

OMAN ARAB BANK SAOC

**Report and financial statements
for the year ended 31 December 2016**



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Oman Arab Bank SAOC (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Other matter

The financial statements of the Bank for the year ended 31 December 2015 were audited by another independent auditor whose report dated 10 March 2016 expressed an unmodified opinion.

Key audit matters

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

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

1. Impairment provision for loans and advances and financing to customers

Impairment of loans and advances and financing to customers (loans and receivables) is a highly subjective area due to the level of judgement applied by management in determining the extent of credit losses which is dependent on the credit risk related to such loans and receivables.

The judgements applied by the management in determining the level of impairment for loans and receivables include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future cash flows relating to loans and receivables.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC (CONTINUED)

Key audit matters (continued)

1. Impairment provision for loans and advances and financing to customers (continued)

Due to the material nature of loans and receivables and the related estimation uncertainties involved, including the consideration of prudential requirements, this is considered a key audit matter. The basis of the Bank's impairment provision policy is presented in the accounting policies section and in Note 2.3.9 (a) to the financial statements. Attention is also drawn to the critical accounting estimates and judgements, disclosures of loan receivables and the credit risk management set out in notes 3.1, 9 and 5.1 to the financial statements.

Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of loans and receivables, and the specific and collective impairment provisioning process, including consideration of prudential requirements, to validate the operating effectiveness of the key controls in place, which identify the impaired loans and receivables and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively.

In addition to testing the key controls, we selected samples of loans and receivables outstanding as at the reporting date and critically assessed the criteria for determining whether an impairment event had occurred that would require an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing loans and receivables where we assessed management's forecast of recoverable cash flows, the valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing loans and receivables, we assessed whether the borrowers exhibited any possible default risk that may affect meeting their scheduled repayment obligations.

For collective impairment provisions, we obtained an understanding of the methodology used by the Bank to determine the collective provisions, assessed the underlying assumptions and sufficiency of the data used by management.

We also assessed whether the financial statement disclosures appropriately reflect the requirements of IFRS.

2. Impairment of available for sale investments

The Bank's available-for-sale portfolio comprises investments made in equity and debt instruments. Investments are impaired only when there is an objective evidence of impairment. We considered impairment of available-for-sale investment as key audit matter due to subjectivity involved in such determination and its materiality to the financial statements.

The accounting policies relating to available-for-sale investments, critical accounting estimates and judgements, and the disclosures relating to impairment of available-for-sale investments and fair value measurement are set out in notes 2.3.4, 3.2 and 10 to the financial statements.

Our audit procedures comprised, amongst others, of a critical assessment of the Bank's methodology and the appropriateness of the impairment computation performed by the management on the Bank's available-for-sale investments. We evaluated the Bank's assessment of whether any objective evidence of impairment exists for each investments.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC (CONTINUED)

Key audit matters (continued)

2. Impairment of available for sale investments (continued)

For equity investments, on a sample basis, we:

- Assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments;
- Evaluated the basis for determining the fair value of investments;
- Tested the valuations of investments; and
- Considered the price fluctuation / movement during the holding period to determine if the significant or prolonged criteria is met.

For debt instruments, on a sample basis, we assessed the creditworthiness of counter parties based on available market information and assessed the cash flows to consider any defaults based upon the contractual terms and conditions of the instruments.

We also assessed the appropriateness of the disclosures in the financial statements in accordance with IFRS.

3. Sale of Investment Management Group (IMG) business

We considered the accounting for the sale and subsequent derecognition of the Bank's IMG business as a key audit matter due to its material effect on the financial statements.

Refer to accounting policy relating to the discontinued operations and relevant disclosures in notes 2.15 and 32 to the financial statements.

We read the sale purchase agreement entered by the Bank for sale of IMG business and discussed the clauses associated with completion of the sale transaction and whether all the relevant accounting implications have been considered relating to the disposal of the IMG business. We read the relevant regulatory approvals obtained by the Bank and agreed the receipt of the cash consideration. We checked the profit calculation relating to the sale transaction. Given the material nature of the matter, we assessed the appropriateness of accounting and related disclosures in the financial statements in accordance with IFRS. We particularly focused on evaluating that the disclosures were complete and sufficiently clear in highlighting the nature, accounting treatment and financial statement impact of the transaction.

