	23,897
Cash (used in) from operations		**(95,226)**	187,180
Tax paid		**(3,924)**	(3,443)
Net cash generated (used in) from operating activities		**(99,150)**	183,737
Investing activities			
Held-to-maturity investments matured	**11**	**-**	204
Purchase of held-to-maturity investments	**11**	**(46,453)**	(18,533)
Purchase of investment available for sale	**11**	**(25,952)**	(36,708)
Proceeds from sale of investment available for sale		**26,173**	27,417
Income from maturing of held-to-maturity investments		**1,198**	803
Purchase of property and equipment	**13**	**(2,669)**	(5,079)
Proceeds from sale of property and equipment		**2,455**	52
Net cash used in investing activities		**(45,248)**	(31,844)
Financing activities			
Proceeds from issue of share capital	**19**	**-**	-
Proceeds from issue of subordinated debt	**22**	**20,000**	-
Dividends paid		**(13,920)**	(11,600)
Net cash from (used in) financing activities		**6,080**	(11,600)
Net (decrease) / increase in cash and cash equivalents		**(138,318)**	140,293
Cash and cash equivalents at the beginning of the year		**403,764**	263,471
Cash and cash equivalents at the end of the year	**32**	**265,446**	403,764

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

1. Legal status and principal activities

Oman Arab Bank SAOC (“the Bank” or “OAB”) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. It is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The Bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is Muttrah Business District, P O Box 2010, Ruwi, Postal Code 112, Muscat, and Sultanate of Oman. The Bank’s Islamic Banking window under the name – “Al Yusr”, commenced operations from 14 July 2013 and operates under the Islamic banking licence granted by the Central Bank of Oman. The principal activities of Al Yusr is providing shari’a compliant financing, accepting Shari’a compliant deposits and other activities permitted under the Islamic Banking Regulatory framework (IBRF).

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”), the applicable regulations of the Central Bank of Oman, and the applicable requirements of the Commercial Companies Law of 1974, as amended.

The Islamic banking window of the Bank follows the financial Accounting Standards (FAS) issued by Accounting and Auditing organization for Islamic Financial Institutions (AAOIFI) in preparing its financial statements.

The financial information in those statements are included in the bank’s financial statements after adjusting them in accordance with IFRS.

2.2 Basis of preparation

The financial statements are prepared under the historical cost convention, modified to include the measurement at fair value of the financial assets classified as available for sale and fair value through profit or loss and the derivative contracts.

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

The Bank presents its statement of financial position in order of liquidity.

2. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and advances, due from banks, held-to-maturity investments and available-for-sale investments. Management determines the classification of its investments at initial recognition.

The Bank classifies its financial liabilities into deposits, borrowing and due to banks.

2.3.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the bank 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.

2.3.2 Initial measurement of financial instruments

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.

2.3.3 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 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. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.4 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 Bank has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the cumulative changes in fair value. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in other operating income. Where the Bank 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. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in ‘Impairment losses on financial investments’ and removed from the cumulative changes in fair value.

2.3.5 Financial assets held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. In the case where the Bank 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.

2.3.6 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 bank 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. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.7 Fair value measurement principles

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. The fair value of financial instruments is based on their quoted market bid price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated based on discounted cash flow and other valuation techniques. The fair value of derivatives that are not exchange-traded is estimated at the amount that the bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counter-parties.

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

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

2.3.9 Impairment of financial assets

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

2. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.9 Impairment of financial assets (continued)

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a 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 comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

2. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.9 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of 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 comprehensive income.

(b) Available-for-sale financial assets

For available-for-sale financial assets, the Bank 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 comprehensive income – is removed from equity and recognised in the statement of comprehensive income. 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 equity.

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 comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(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)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.10 Islamic banking

Murabaha to the purchase order
Murabaha to the purchase order represents the sale of goods at cost plus an agreed profit. Murabaha receivables consist of deferred sales transaction agreements. Promise made in the Murabaha to the purchase order is not obligatory upon the customer.

Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah installments are settled.

Musharaka
Musharaka contracts represents a partnership between the Window and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses.

Diminishing Musharaka
Diminishing Musharaka is a form of partnership where two or more persons jointly own a tangible asset in an agreed proportion and one of the partners undertakes to buy the ownership rights of other partner by way of periodical payments till the title of such tangible assets completely transferred to the purchasing partner.

Mudaraba
A contract between two parties, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invest the funds in an asset, project or particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible for losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudarib; otherwise, losses are borne by Rab Al Mal. The capital of Mudaraba is paid to the Mudarib or placed under his disposition.

Wakalah
A contract between two parties whereby one party (the principal: Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to terms and conditions of the Wakalah for a fixed fee in addition to any profit exceeding the expected profits as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakalah are borne by the Wakil; otherwise, they are borne by the principal.

Qard Hassan
A non-profit bearing loan enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges of profits.

2. Summary of significant accounting policies (continued)

2.4 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with the Central Bank of Oman, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks, amounts due to other banks and short-term government securities.

2.5 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.6 Property and equipment

Property and equipment are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on the assets except land is calculated using the straight-line basis to allocate their cost over the estimated useful lives, as follows:

	Years
Building	25
Equipment, furniture and fixtures	5
Motor vehicles	5

The assets' residual values and useful lives are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down to their recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

2.7 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

2. Summary of significant accounting policies (continued)

2.7 Impairment of non-financial assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2.8 Collateral pending sale

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

2.9 Borrowings

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

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

2.10 Employee terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 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. These accruals are included in other liabilities.

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

2. Summary of significant accounting policies (continued)

2.11 Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits 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.

2.12 Taxation

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

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.

2.13 Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income 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 Bank 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.

2. Summary of significant accounting policies (continued)

2.14 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 Bank 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.

2.15 Dividend income

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

2.16 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in these financial statements.

2.17 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. 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.

2.18 Financial guarantees contracts

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

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

2.19 Dividends on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Bank’s shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2. Summary of significant accounting policies (continued)

2.20 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured and presented in Rial Omani being the currency of the primary economic environment in which the Bank operates.

(b) Transactions and balances

Transactions in foreign currencies are translated into Rial Omani and recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the date of the transaction.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. 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 the fair value reserve in equity.

2.21 Directors' remuneration

The Directors' remuneration is governed as set out in the Memorandum of Association of the Bank, the Commercial Companies Law, regulations issued by the Capital Market Authority and regulations issued by the Central Bank of Oman.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

2.22 Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Investment banking, and support and unallocated functions. The segment information is set out in note 40.

3. Critical accounting estimates and judgments in applying accounting policies

The key assumptions concerning the future and other key sources of estimating 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:

3.1 Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank 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 Bank'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

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank 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 Held-to-maturity investments

The Bank 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank 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.

3.4 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a certain valuation techniques, derived from observable market data where possible. Where observable market data are not available, judgment is used to establish fair values.