4. Fee income

The recognition of fee income depends on the purpose for which fees are assessed and the basis of accounting for any related financial instrument. Management applies certain assumptions and judgements to determine the fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned upon execution of a significant act.

We considered this as a key audit matter since the use of management assumptions and judgements could result in a material over / under statement of Bank's profitability.

The significant accounting policies relating to fee income are set out in note 2.17 to the financial statements.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC (CONTINUED)

Key audit matters (continued)

4. Fee income (continued)

We performed the following audit procedures:

- We assessed the design and implementation and tested the operating effectiveness of key controls over the consistent application of management's assumptions and judgements to determine the fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned upon execution of a significant act.
- We challenged the assumptions and judgements used by the management for fee income recognition.
- We also obtained details of significant items of fee income recorded by the Bank and assessed the appropriateness of related accounting treatment. For such significant transactions, we traced the data used by the management to the underlying accounting records.

Other information included in the Bank's 2016 Annual Report

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

- Corporate governance report
- Management discussion and analysis
- Financial statements of the Islamic Banking Window
- Basel II Pillar III and Basel III Report of the Bank
- Basel II Pillar III and Basel III Report of the Islamic Banking Services

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN ARAB BANK SAOC (CONTINUED)

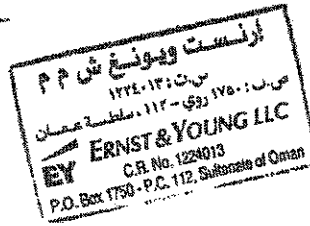
Report on other legal and regulatory requirements

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, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Sanjay

Sanjay Kawatra
Muscat
9 March 2017



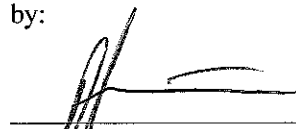
Oman Arab Bank SAOC

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2016

	Notes	2016 RO'000	2015 RO'000
ASSETS			
Cash and balances with the Central Bank of Oman	7	253,106	192,124
Due from banks	8	30,080	83,226
Loans and advances and financing to customers	9	1,594,799	1,519,571
Investment securities	10	113,935	118,357
Other assets	11	45,401	40,856
Property and equipment	12	28,651	28,565
Total assets		2,065,972	1,982,699
LIABILITIES			
Due to banks	13	12,056	9,404
Deposits from customers	14	1,637,152	1,601,162
Other liabilities	15	59,503	71,751
Subordinated debt	17	70,000	70,000
Taxation	18	4,162	4,363
Total liabilities		1,782,873	1,756,680
EQUITY			
Share capital	19	127,000	116,000
Legal reserve	20	35,821	33,368
General reserve	21	25,560	26,560
Subordinated debt reserve	22	54,000	40,000
Special reserve	23	2,400	-
Cumulative changes in fair value		(72)	(3,260)
Retained earnings		8,390	13,351
Total equity attributable to the equity holders of the Bank		253,099	226,019
Perpetual Tier 1 capital bonds	24	30,000	-
Total equity		283,099	226,019
Total equity and liabilities		2,065,972	1,982,699
Contingent liabilities and commitments	37(a)	821,639	859,862

The financial statements were authorised for issue by the Board of Directors on 23 January 2017 and signed by:


Amjad Al-Husseini
Chief Executive Officer


Rashad Muhammed Al Zubair
Chairman

The accompanying notes 1 to 44 form part of these financial statements.

Oman Arab Bank SAOC

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RO'000	2015 RO'000
Continuing operations			
Interest income	26	77,663	64,455
Interest expense	27	(26,777)	(15,321)
Net interest income		50,886	49,134
Fee and commission income - net	28	16,393	20,411
Investment (loss) income - net	29	(265)	2,511
Other operating income	30	5,984	5,649
Total income		72,998	77,705
Operating expenses	31	(45,780)	(41,962)
Impairment for credit losses	9(a)	(14,384)	(13,327)
Recoveries/release from provision for credit losses	9(a)	6,705	7,977
Impairment of investments available-for-sale	10	(2,336)	(406)
Profit from sale of property		2	2,400
Profit before tax from continuing operations		17,205	32,387
Income tax expense	18	(2,561)	(3,805)
Profit for the year from continuing operations		14,644	28,582
Discontinued operations			
Profit after tax for the year from discontinued operations	32	9,882	429
Profit for the year		24,526	29,011
Other comprehensive income (expense) that will be reclassified to the profit or loss			
Net loss during the year on available-for-sale investments		852	(2,337)
Recycling to profit or loss for impairment on investments available-for-sale		2,336	406
Other comprehensive income (expense) for the year, net of tax		3,188	(1,931)
Total comprehensive income for the year		27,714	27,080
Earnings per share:			
Basic and diluted (RO)	33	0.020	0.025
Basic and diluted earnings from continuing operations (RO)		0.012	0.025