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.5 Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

3.6 Taxes

The Bank 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 Bank and the responsible tax authority.

4. Adoption of new and revised International Financial Reporting Standards (IFRS)

4.1 New and revised IFRSs applied with no material effect on the combined financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2015, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.

Amendments to IAS 19 *Employee Benefits* to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

4.2 New and revised IFRS in issue but not yet effective

The Bank has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative	1 January 2016
Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* relating to bearer plants	1 January 2016
Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016

4. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

4.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures relating to applying the consolidation exception for investment entities	1 January 2016
Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.	1 January 2016
IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

4. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

4.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 15 Revenue from Contracts with Customers In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	1 January 2018
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

4. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

Management anticipates that these new and revised standards, interpretations and amendments will be adopted in the Company's financial statements for the year beginning 1 January 2016 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 15, may have no material impact on the financial statements of the Company in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Company's financial statements for the annual year beginning 1 January 2018. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of revenue from contracts with customers and the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

5. Financial risk management

The Bank'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 Bank's aim is to achieve an appropriate balance between risk and return while minimising the potential adverse effects on the financial performance.

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 Bank. Risk Management is carried out by the Risk Management Department in accordance with documented policies approved by the Board of Directors.

The principal types of risks that the Bank faces are credit risk, liquidity risk, market risk (price risk, interest rate risk and currency risk) and operational 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, investment activities and other assets in the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

The Bank 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 Bank'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 Note 10(c) and the geographical concentration is disclosed in Note 38.

5. Financial risk management (continued)

5.1 Credit risk (continued)

The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Department while the Retail Banking Department manages the credit risk in the retail portfolio. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the Central Bank of Oman (CBO) circular number BM 977 dated 25 September 2004. In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

The Bank rates its customers into the following categories:

Bank's rating	Past due days Retail and commercial loans
Standard loans	0 - 59 days
Special mention loan	60 - 89 days
Substandard loan	90 - 179 days
Doubtful loans	180 - 364 days
Loss	365 days and over

5.1.2 Risk mitigation policies

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

The Bank 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 and Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors.

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.

Some other specific control and mitigation measures are outlined below.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.2 Risk mitigation policies (continued)

(a) Collateral

The Bank 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 Bank 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 Department.

(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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The concentration of credit related commitments by industry sector at the year end is set out in Note 35(a).

5. Financial risk management (continued)

5.1 Credit risk (continued)

(c) Credit-related commitments (continued)

An analysis of the loans and advances for which collaterals or other credit enhancements are held is as follows:

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not paid RO'000	Non performing loans RO'000	Gross loans RO'000
Loans and advances with collateral available	**377,707**	**24,137**	**21,661**	**423,505**
Loans and advances with guarantees available	**25,287**	**-**	**8,006**	**33,293**
Balance as at 31 December 2015	**402,994**	**24,137**	**29,667**	**456,798**
Loans and advances with collateral available	278,060	22,432	11,502	311,994
Loans and advances with guarantees available	17,516	-	8,567	26,083
At December 2014	295,576	22,432	20,069	338,077

5.1.3 Impairment and provisioning policy

Impairment allowances 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 Bank about the loss events as well as considering the guidelines issued by the Central Bank of Oman.

The Bank'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. The critical estimates used in determining the provision for impairment are explained in Note 3.2.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Items on the statement of financial position	2015 RO' 000	2014 RO' 000
Certificates of deposit	**-**	200,000
Due from banks – Money market placements	**83,226**	95,758
Loans and advances		
Corporate loans	**929,096**	768,160
Personal loans	**635,288**	528,666
Other assets	**40,856**	41,887
Investments held to maturity		
Government Development Bonds	**53,855**	50,402
Treasury Bills	**43,000**	-
	1,785,321	1,684,873
Off-Balance sheet items		
Financial guarantees	**141,250**	96,862
Undrawn loan commitments	**58,448**	642
	199,698	97,504

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2015 and 31 December 2014 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) 63% (2014 – 77%) of the inter-bank money market placements are with banks rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.
b) Loans and advances represent 77% (2014 - 71%) of the total on-balance sheet items. Of the total loans and advances 89 % (2014 - 88%) are neither past due nor impaired.
c) The impaired loans have decreased from 2.94 % at 31 December 2014 to 2.87% at 31 December 2015. The impaired personal loans constitute 0.6% of the total loans at 31 December 2015 compared to 0.9% at 31 December 2014.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.5 Loans and advances and due from banks

a) Loans and advances and due from banks are summarised as follows:

31 December 2015	**Loans and advances to customers RO' 000**	**Due from banks RO' 000**	**Total RO' 000**
Neither past due nor impaired	**1,371,444**	**83,226**	**1,454,670**
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	**1,564,384**	**83,226**	**1,647,610**
Less: allowance for loan impairment and contractual interest not recognized	**(44,813)**	**-**	**(44,813)**
Net loans and advances	**1,519,571**	**83,226**	**1,602,797**
31 December 2014			
Neither past due nor impaired	1,141,748	95,758	1,237,506
Special Mention loans	94,461	-	94,461
Past due but not impaired	22,432	-	22,432
Impaired	38,185	-	38,185
Gross loans and advances	1,296,826	95,758	1,392,584
Less: allowance for loan impairment and contractual interest not recognized	(36,990)	-	(36,990)
Net loans and advances	1,259,836	95,758	1,355,594

b) The break-up of the loans and advances to customers in respect of the risk ratings adopted by the Bank are:

31 December 2015	**Retail loans RO' 000**	**Corporate loans RO' 000**	**Total RO' 000**
Standard loans	**624,433**	**771,097**	**1,395,530**
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**
	635,288	**929,096**	**1,564,384**

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.5 Loans and advances and due from banks

31 December 2014

	Retail loans RO' 000	Corporate loans RO' 000	Total RO' 000
Standard loans	508,979	655,200	1,164,179
Special mention loans	8,332	86,130	94,462
Substandard loans	4,026	576	4,602
Doubtful loans	1,256	5,423	6,679
Loss	6,073	20,831	26,904
	528,666	768,160	1,296,826

5.1.5 Loans and advances and due from banks

c) Age analysis of loans and advances past due but not impaired:

	2015 RO' 000	2014 RO' 000
Past due up to 30 days	**4,226**	3,348
Past due 30-60 days	**14,323**	9,941
Past due 60-90 days	**5,537**	9,143
Total	**24,086**	22,432
Fair value of collateral	**105,314**	27,831

d) Loans and advances individually impaired

Individually impaired loans	**44,842**	38,185
Fair value of collateral	**21,661**	19,326

5.1.6 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.

The total restructured loans at 31 December 2015 amounted to RO 16,586 thousand (2014 - RO 9,167 thousand).

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.7 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.

5.1.8 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 value of assets obtained by the Bank by taking possession held as collateral as security at 31 December 2015 is Nil (2014 - RO 310 thousand).