The accompanying notes 1 to 44 form part of these financial statements.

Oman Arab Bank SAOC

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Special reserve RO'000	Cumulative changes in fair value RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
At 1 January 2016		116,000	33,368	26,560	40,000	-	(3,260)	13,351	226,019	-	226,019
Profit for the year		-	-	-	-	-	-	24,526	24,526	-	24,526
Other comprehensive income, net of tax		-	-	-	-	-	3,188	-	3,188	-	3,188
Total comprehensive income for the year		-	-	-	-	-	3,188	24,526	27,714	-	27,714
Issue of share capital	19	11,000	-	-	-	-	-	-	11,000	-	11,000
Transfer to special reserve	23	-	-	-	-	2,400	-	(2,400)	-	-	-
Transfer to legal reserve	20	-	2,453	-	-	-	-	(2,453)	-	-	-
Transfer to retained earnings	21	-	-	(1,000)	-	-	-	1,000	-	-	-
Transfer to subordinated debt reserve	22	-	-	-	14,000	-	-	(14,000)	-	-	-
Issue of Perpetual Tier 1 capital bonds	24	-	-	-	-	-	-	-	-	30,000	30,000
Issue expenses of Perpetual Tier 1 capital bonds		-	-	-	-	-	-	(34)	(34)	-	(34)
Dividend paid	25	-	-	-	-	-	-	(11,600)	(11,600)	-	(11,600)
At 31 December 2016		127,000	35,821	25,560	54,000	2,400	(72)	8,390	253,099	30,000	283,099

The accompanying notes 1 to 44 form part of these financial statements.

Oman Arab Bank SAOC

STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2016

	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 expense		-	-	-	-	(1,931)	-	(1,931)
Total comprehensive (expense) income for the year		-	-	-	-	(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	22	-	-	-	10,000	-	(10,000)	-
Dividend paid	25	-	-	-	-	-	(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 1 to 44 form part of these financial statements.

Oman Arab Bank SAOC

STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	<i>Notes</i>	2016 RO'000	2015 RO'000
Operating activities			
Profit before tax from continuing operations		17,205	32,387
Profit before tax from discontinued operations	32	123	488
		<u>17,328</u>	<u>32,875</u>
Profit before tax			
Adjustments:			
Depreciation	12	3,810	3,411
Tax refund for prior years		-	186
Impairment for credit losses	9(a)	14,384	13,327
Recoveries/release from impairment for credit losses	9(a)	(6,705)	(7,977)
Allowance for impairment in available-for-sale investments		2,336	406
Income from held-to-maturity investments	10	(1,408)	(1,198)
Profit on sale of property and equipment	12	(2)	(2,440)
Change in fair value of financial assets at fair value through profit or loss	10	(21)	133
		<u>29,722</u>	<u>38,723</u>
Operating profit before working capital changes			
Loans and advances and financing to customers		(82,907)	(265,085)
Other assets		(4,545)	1,031
Deposits from customers		35,990	132,845
Other liabilities		(12,796)	(3,036)
		<u>(34,536)</u>	<u>(95,522)</u>
Cash used in operations			
Tax paid		(4,108)	(3,924)
		<u>(38,644)</u>	<u>(99,446)</u>
Net cash used in operating activities			
Investing activities			
Proceeds from disposal of IMG	32	12,000	-
Held-to-maturity investments matured	10	336,790	-
Purchase of held-to-maturity investments	10	(335,858)	(46,453)
Purchase of investments available-for-sale	10	(6,517)	(25,952)
Financial assets at fair value through profit or loss		18	296
Proceeds from sale of investments available-for-sale		10,652	26,173
Income from maturing of held-to-maturity investments		1,408	1,198
Purchase of property and equipment	12	(4,070)	(2,669)
Proceeds from sale of property and equipment		5	2,455
		<u>14,428</u>	<u>(44,952)</u>
Net cash from (used in) investing activities			
Financing activities			
Proceeds from issue of share capital	19	11,000	-
Proceeds from issue of capital bonds/subordinated debt	22	30,000	20,000
Dividends paid		(11,600)	(13,920)
		<u>29,400</u>	<u>6,080</u>
Net cash from financing activities			
Net increase (decrease) in cash and cash equivalents		5,184	(138,318)
Cash and cash equivalents at the beginning of the year		265,446	403,764
		<u>270,630</u>	<u>265,446</u>
Cash and cash equivalents at the end of the year	35		