5.2 Market risk

The Bank takes 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. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the Bank 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 banking business.

5.2.1 Price risk

The Bank holds listed securities classified as held-for-trading to take advantage of short-term and capital market movements. All investment securities present a risk of loss of capital. The Bank controls this risk through a careful selection of securities in accordance with Investment Management Policy approved by the Board. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The Bank’s market positions are managed on a daily basis by the Head of Investment Management Department and are reviewed periodically by the Investment Committee.

A significant portion of Bank’s investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank’s profits at 31 December 2015 may change by 0.15% (2014 – 0.13%) due to increase / decrease by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The Bank’s investments have historically performed in line with the MSM - 30 Index.

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.2 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 Bank 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 Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate with the objective of limiting the potential adverse effects on the Bank's profitability. The table in Note 37 summarises the Bank's exposure to the interest rate risks. It includes the Bank'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 2015 is 0.60% (2014 – 2.26%).

5.2.3 Currency risk

Currency risk arises when the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Bank enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors.

The Bank'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 management manages the risk by monitoring net open position in line with limits set by the management and approved by the Executive Committee of the Board 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 ongoing basis by the management and the Assets and Liabilities Committee (ALCO). The net open position of the Bank in foreign currency exposures at the yearend is set out below:

Foreign currency

	2015	2014
	RO'000	RO'000
Net assets denominated in US Dollars	**7,700**	5,607
Net assets denominated in other foreign currencies	**248**	963
	7,948	6,570

Oman operates with a fixed exchange rate, and the Omani Rial is pegged to the US Dollar at $2.6008 per Omani Rial.

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.4 Liquidity risk

Liquidity risk is the risk that the Bank 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.

The Bank'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 Bank 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 Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table in Note 36 represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

5.3 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, frauds, and operational errors.

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks.

5.4 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2015. 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 in deriving the fair values are as follows:

5. Financial risk management (continued)

5.4 Fair value estimation (continued)

5.4.1 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.

5.4.2 Loans and advances

The fair value of non-performing loans approximates to the book value adjusted for allowance for loan impairment. For the performing loans, the fair value is taken as being equivalent to its carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

5.4.3 Investments at fair value through profit or loss and available-for-sale

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. Changes in fair value resulting from these calculations are not material to the financial statements.

5.4.4 Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which 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.

5.4.5 Derivatives

The Bank 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.

5. Financial risk management (continued)

5.5 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:
Assets as per statement of financial position:

Assets as per statement of financial position	Fair value through profit or loss RO'000	Held –to-maturity RO'000	Available-for-sale investments RO'000	Loans and receivables RO'000	Total RO'000
31 December 2015					
Bank balances and cash	**-**	**192,124**	**-**	**-**	**192,124**
Certificates of deposit	**-**	**-**	**-**	**-**	**-**
Due from banks	**-**	**83,226**	**-**	**-**	**83,226**
Loans and advances and financing activities	**-**	**-**	**-**	**1,519,571**	**1,519,571**
Investment securities	**835**	**96,855**	**20,667**	**-**	**118,357**
Other assets	**-**	**-**	**-**	**40,856**	**40,856**
	835	**372,205**	**20,667**	**1,560,427**	**1,954,134**
31 December 2014					
Bank balances and cash	-	114,397	-	-	114,397
Certificates of deposit	-	200,000	-	-	200,000
Due from banks	-	95,758	-	-	95,758
Loans and advances	-	-	-	1,259,836	1,259,836
Investment securities	1,264	50,402	23,225	-	74,891
Other assets	-	97	-	41,791	41,888
	1,264	460,654	23,225	1,301,627	1,786,770

Liabilities as per statement of financial position

	Other liabilities RO'000	Total RO'000
31 December 2015		
Due to banks	**9,404**	**9,404**
Deposits from customers	**1,601,162**	**1,601,162**
Other liabilities	**71,751**	**71,751**
Subordinated Bonds	**70,000**	**70,000**
Taxation	**4,363**	**4,363**
	1,756,680	**1,756,680**
31 December 2014		
Due to banks	5,891	5,891
Deposits from customers	1,468,313	1,468,313
Other liabilities	74,792	74,792
Subordinated Bonds	50,000	50,000
Taxation	4,236	4,236
	1,603,232	1,603,232

6. Capital management

The Bank's objectives of capital management are:

- to comply with the capital requirements set by the regulator i.e. the Central Bank of Oman;
- to safeguard the Bank'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.

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 statement of financial position, 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 requires the banks registered in the Sultanate of Oman to maintain a minimum capital adequacy ratio of 12% based on guidelines of the Basel II Accord. The ratio calculated in accordance with the CBO and BIS capital adequacy guidelines as per the Basel II Accord is as follows:

	2015	2014
	RO’000	RO’000
Capital		
Tier 1	**214,212**	198,880
Tier 2	**50,741**	37,264
Total capital base	**264,953**	236,144
Risk weighted assets		
Credit risk	**1,725,012**	1,430,766
Market risk	**3,613**	5,975
Operational risk	**134,625**	122,800
Total risk weighted assets	**1,863,250**	1,559,541
Capital adequacy ratio %	**14.22%**	**15.14%**

The Tier 1 capital consists of paid-up capital and reserves. The Tier 2 capital consists of the subordinated bonds and collective provision made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

7. Cash and balances with the Central Bank of Oman

	2015 RO' 000	2014 RO' 000
Cash in hand	**38,219**	25,572
Balances with the Central Bank of Oman:		
- Clearing account	**153,405**	59,450
- Placements	**-**	28,875
- Capital deposit	**500**	500
	192,124	114,397

The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns interest at 1% per annum (2014 - 1.5% p.a.).

8. Certificates of deposit

Certificates of deposit were issued by the Central Bank of Oman for a period of 28 days carrying interest at rates ranging from 0.012% - 0.13% per annum during 2014 and matured in January 2015. The issue of certificates of deposits has been discontinued since September 2015.

9. Due from banks

	2015 RO'000	2014 RO'000
Money market placements	**24,400**	68,979
Current accounts	**58,826**	26,779
	83,226	95,758

At 31 December 2015 63 % of the Bank's placements were with two banks rated between Aa3 to A1 by Moody's (2014– 76.7% of the Bank's placements were with eight banks rated Aa3 to Ba3)

10. Loans and advances and financing to customers

	2015 RO' 000	2014 RO' 000
Corporate loans		
Term loans	**739,293**	597,360
Overdrafts	**137,336**	141,439
Bills discounted	**31,842**	22,793
Islamic finance	**20,625**	6,567
	929,096	768,159
Personal loans		
Consumer loans	**416,716**	372,777
Mortgage loans	**159,010**	100,822
Overdrafts	**24,756**	35,383
Credit cards	**4,716**	5,072
Islamic finance	**30,090**	14,613
	635,288	528,667
Gross loans and advances	**1,564,384**	1,296,826
Less: allowance for loan impairment and contractual interest not recognised (refer to note (a) below)	**(44,813)**	(36,990)
Net loans and advances	**1,519,571**	1,259,836

(a) Allowance for loan impairment

The movement in the allowance for loan impairment is as follows:

2015	**Allowance for loan impairment RO' 000**	**Contractual interest not recognised RO' 000**	**Total RO' 000**
At 1 January 2015	**30,651**	**6,339**	**36,990**
Provided during the year	**12,883**	**2,575**	**15,458**
General Provision - Islamic Banking	**444**	**-**	**444**
Amounts written off during the year	**(93)**	**(9)**	**(102)**
Amounts released/recovered during the year	**(6,453)**	**(1,524)**	**(7,977)**
At 31 December 2015	**37,432**	**7,381**	**44,813**

10. Loans and advances and financing to customers (continued)

(a) Allowance for loan impairment

2014

	Allowance for loan impairment RO' 000	Contractual interest not recognised RO' 000	Total RO' 000
At 1 January	27,318	6,997	34,315
Provided during the year	8,577	2,408	10,985
Provided during the year for Islamic financing	308	-	308
Amounts written off during the year	(855)	(892)	(1,747)
Amounts released / recovered during the year	(4,697)	(2,174)	(6,871)
At 31 December	30,651	6,339	36,990

At 31 December 2015, RO 21,051 thousand (2014 - RO 17,419 thousand) out of the total loan impairment provisions has been made on a portfolio basis against the losses incurred but not identified on the performing portion of the loans and advances.

At 31 December 2015, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 44,842 thousand (31 December 2014 - RO 38,185 thousand).

(b) Islamic financing

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

2015	**Personal RO'000**	**Corporate RO'000**	**Total RO'000**
Musharaka	**23,418**	**13,427**	**36,845**
Murabaha	**2,672**	**6,265**	**8,937**
Ijarah Muntahia Bittamleek	**4,000**	**933**	**4,933**
At 31 December	**30,090**	**20,625**	**50,715**
2014			
Musharaka	11,176	5,697	16,873
Murabaha	1,317	554	1,871
Ijarah Muntahia Bittamleek	2,120	316	2,436
At 31 December	14,613	6,567	21,180

10. Loans and advances (continued)

(b) Islamic financing (continued)

2015	**RO'000**	**RO'000**
Within one year	**769**	568
Two to five years	**1,953**	1,291
More than five years	**4,222**	3,074
	6,944	4,933
Deferred profit	**(2,011)**	-
Net investment in lease finance	**4,933**	4,933
2014		
Within one year	294	181
Two to five years	978	624
More than five years	2,269	1,631
	3,541	2,436
Deferred profit	(1,105)	-
Net investment in lease finance	2,436	2,436

(c) Concentration of loans and advances

All loans and advances were granted to customers within the Sultanate of Oman. The concentration of gross loans and advances by economic sector is as follows:

	2015 **RO' 000**	2014 RO' 000
Personal loans	**635,289**	528,667
Manufacturing	**111,138**	105,518
Transportation	**128,063**	133,163
Construction	**244,915**	191,693
Services	**67,928**	39,783
Wholesale and retail trade	**59,196**	43,567
Mining and quarrying	**70,700**	19,484
Import trade	**58,462**	33,353
Financial institutions	**63,326**	31,246
Electricity , Water & Gas	**47,434**	65,896
Agriculture and allied activities	**7,067**	6,383
Government	**1,958**	3,383
Others	**68,908**	94,690
	1,564,384	1,296,826

Of the above, loans with variable interest rates amount to RO 653,416 thousand (2014 - RO 584,097 thousand), loans carrying fixed interest rates amount to RO 860,253 thousand (2014 - RO 691,549 thousand) and Islamic finance contracts RO 50,715 thousand (2014: 21,180).

11. Investment securities

	Carrying value 2015 RO'000	**Cost 2015 RO'000**	Carrying value 2014 RO'000	Cost 2014 RO'000
Available-for-sale				
- quoted	**19,829**	**23,432**	22,365	23,652
- unquoted	**838**	**901**	860	901
	20,667	**24,333**	23,225	24,553
Designated as at fair value through profit or loss				
- quoted	**438**	**378**	617	407
- unquoted	**322**	**528**	317	1,293
	760	**906**	934	1,700
Held-for-trading				
- quoted	**75**	**119**	330	392
- unquoted	**-**	**-**	-	-
	75	**119**	330	392
Held-to-maturity				
Oman Government Development Bonds	**53,855**	**53,855**	50,402	50,402
Treasury Bills	**43,000**	**43,000**	-	-
	96,855	**96,855**	50,402	50,402
Total investment securities	**118,357**	**122,213**	74,891	77,047

Unquoted financial assets at fair value through profit or loss include investment in the Financial Settlement Guarantee Fund of RO 203,307 (2014 - RO 196,438) which is not recoverable until the date the Bank ceases its brokerage activities or the fund is liquidated, whichever is earlier.
Refer note 36 for the maturity profile of the investment securities.

Fair value hierarchy

The Bank 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.

11. Investment securities (continued)

Fair value hierarchy (continued)

Transfers between levels
During the reporting year ended 31 December 2015, 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.

	At 1 January 2015 RO'000	**Additions RO'000**	**Disposals (sale & redemption) RO'000**	**Changes in fair value recorded in statement of comprehensive income RO'000**	**Changes in fair value recorded in equity RO'000**	**At 31 December 2015 RO'000**
Available-for- *sale*						
Quoted – level 1	22,365	25,952	(26,173)	(406)	(1,909)	**19,829**
Unquoted – level 3	860	-	-	-	(22)	**838**
Designated as at fair *value through profit or loss*						
Quoted – level 1	617	45	(68)	(157)	-	**437**
Unquoted – level 3	317	-	-	6	-	**323**
Held for trading						**-**
Quoted – level 1	330	144	(417)	18	-	**75**
Investments held to *maturity*	50,402	46,453	-	-	-	**96,855**
At 31 December 2015	**74,891**	**72,594**	**(26,658)**	**(539)**	**(1,931)**	**118,357**

2014	At 1 January 2014 RO'000	Additions RO'000	Disposals (sale and redemption) RO'000	Changes in fair value recorded in statement of comprehensive income RO'000	Changes in fair value recorded in equity RO'000	At 31 December 2014 RO'000
Available-for-sale						
Quoted – level 1	18,949	36,203	(30,110)	-	(2,677)	22,365
Unquoted – level 3	371	505	-	-	(16)	860
Designated as t fair value through profit or loss						
Quoted – level 1	716	7	(110)	4	-	617
Unquoted – level 3	286	-	-	31	-	317
Held for trading						
Quoted – level 1	1,042	158	(885)	15	-	330
Investments held-to-maturity	32,073	18,533	(204)	-	-	50,402
	53,437	55,406	(31,309)	50	(2,693)	74,891