The accompanying notes 1 to 44 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

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 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 CBO’s regulated Islamic Banking Services as defined in the licensing framework.

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

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 investments available-for-sale, fair value through profit or loss and derivative financial instruments.

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 descending order of liquidity, as this presentation is more appropriate to the Bank’s operations.

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 and financing to customers, 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 from customers, subordinated debts and due to banks.

2. Summary of significant accounting policies (continued)

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

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

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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2. Summary of significant accounting policies (continued)

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

2.3.4 Available-for-sale investments (continued)

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 statement of comprehensive income in ‘Impairment of investments available-for-sale’ and removed from the cumulative changes in fair value of investments available-for-sale.

2.3.5 Held-to-maturity investments

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as ‘interest income’. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income. Held to maturity investments are government development bonds and treasury bills.

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.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the statement of comprehensive income and is reported as ‘interest income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as ‘Impairment for credit losses’.

2.3.7 Fair value measurement principles

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2. Summary of significant accounting policies (continued)

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

2.3.7 Fair value measurement principles (continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2. Summary of significant accounting policies (continued)

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

2.3.8 De-recognition

i) Financial assets

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

- The rights to receive cash flows from the asset have expired; 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.

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

ii) Financial liabilities

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

2.3.9 Identification and measurement of impairment of financial assets

a) Assets carried at amortised cost

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2. Summary of significant accounting policies (continued)

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

2.3.9 Identification and measurement of impairment of financial assets (continued)

a) Assets carried at amortised cost (continued)

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.

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.

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

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

If in a subsequent period, the amount of impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2. Summary of significant accounting policies (continued)

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

2.3.9 Identification and measurement of impairment of financial assets (continued)

b) Renegotiated loans

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

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. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.5 Offsetting of financial instruments

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

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. Summary of significant accounting policies (continued)

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.

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 Perpetual bonds

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's perpetual bonds are not redeemable by holders and bear an entitlement to distribution that is non-cumulative and at the discretion of the board of directors. Accordingly, they are presented as component within equity.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2. Summary of significant accounting policies (continued)

2.11 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.

2.12 Voluntary end of service benefits

Voluntary end of service benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Bank will be accepted, and the number of acceptances can be estimated reliably.

2.13 Deposits from customers

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

2.14 Taxation

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2. Summary of significant accounting policies (continued)

2.15 Discontinued operations

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

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

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

2.16 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.

2.17 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.

2.18 Acceptances

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

2.19 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2. Summary of significant accounting policies (continued)

2.20 Derivative financial instruments

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

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

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

2.21 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.

2.22 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.

2.23 Repurchase and resale agreements

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2. Summary of significant accounting policies (continued)

2.24 Foreign currencies

(i) Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

2.25 Provisions

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

2.26 Directors' remuneration

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

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.

2.27 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and support and unallocated functions. The Bank has sold its Investment Banking unit in 2016 (refer note 32). The segment information is set out in note 40.

3. Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results. Specific fair value estimates are disclosed in note 5.

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

3.1 Impairment losses on loans and advances

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

3.2 Impairment of available-for-sale investments

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

3. Critical accounting estimates and judgments in applying accounting policies

3.3 Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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

3.4 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.

3.5 Classification of investments

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

Available-for-sale investments

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

Held-to-maturity investments

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

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

4.1 New and amended standards and interpretations to IFRS relevant to the Bank

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

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements 2012-2014
 - IFRS Non- Current Assets Held for Sale and Discontinued Operations
 - IFRS 7 Financial Instruments: Disclosures
 - IAS 19 Employee Benefits
 - IAS 34 Interim Financial Reporting
- Amendments to IAS 1 Disclosure Initiative

The adoption of those standards and interpretations has not resulted in changes to the Bank's accounting policies and has not affected the amounts reported for the current and prior periods.