11. Investment securities (continued)

Fair value hierarchy (continued)

Included under investments held-to-maturity are bonds issued by the Government of Oman amounting to RO 53,218 thousand (2014: RO 50,402 thousand). The bonds are denominated in Rial Omani and carry interest rates varying between 2.75% to 5.5% (2014 – 2.75% to 5.5%) per annum. Also included in investments held-to-maturity are treasury bills and Sukuk bonds issued by the Government of Oman amounting to RO 43,000 thousand (2014: nil) and RO 636 thousand respectively. The treasury bills are denominated in Rial Omani and carry yield rates ranging between 0.64% to 0.72% (2014: nil). The maturity profiles of the held-to-maturity investments, based on the remaining maturity from the reporting date, are as follows:

	2015	2014
	RO'000	RO'000
Treasury bills		
Upto 3 months	**36,000**	-
Between 3 and 9 months	**7,000**	-
Government bonds		
1 to 5 years	**50,419**	48,402
Above 5 years	**2,800**	2,000
Sukuk bonds		
1 to 5 years	**636**	-
Total	**96,855**	50,402

12. Other assets

Customers' indebtedness against acceptances	**21,133**	28,559
Interest receivable	**5,072**	3,999
Fees receivable	**4,503**	1,372
Prepayments	**2,159**	1,391
Clearing cheques	**-**	-
Receivable from investment customers	**2,126**	1,788
Positive fair value of derivatives (note 33)	**148**	220
Others	**5,715**	4,558
	40,856	41,887

13. Property and equipment

	Land and buildings RO'000	Computer equipment RO'000	Equipment furniture and fixtures RO'000	Motor vehicles RO'000	Capital work-in-progress RO'000	Total RO'000
At 1 January 2014	21,418	14,747	8,751	569	988	46,473
Additions	2,722	743	510	133	971	5,079
Transfers	-	340	373	-	(713)	-
Disposals	-	(9)	(7)	(137)	-	(153)
At 1 January 2015	**24,140**	**15,821**	**9,627**	**565**	**1,246**	**51,399**
Additions	**-**	**897**	**724**	**173**	**875**	**2,669**
Transfers	**-**	**1,414**	**279**	**-**	**(1,693)**	**-**
Disposals	**(2,569)**	**-**	**-**	**(106)**	**-**	**(2,675)**
At 31 December 2015	**21,571**	**18,132**	**10,630**	**632**	**428**	**51,393**
Depreciation						
At 1 January 2014	2,940	10,491	5,774	458	-	19,663
Charge for the year	612	1,021	875	28	-	2,536
Relating to disposals		(9)	(4)	(109)	-	(122)
At 1 January 2015	**3,552**	**11,503**	**6,645**	**377**	**-**	**22,077**
Charge for the year	**590**	**1,489**	**1,238**	**94**	**-**	**3,411**
Relating to disposals	**(2,569)**	**-**	**-**	**(91)**	**-**	**(2,660)**
At 31 December 2015	**1,573**	**12,992**	**7,883**	**380**	**-**	**22,828**
Carrying value						
At 31 December 2015	**19,998**	**5,140**	**2,747**	**252**	**428**	**28,565**
At 31 December 2014	20,588	4,318	2,982	188	1,246	29,322

14. Due to banks

	2015 RO'000	2014 RO'000
Current accounts	**5,809**	5,891
Money market acceptances	**3,595**	-
	9,404	5,891

15. Deposits from customers

	2015	2014
	RO'000	RO'000
Term deposits	**693,265**	666,490
Demand and call accounts	**668,923**	586,856
Saving accounts	**238,974**	214,967
	1,601,162	1,468,313

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

	2015	2014
	RO'000	RO'000
Private	**1,180,459**	1,057,617
Government	**420,703**	410,696
	1,601,162	1,468,313

Islamic customer's deposits

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

	2015	2014
	RO'000	RO'000
Wakalah acceptances	**41,416**	10,407
Current accounts – Qard	**6,042**	913
Mudarabah accounts	**1,927**	1,170
	49,385	12,490

16. Other liabilities

Liabilities against acceptances	**21,133**	28,559
Payable to investment customers	**19,403**	23,329
Accrued expenses and other payables	**13,881**	7,537
Interest payable	**9,567**	6,896
Cheques and trade settlement payable	**3,821**	4,249
Staff terminal benefits (note 16a)	**2,297**	2,279
Interest and commission received in advance	**1,508**	1,741
Negative fair value of derivatives (note 34)	**141**	202
	71,751	74,792

16. a Staff terminal benefits

	2015 RO'000	2014 RO'000
At 1 January	**2,279**	2,283
Charge for the year	**380**	376
Payment to employees during the year	**(362)**	(380)
At 31 December	**2,297**	2,279

17. Subordinated debt

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

a) Subordinated bonds

The Bank 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 (2014: 5.5% per annum), payable semi-annually with the principal payable on maturity.

b) Subordinated loans

The Bank 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.

18. Taxation

	2015 RO'000	2014 RO'000
Statement of comprehensive income:		
Current year	**4,091**	3,940
Prior years	**(186)**	-
Deferred tax	**(41)**	46
	3,864	3,986
Statement of financial position		
Current year	**4,085**	3,917
Deferred tax	**278**	319
	4,363	4,236
Deferred tax liability		
At 1 January	**319**	273
Movement for the year	**(41)**	46
At 31 December	**278**	319

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 12%. For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 12.22 % (2014 – 11.93%).

The deferred tax liability has been recognised at the effective rate of 12 % (2014 - 12%).

	2015 RO'000	2014 RO'000
Profit before tax	**32,875**	32,386
Tax at the applicable rate of 12% after statutory deduction of RO 30,000	**3,941**	3,883
Tax effect of temporary differences	**(41)**	46
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**5**	11
Add: Deferred tax liability created during the year	**(41)**	46
Tax expense for the year	**3,864**	3,986

Status of tax assessments

The assessments for the years up to 2010 are complete. The assessments for 2011 to 2014 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the bank on completion of the pending tax assessments as compared to the existing provision established.

19. Share capital

The authorized capital is RO 200,000,000 and the issued share capital comprises 1,160,000,000 fully paid shares of RO 0.100 each.

	Country of incorporation	Share holding %	2015 RO'000	2014 RO'000
Oman International Development and Investment Co. SAOG	Oman	**50.99**	**59,149**	59,149
Arab Bank Plc	Jordan	**49.00**	**56,840**	56,840
Oman Investment Services SAOC	Oman	**0.01**	**11**	11
			116,000	116,000

20. Legal reserve

In accordance with Article 106 of the Omani Commercial Companies Law of 1974, the Bank is required to transfer 10% of its profit after tax for the year to legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. This reserve is not available for distribution.

21. General reserve

The Bank has established a policy to set aside a portion of the profit each year to a 'General reserve' in order to meet any unforeseen contingencies.

22. 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 which are due to mature within five years (refer note 17). The reserve is available for transfer back to retained earnings upon maturity of the subordinated bonds.

23. Dividend proposed and paid

The Board of Directors proposed a cash dividend of RO 0.010 per share totalling to RO 11.60 million for the year ended 31 December 2015 (2014 - RO 0.012 per share totalling to RO 13.92 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

24. Interest income

	2015 RO'000	2014 RO'000
Loans and advances	**62,766**	56,723
Placements with banks and other money market placements	**253**	169
Certificates of deposits and Treasury Bills	**238**	215
Oman Government Development Bonds	**1,198**	803
	64,455	57,910

25. Interest expense

Time deposits	**10,414**	9,489
Subordinated debt	**2,839**	2,758
Call accounts	**1,001**	766
Borrowings	**772**	632
Savings accounts	**295**	422
	15,321	14,067

26. Fee and commission income – net

Fee and commission income	**23,934**	21,629
Fee and commission expense	**(2,658)**	(2,154)
	21,276	19,475

27. Investment income

From financial assets at fair value through profit or loss

Fair value changes	**(133)**	50
Profit on sale of investments	**1,767**	1,751
Dividend income	**828**	1,043
	2,462	2,844

28. Other operating income

	2015 RO'000	2014 RO'000
Exchange income	**5,239**	4,564
Income from Islamic window	**1,359**	869
Other income	**284**	221
	6,882	5,654

29. Operating expenses

	2015	2014
Staff costs (refer below)	**25,721**	22,669
Other operating expenses	**12,488**	10,890
Depreciation	**3,411**	2,536
Operating expenses of the Islamic window	**1,770**	1,190
Directors' remuneration	**133**	131
	43,523	37,416
Details of staff costs are as follows:		
Salaries	**17,213**	15,395
Allowances	**3,660**	3,319
Social security costs	**1,769**	1,320
End of service benefits	**380**	376
Other costs	**2,699**	2,259
	25,721	22,669

30. Profit from sale of non-banking asset

During July 2015 the Bank sold its old head office premises at Ruwi since the head office operations have moved to the new premises at Al Ghubrah. The Ruwi branch will continue to operate from the old premises under an operating lease agreement.

31. Earnings per share

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

	2015	2014
Profit for the year (RO'000)	**29,011**	28,400
Weighted average number of shares outstanding during the year	**1,160,000,000**	1,160,000,000
Basic earning per share (RO)	**0.025**	0.024

The basic earnings per share is the profit for the period divided by the weighted average number of shares outstanding. No figure for diluted earnings per share has been presented, as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

32. Related party transactions

Management service agreement with a shareholder

The Bank has a management agreement with Arab Bank Plc Jordan, a shareholder. During the year ended 31 December 2015, the management fees as per the agreement amounted to RO 87 thousand (2014: RO 84 thousand).

Other related parties transactions

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

2015	**Major shareholders RO'000**	**Others RO'000**	**Total RO'000**
Loans and advances	**15,000**	**51,449**	**66,449**
Customers' deposits	**729**	**7,454**	**8,183**
Investments	**-**	**557**	**557**
Payables to Investment Customers	**-**	**122**	**122**
Receivables from Investment Customers	**-**	**57**	**57**
Due from banks	**21,764**	**-**	**21,764**
Due to banks	**5,865**	**-**	**5,865**
Stand by line of credit	**57,750**	**-**	**57,750**
Letters of credit, guarantees and acceptances	**205,675**	**1,860**	**207,535**

32. Related party transactions (continued)

2014	Major shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	19,500	30,368	49,868
Customers' deposits	2,187	6,713	8,900
Payable to investment customers	602	61	663
Receivables from investment customers	269	1,990	2,259
Investments	1,019	430	1,449
Due from banks	10,673	-	10,673
Due to banks	2,203	-	2,203
Stand by line of credit	48,125	-	48,125
Letters of credit guarantees and acceptances	200,218	4,031	204,249

Movement of loans and advances given to related parties:

	2015 **RO'000**	2014 RO'000
At 1 January 2015	**49,868**	35,817
Disbursed during the year	**107,945**	70,435
Paid during the year	**(91,364)**	(56,384)
At 31 December 2015	**66,449**	49,868

None of the loans and advances given to related parties were identified as impaired and no provision for any impairment has been recognised (2014: none identified or recognised)

The statement of comprehensive income includes the following amounts in relation to the transactions with related parties:

31 December 2015	**Major shareholders RO'000**	**Others RO'000**	**Total RO'000**
Interest and commission income	**807**	**986**	**1,793**
Interest expense	**463**	**1**	**464**
31 December 2014			
Interest and commission income	160	7,248	7,408
Interest expense	419	34	453

32. Related party transactions (continued)

Key management compensation

The Directors' remuneration is set out in Note 29. The remuneration of other members of key management during the year was as follows:

	2015 RO'000	2014 RO'000
Salaries and other short-term benefits	**1,079**	950
End of service benefits	**101**	81
	1,180	1,031

33. Cash and cash equivalents

	2015 RO'000	2014 RO'000
Cash and balances with the Central Bank of Oman (CBO)	**192,124**	114,397
Certificates of deposit	**-**	200,000
Due from banks	**83,226**	95,758
Less: due to banks	**(9,404)**	(5,891)
Restricted deposits included under balances with the CBO	**(500)**	(500)
	265,446	403,764

34. Derivative financial instruments

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:

31 December 2015	Positive fair value RO'000 (note 12)	Negative fair value RO'000 (note 16)	Notional amount RO'000	Within 3 months RO'000	3 - 12 months RO'000
Purchase contracts	**148**	**-**	**12,377**	**8,326**	**4,051**
Sale contracts	**-**	**(141)**	**(12,370)**	**(8,321)**	**(4,049)**
	148	**(141)**	**7**	**5**	**2**
31 December 2014					
Purchase contracts	220	-	23,501	19,800	3,701
Sale contracts	-	(202)	(23,483)	(19,786)	(3,697)
	220	(202)	18	14	4

35. Contingent liabilities and commitments

(a) Letters of credit and guarantees

The Bank is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and acceptances.

The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount. In addition, some commitments to extend credit can be cancelled or revoked at any time at the Bank's option.

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements as for customers applying for loans and advances.

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

	2015	2014
	RO'000	RO'000
Letters of credit	**233,862**	396,893
Guarantees	**484,750**	421,259
Financial guarantees	**141,250**	96,862
	859,862	915,014

Letters of credit and guarantees amounting to RO 530,135 thousand (2014 - RO 644,109 thousand) were counter guaranteed by other banks.

Letters of credit and guarantees include RO 159 thousand (2014: RO 165 thousand) relating to non-performing loans.