4.2 Standards issued but not yet effective

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

IFRS 9 - Financial Instruments:

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

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

The Bank is in the process of performing a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Bank in the future. Overall, the Bank expect no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Bank plan to adopt the new standard on the required effective date.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

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

4.2 Standards issued but not yet effective (continued)

IFRS 9 - Financial Instruments: (continued)

(a) Classification and measurement

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

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

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

(b) Impairment

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

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

4.2 Standards issued but not yet effective (continued)

IFRS 9 - Financial Instruments: (continued)

(e) Hedge accounting

The Bank does not expect a significant impact as a result of applying IFRS 9 in this regard, as the Bank does not have any hedging arrangement. However, the Bank will assess possible changes related to the accounting for the time value of forward points or the currency basis spread in more detail in the future.

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

5. Financial risk management (continued)

5.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, 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 9(c) and the geographical concentration is disclosed in Note 40.

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 and the special dispensation dated 20 September 2016 for specific projects of Government owned entities. 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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

5. Financial risk management (continued)

5.1 Credit risk (continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

5. Financial risk management (continued)**5.1 Credit risk (continued)****5.1.2 Risk mitigation policies (continued)****(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 37(a).

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	427,870	97,674	25,412	550,956
Loans and advances with guarantees available	26,528	-	8,137	34,665
Balance as at 31 December 2016	454,398	97,674	33,549	585,621
Balance as at 31 December 2015	402,994	24,137	29,881	457,012

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.3 Impairment and provisioning policy (continued)

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.

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

	2016	2015
Items on the statement of financial position	RO' 000	RO' 000
Cash and balances with Central Bank of Oman	253,106	192,124
Due from banks – Money market placements	30,080	83,226
<i>Loans and advances</i>		
Corporate loans	919,499	929,096
Personal loans	725,363	635,288
Other assets	45,401	40,856
Investments held to maturity		
Government development bonds	55,633	53,855
Treasury bills	40,290	43,000
	<u>2,069,372</u>	<u>1,977,445</u>
Off-Balance sheet items		
Financial guarantees	141,638	141,250
Undrawn loan commitments	97,975	58,448
	<u>239,613</u>	<u>199,698</u>

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2016 and 31 December 2015 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

- a) 60% (2015 – 63%) of the inter-bank money market placements is with a local bank rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.
- b) Loans and advances represent 77% (2015 - 77%) of the total on-balance sheet items. Of the total loans and advances 85 % (2015 - 89 %) are neither past due nor impaired.
- c) The impaired loans have increased from 2.87% at 31 December 2015 to 2.9% at 31 December 2016. The impaired personal loans constitute 0.85% of the total loans at 31 December 2016 compared to 0.6% at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016

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 2016	Loans and advances to customers RO' 000	Due from banks RO' 000	Total RO' 000
Neither past due nor impaired	1,305,313	30,080	1,335,393
Special mention loans	211,891	-	211,891
Past due but not impaired	79,720	-	79,720
Impaired	47,938	-	47,938
	<hr/>	<hr/>	<hr/>
Gross loans and advances	1,644,862	30,080	1,674,942
Less: impairment for credit losses and contractual interest not recognised	(50,063)	-	(50,063)
	<hr/>	<hr/>	<hr/>
Net loans and advances	<u>1,594,799</u>	<u>30,080</u>	<u>1,624,879</u>
31 December 2015			
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
	<hr/>	<hr/>	<hr/>
Gross loans and advances	1,564,384	83,226	1,647,610
Less: impairment for credit losses and contractual interest not recognised	(44,813)	-	(44,813)
	<hr/>	<hr/>	<hr/>
Net loans and advances	<u>1,519,571</u>	<u>83,226</u>	<u>1,602,797</u>

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.5 Loans and advances and due from banks