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

	2015	2014
	RO'000	RO'000
Export trade	**183,361**	331,549
Construction	**278,561**	270,152
Government	**73,018**	74,500
Transportation	**20,326**	20,660
Import trade	**50,100**	64,982
Utilities	**235,108**	131,834
Services	**3,589**	10,745
Wholesale and retail trade	**12,841**	5,173
Manufacturing	**2,958**	5,419
	859,862	915,014

35. Contingent liabilities and commitments

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 363 thousand (2014- RO 672 thousand).

(c) Undrawn loan commitments

At the reporting date, outstanding undrawn loan commitments amounted to RO 58,448 thousand (2014- RO 642 thousand). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

The commitments set out in (b) to (c) above are expected to crystallise in the following periods:

	Up to 1 year RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
2015				
Capital commitments	**363**	**-**	**-**	**363**
Undrawn loan commitments	**-**	**58,448**	**-**	**58,448**
2014				
Capital commitments	**861**	**-**	**-**	**861**
Undrawn loan commitments	**-**	**642**	**-**	**642**

(d) Legal claims

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

36. Assets and liabilities maturity profile

The Bank has established policies to manage the liquidity risk arising from the mismatch in the final maturity of the assets and liabilities on the statement of financial position as explained in note 5.2.4. The table below represents cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the reporting date.

2015	On demand or 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
Assets					
Cash and balances with the Central Bank of Oman	**136,991**	**22,916**	**17,058**	**15,159**	**192,124**
Certificates of deposit	**-**	**-**	**-**	**-**	**-**
Due from banks	**83,226**	**-**	**-**	**-**	**83,226**
Loans and advances	**295,654**	**179,139**	**402,083**	**642,695**	**1,519,571**
Investment securities	**56,997**	**8,510**	**30,050**	**22,800**	**118,357**
Other assets	**32,671**	**7,784**	**380**	**21**	**40,856**
Property and equipment	**-**	**-**	**-**	**28,565**	**28,565**
Total assets	**605,539**	**218,349**	**449,571**	**709,240**	**1,982,699**
2015					
Liabilities					
Due to banks	**9,404**	**-**	**-**	**-**	**9,404**
Deposits from customers	**449,078**	**483,106**	**359,919**	**309,059**	**1,601,162**
Other liabilities	**56,177**	**9,620**	**5,739**	**215**	**71,751**
Subordinated bond	**-**	**-**	**50,000**	**20,000**	**70,000**
Taxation	**4,085**	**278**	**-**	**-**	**4,363**
Total liabilities	**518,744**	**493,004**	**415,658**	**329,274**	**1,756,680**
Net assets	**86,795**	**(274,655)**	**33,913**	**379,966**	**226,019**
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	**8,326**	**4,051**			**12,377**
Sale contracts	**(8,321)**	**(4,049)**	**-**	**-**	**(12,370)**
	5	**2**	**-**	**-**	**7**

36. Assets and liabilities maturity profile (continued)

2014	On demand or 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
Assets					
Cash and balances with the Central Bank of Oman	72,212	16,994	14,115	11,076	114,397
Certificates of deposit	200,000	-			200,000
Due from banks	95,758	-			95,758
Loans and advances	253,712	148,369	318,882	538,873	1,259,836
Investment securities	23,983	-	28,908	22,000	74,891
Other assets	35,784	5,563	533	7	41,887
Property and equipment	-	-	-	29,322	29,322
Total assets	681,449	170,926	362,438	601,278	1,816,091
Liabilities					
Due to banks	5,891	-	-	-	5,891
Deposits from customers	421,739	290,732	488,998	266,844	1,468,313
Other liabilities	64,667	2,674	7,332	119	74,792
Subordinated bond	-	-	50,000	-	50,000
Taxation	3,917	319	-	-	4,236
Total liabilities	496,214	293,725	546,330	266,963	1,603,232
Net assets	185,235	(122,799)	(183,892)	334,315	212,859
Forward exchange contracts at notional amounts (note 33)					
Purchase contracts	19,800	3,701	-	-	23,501
Sale contracts	(19,785)	(3,697)	-	-	(23,482)
	15	4	-	-	19

36. Assets and liabilities maturity profile (continued)

The following table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. For issued guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

2015	**On demand or 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**
Letters of guarantee	**248,560**	**253,868**	**123,571**	**-**	**625,999**
Letters of credit	**203,006**	**25,374**	**5,483**	**-**	**233,863**
Total commitments and contingencies	**451,566**	**279,242**	**129,054**	**-**	**859,862**
2014					
Letters of guarantee	173,537	160,585	182,762	1,237	518,121
Letters of credit	396,152	741	-	-	396,893
Total commitments and contingencies	569,689	161,326	182,762	1,237	915,014

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The details of Bank's capital commitments, operating lease commitments and undrawn loan commitments are disclosed in note 35.

37. Assets and liabilities re-pricing profile

The re-pricing profile is based on contractual re-pricing or maturity dates, whichever dates are earlier. The Bank's assets and liabilities are included at carrying amounts.

2015	Average effective interest rate %	Within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets							
Cash and balances with the Central Bank of Oman	**1.00**	**-**	**-**	**-**	**500**	**191,624**	**192,124**
Due from banks	**0.31**	**24,400**	**-**	**-**	**-**	**58,826**	**83,226**
Loans and advances	**4.63**	**331,619**	**220,211**	**914,566**	**44,360**	**8,815**	**1,519,571**
Investment securities at fair value		**-**	**-**	**-**	**-**	**21,502**	**21,502**
Investment–held to maturity	**1.31**	**36,000**	**8,510**	**29,545**	**22,800**	**-**	**96,855**
Other assets		**5,072**	**-**	**-**	**-**	**35,784**	**40,856**
Property and equipment		**-**	**-**	**-**	**-**	**28,565**	**28,565**
Total assets		**397,091**	**228,721**	**944,111**	**67,660**	**345,116**	**1,982,699**
Liabilities							
Due to banks		**-**	**-**	**-**	**-**	**9,404**	**9,404**
Deposits from customers	**0.79**	**393,298**	**278,597**	**210,657**	**12,425**	**706,185**	**1,601,162**
Other liabilities	**-**	**9,567**	**-**	**-**	**-**	**62,184**	**71,751**
Subordinated Debt	**5.50**	**-**	**-**	**50,000**	**20,000**	**-**	**70,000**
Taxation		**-**	**-**	**-**	**-**	**4,363**	**4,363**
Total liabilities		**402,865**	**278,597**	**260,657**	**32,425**	**782,136**	**1,756,680**
Total interest sensitivity gap		**(5,774)**	**(49,876)**	**683,454**	**35,235**	**(437,020)**	**226,019**
2014							
Cash and balances with the Central Bank of Oman	1.50	-	-	-	500	113,897	114,397
Certificates of deposit	0.13	200,000	-	-	-	-	200,000
Due from banks	0.34	68,979	-	-	-	26,779	95,758
Loans and advances	4.81	266,558	246,317	707,169	32,670	7,122	1,259,836
Investment securities at fair value	-	-	-	-	-	24,489	24,489
Investment–held to maturity	2.54	-	-	28,402	22,000	-	50,402
Other assets		3,999	-	-	-	37,888	41,887
Property and equipment		-	-	-	-	29,322	29,322
Total assets		539,536	246,317	735,571	55,170	239,497	1,816,091
Liabilities							
Due to banks		-	-	-	-	5,891	5,891
Deposits from customers	0.83	386,338	262,889	204,257	-	614,829	1,468,313
Other liabilities		6,896	-	-	-	67,896	74,792
Subordinated bonds	5.50	-	-	50,000	-	-	50,000
Taxation		-	-	-	-	4,236	4,236
Total liabilities		393,234	262,889	254,257	-	692,852	1,603,232
Total interest sensitivity gap		146,302	(16,572)	481,314	55,170	(453,355)	212,589

38. Geographical distribution of assets and liabilities

2015	**Sultanate of Oman RO'000**	**Other GCC countries RO'000**	**Europe RO'000**	**United States of America RO'000**	**Others RO'000**	**Total RO'000**
Assets						
Cash and balances with the Central Bank of Oman	**192,124**	**-**	**-**	**-**	**-**	**192,124**
Due from banks	**21,996**	**29,878**	**13,733**	**16,791**	**828**	**83,226**
Loans and advances	**1,519,571**	**-**	**-**	**-**	**-**	**1,519,571**
Investment securities	**110,393**	**6,654**	**-**	**-**	**1,310**	**118,357**
Other assets	**40,856**	**-**	**-**	**-**	**-**	**40,856**
Property and equipment	**28,565**	**-**	**-**	**-**	**-**	**28,565**
Total assets	**1,913,505**	**36,532**	**13,733**	**16,791**	**2,138**	**1,982,699**
Liabilities						
Due to banks	**712**	**7,823**	**424**	**-**	**445**	**9,404**
Deposits from customers	**1,601,162**	**-**	**-**	**-**	**-**	**1,601,162**
Other liabilities	**71,751**	**-**	**-**	**-**	**-**	**71,751**
Subordinated Bonds	**70,000**	**-**	**-**	**-**	**-**	**70,000**
Taxation	**4,363**	**-**	**-**	**-**	**-**	**4,363**
Total liabilities	**1,747,988**	**7,823**	**424**	**-**	**445**	**1,756,680**
2014						
Assets						
Cash and balances with the Central Bank of Oman	114,397	-	-	-	-	114,397
Certificates of deposit	200,000	-	-	-	-	200,000
Due from banks	43,586	35,150	8,007	8,028	987	95,758
Loans and advances	1,259,836	-	-	-	-	1,259,836
Investment securities	67,681	6,143	394	-	673	74,891
Other assets	41,887	-	-	-	-	41,887
Property and equipment	29,322	-	-	-	-	29,322
Total assets	1,756,709	41,293	8,401	8,028	1,660	1,816,091
Liabilities						
Due to banks	62	4,065	1,216	262	286	5,891
Deposits from customers	1,468,313	-	-	-	-	1,468,313
Other liabilities	74,792	-	-	-	-	74,792
Subordinated bonds	50,000	-	-	-	-	50,000
Taxation	4,236	-	-	-	-	4,236
	1,597,403	4,065	1,216	262	286	1,603,232

39. Customer concentrations

2015	Due from banks RO'000	Assets gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Liabilities due to banks RO'000	Contingent liabilities RO'000
Personal	**-**	**635,288**	**-**	**445,575**	**-**	**200**
Corporate	**83,226**	**927,138**	**21,503**	**734,884**	**9,404**	**683,066**
Government	**-**	**1,958**	**96,854**	**420,703**	**-**	**176,596**
	83,226	**1,564,384**	**118,357**	**1,601,162**	**9,404**	**859,862**
2014						
Personal	-	528,666	-	395,717	-	35
Corporate	95,758	764,777	24,489	661,900	5,891	577,901
Government	-	3,383	50,402	410,696	-	337,078
	95,758	1,296,826	74,891	1,468,313	5,891	915,014

40. Segment information

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2015. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2015 and 2014 is set out in note 38.

For management purposes, the conventional operations of the Bank is organised into five operating segments based on products and services. The Islamic banking services are offered under the brand name – "Al Yusr". The operating segments are as follows:

Retail banking	Individual personal loan, overdraft, credit card and funds transfer facilities.
Corporate banking	Loans and other credit facilities for corporate and institutional customers.
Investment banking	Asset management services involving investment products and services to institutional investors and intermediaries and other investment banking services including corporate finance, merger and acquisitions advice, specialised financial advice and trading.
Support and unallocated functions	Treasury and other central functions.
Islamic Banking	Sharia' compliant Islamic banking products and services including Ijarah, Murabaha, Mudarbah and Diminishing Musharakah.

40. Segment information (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Cash and balances with Central Bank of Oman, Certificate of deposits, due from banks, property and equipment and other assets are unallocated assets. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2015 or 2014.

2015	**Retail banking RO'000**	**Corporate banking RO'000**	**Investment banking RO'000**	**Support and unallocated functions RO'000**	**Al-Yusr RO'000**	**Total RO'000**
Interest income	**30,570**	**32,136**	**-**	**1,749**	**-**	**64,455**
Interest expense	**(1,244)**	**(10,466)**	**-**	**(3,611)**	**-**	**(15,321)**
Other operating income	**12,469**	**9,929**	**4,318**	**2,545**	**1,359**	**30,620**
Total operating income	**41,795**	**31,599**	**4,318**	**683**	**1,359**	**79,754**
Assets	**586,225**	**883,637**	**41,944**	**408,582**	**62,311**	**1,982,699**
Liabilities	**448,399**	**1,103,377**	**41,944**	**111,082**	**51,878**	**1,756,680**
Allowance for impairment	**18,973**	**25,041**	**-**	**-**	**799**	**44,813**

2014						
Interest income	29,535	27,188	-	1,187	-	57,910
Interest expense	(1,614)	(9,063)	-	(3,390)	-	(14,067)
Other operating income	12,923	7,455	5,256	1,470	869	27,973
Total operating income	40,844	25,580	5,256	(733)	869	71,816
Assets	497,922	741,089	50,922	503,004	23,154	1,816,091
Liabilities	383,228	1,072,596	49,134	85,105	13,169	1,603,232
Allowance for impairment	16,132	20,503	-	-	355	36,990

41. Fiduciary activities

The Bank's fiduciary activities consist of investment management activities conducted as trustee and manager for investment funds and individuals. The aggregate amount of funds managed, which are not included in the Bank's statement of financial position, are as follows:

	2015	2014
	RO'000	RO'000
Funds under management	**288,283**	402,329

42. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 10 March 2016.