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

	2016 Retail loans RO' 000	2016 Corporate loans RO' 000	2016 Total RO' 000
31 December 2016			
Standard loans	714,922	670,111	1,385,033
Special mention loans	315	211,576	211,891
Substandard loans	1,647	1,263	2,910
Doubtful loans	3,840	2,887	6,727
Loss	4,867	33,434	38,301
	<u>725,591</u>	<u>919,271</u>	<u>1,644,862</u>

At 31 December 2015

	<i>Retail loans RO' 000</i>	<i>Corporate loans RO' 000</i>	<i>Total RO' 000</i>
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
	<u>635,288</u>	<u>929,096</u>	<u>1,564,384</u>

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

	2016 RO' 000	2015 RO' 000
Past due up to 30 days	78,616	4,226
Past due 30-60 days	567	14,323
Past due 60-90 days	537	5,537
Total	<u>79,720</u>	<u>24,086</u>
Fair value of collateral	<u>49,140</u>	<u>92,356</u>

d) Loans and advances individually impaired

Individually impaired loans	47,938	44,842
Fair value of collateral	25,219	21,875

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016

5. Financial risk management (continued)

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 2016 amounted to RO 7,122 thousand (2015 - RO 16,586 thousand).

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

Repossessioned properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The Bank has not repossessioned any collateral during 2016 and 2015.

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 reviewed periodically by the Investment Committee.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.1 Price risk (continued)

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 2016 may change by 0.09% (2015– 0.15%) 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.

5.2.2 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 2016 is 0.83% (2015 – 0.60%).

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:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.3 Currency risk (continued)

Foreign currency

	2016 RO'000	2015 RO'000
Net assets denominated in US Dollars	2,249	7,700
Net assets denominated in other foreign currencies	554	248
	<u>2,803</u>	<u>7,948</u>

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

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

5. Financial risk management (continued)

5.2 Market risk (continued)

5.3 Operational risk (continued)

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 minimise 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 2016. 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:

5.4.1 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. Details are set out in note 10.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

5. Financial risk management (continued)**5.2 Market risk (continued)****5.4 Fair value estimation (continued)****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.

5.5 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	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 2016					
Cash and balances with Central Bank of Oman	-	-	-	253,106	253,106
Due from banks	-	-	-	30,080	30,080
Loans and advances & financing activities	-	-	-	1,594,799	1,594,799
Investment securities	628	95,923	17,384	-	113,935
Other assets	-	-	-	45,401	45,401
	<u>628</u>	<u>95,923</u>	<u>17,384</u>	<u>1,923,386</u>	<u>2,037,321</u>
31 December 2015					
Cash and balances with Central Bank of Oman	-	-	-	192,124	192,124
Due from banks	-	-	-	83,226	83,226
Loans and advances	-	-	-	1,519,571	1,519,571
Investment securities	835	96,855	20,667	-	118,357
Other assets	-	-	-	40,856	40,856
	<u>835</u>	<u>96,855</u>	<u>20,667</u>	<u>1,835,777</u>	<u>1,954,134</u>

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016
5. Financial risk management (continued)**5.2 Market risk (continued)****5.5 Financial instruments by category (continued)**

Liabilities as per statement of financial position	Other liabilities RO'000	Total RO'000
31 December 2016		
Due to banks	12,056	12,056
Deposits from customers	1,637,152	1,637,152
Other liabilities	59,503	59,503
Subordinated bonds	70,000	70,000
	<u>1,778,711</u>	<u>1,778,711</u>
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
	<u>1,752,317</u>	<u>1,752,317</u>

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).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

6. Capital management (continued)

CBO requires the banks' registered in the Sultanate of Oman to maintain the capital adequacy a minimum of 12% based on guidelines of the Basel II accord from December 2010 onwards. The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from 31 December 2013 to 31 December 2017. CBO requires the banks in Oman to maintain a Capital Conservation Buffer (CCB) of 0.625% in addition to the minimum capital of 12% from 1 January 2014 to 31 December 2016. Additional CCB of 0.625% must be maintained annually between 1 January 2017 and 31 December 2018.

	2016 RO'000	2015 RO'000
Capital		
Common Equity Tier 1	252,935	214,212
Additional Tier 1	30,000	-
	<hr/>	<hr/>
Total Tier 1	282,935	214,212
Tier 2	38,687	50,741
	<hr/>	<hr/>
Total capital base	321,622	264,953
	<hr/>	<hr/>
Risk weighted assets		
Credit risk	1,852,546	1,725,012
Market risk	2,975	3,613
Operational risk	141,500	134,625
	<hr/>	<hr/>
Total risk weighted assets	1,997,021	1,863,250
	<hr/>	<hr/>
Capital adequacy ratio %	16.11%	14.22%
	<hr/> <hr/>	<hr/> <hr/>

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

	2016 RO' 000	2015 RO' 000
Cash in hand	37,782	38,219
Balances with the Central Bank of Oman:		
- Clearing account	166,699	153,405
- Placements	48,125	-
- Capital deposit	500	500
	<hr/>	<hr/>
	253,106	192,124
	<hr/> <hr/>	<hr/> <hr/>

The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns an annual interest at 1% (2015 - 1%).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

8. Due from banks

	2016 RO'000	2015 RO'000
Money market placements	16,659	24,400
Current accounts	13,421	58,826
	<u>30,080</u>	<u>83,226</u>

At 31 December 2016, 60 % of the Bank's placements were with Oman Housing Bank SAOC, which is owned by Government (2015– 63 % of the Bank's placements were with eight banks rated Aa3 to Ba3).

9. Loans and advances and financing to customers

	2016 RO' 000	2015 RO' 000
Corporate loans		
Term loans	654,920	739,293
Overdrafts	143,753	137,336
Bills Discounted	87,278	31,842
Islamic Finance	33,320	20,625
	<u>919,271</u>	<u>929,096</u>
Personal loans		
Consumer loans	451,242	416,716
Mortgage loans	235,171	159,010
Overdrafts	1,807	24,756
Credit cards	4,657	4,716
Islamic Finance	32,714	30,090
	<u>725,591</u>	<u>635,288</u>
Gross loans and advances	1,644,862	1,564,384
Less: impairment for credit losses and contractual interest not recognised (refer to note (a))	(50,063)	(44,813)
Net loans and advances	<u>1,594,799</u>	<u>1,519,571</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

9. Loans and advances and financing to customers (continued)**(a) Impairment for credit losses**

The movement in the impairment for credit losses is as follows:

2016	Impairment for credit losses RO' 000	Contractual interest not recognised RO' 000	Total RO' 000
Balance at 1 January 2016	37,432	7,381	44,813
Provided during the year	14,384	2,943	17,327
Amounts written off during the year	(2,416)	(2,956)	(5,372)
Amounts released/recovered during the year	(5,612)	(1,093)	(6,705)
Balance at 31 December 2016	43,788	6,275	50,063
2015	Impairment for credit losses 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	13,327	2,575	15,458
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

At 31 December 2016, RO 22,965 thousand (2015 - RO 21,051 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 2016, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 47,938 thousand (31 December 2015 - RO 44,842 thousand).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

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

(b) Islamic financing

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

2016	Personal RO'000	Corporate RO'000	Total RO'000
Musharaka	24,758	15,160	39,918
Murabaha	4,227	12,428	16,655
Ijarah Muntahia Bittamleek	3,729	5,732	9,461
At 31 December	32,714	33,320	66,034
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

(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:

	2016 RO' 000	2015 RO' 000
Personal loans	725,591	635,289
Construction	299,485	244,915
Manufacturing	112,047	111,138
Mining and quarrying	110,621	70,700
Services	77,860	67,928
Import trade	54,744	58,462
Transportation	52,528	128,063
Electricity, water and gas	49,112	47,434
Wholesale and retail trade	46,089	59,196
Financial institutions	35,173	63,326
Agriculture and allied activities	4,998	7,067
Export trade	663	-
Government	-	1,958
Others	75,951	68,908
	1,644,862	1,564,384

Of the above, loans with variable interest rates amount to RO 673,933 thousand (2015 - RO 683,506 thousand), loans carrying fixed interest rates amount to RO 904,895 thousand (2015 - RO 830,163 thousand) and Islamic finance contracts amounts to RO 66,034 thousand (2015: 50,715).

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016

10. Investment securities

	2016 Carrying value RO'000	2016 Cost RO'000	2015 Carrying value RO'000	2015 Cost RO'000
Available-for-sale				
- quoted	16,536	18,915	18,596	22,682
- unquoted	848	877	2,071	1,651
	<u>17,384</u>	<u>19,792</u>	<u>20,667</u>	<u>24,333</u>
Designated as at fair value through profit or loss				
- quoted	440	378	438	378
- unquoted	131	325	322	528
	<u>571</u>	<u>703</u>	<u>760</u>	<u>906</u>
Held-for-trading				
- quoted	57	95	75	119
	<u>57</u>	<u>95</u>	<u>75</u>	<u>119</u>
Held-to-maturity				
Oman Government development bonds and Sukuk	55,633	55,633	53,855	53,855
Treasury bills	40,290	40,290	43,000	43,000
	<u>95,923</u>	<u>95,923</u>	<u>96,855</u>	<u>96,855</u>
Total investment securities	<u><u>113,935</u></u>	<u><u>116,513</u></u>	<u><u>118,357</u></u>	<u><u>122,213</u></u>

Investment in the Financial Settlement Guarantee Fund (FSGF) has been sold as part of the sale of Investment Banking unit of the Bank (refer note 32). As at 31 December 2016, the outstanding investment in FSGF is RO Nil (2015 - RO 203,307). Refer note 38 for the maturity profile of the investment securities.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

10. Investment securities (continued)

The following table presents the Bank's investment securities that are measured at fair value along with the movement in the investment securities:

2016	<i>At 1</i>		<i>Disposals (sale & redemption)</i>	<i>Changes in fair value recorded in statement of profit or loss</i>	<i>Changes in fair value recorded in equity</i>	<i>At 31 December 2016</i>
	<i>January 2016</i>	<i>Additions</i>				
Available-for- sale						
Quoted – level 1	18,596	6,449	(9,365)	(2,336)	3,192	16,536
Unquoted – level 3	2,071	68	(1,287)	-	(4)	848
Designated as at fair value through profit or loss						
Quoted – level 1	438	-	-	2	-	440
Unquoted – level 3	322	-	(210)	19	-	131
Held for trading						
Quoted – level 1	75	-	(18)	-	-	57
Investments held to maturity	96,855	335,858	(336,790)	-	-	95,923
At 31 December 2016	118,357	342,375	(347,670)	(2,315)	3,188	113,935
2015						
	<i>At 1 January 2015</i>	<i>Additions</i>	<i>Disposals (sale & redemption)</i>	<i>Changes in fair value recorded in statement of comprehensive income</i>	<i>Changes in fair value recorded in equity</i>	<i>At 31 December 2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Available-for- sale						
Quoted – level 1	21,132	25,952	(26,173)	(406)	(1,909)	18,596
Unquoted – level 3	2,093	-	-	-	(22)	2,071
Designated as at fair value through profit or loss						
Quoted – level 1	617	45	(67)	(157)	-	438
Unquoted – level 3	317	-	-	5	-	322
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	(26,657)	(540)	(1,931)	118,357

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

10. Investment securities (continued)

Available-for-sale investments amounting to RO 873 thousand (2015: RO 1,077 thousand) are recorded at cost. Management believes that the fair value cannot be reliably measured for these unquoted investments.

During the reporting period ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Included under investments held-to-maturity are bonds issued by the Government of Oman amounting to RO 55,633 thousand (2015: RO 53,855 thousand). The bonds are denominated in Rial Omani and carry interest rates varying between 2.75% to 5.5% (2015 – 2.75% to 5.5%) per annum. Also included in investments held-to-maturity are treasury bills and Sukuk bonds issued by the Government of Oman amounting to RO 40,290 thousand (2015: RO 43,000 thousand) and RO 636 thousand (2015: RO 636 thousand) respectively. The treasury bills are denominated in Rial Omani and carry yield rates ranging between 0.46% to 0.86% (2015: 0.64% to 0.72%). The maturity profiles of the held-to-maturity investments, based on the remaining maturity from the reporting date, are as follows:

	2016 RO'000	2015 RO'000
Treasury bills		
Upto 3 months	40,290	36,000
Between 3 and 9 months	-	7,000
Government bonds		
1 to 5 years	49,684	50,419
Above 5 years	5,313	2,800
Sukuk bonds		
1 to 5 years	636	636
Total	95,923	96,855

11. Other assets

	2016 RO'000	2015 RO'000
Customers' indebtedness against acceptances	24,133	21,133
Fees receivable	6,634	4,503
Interest receivable	6,155	5,072
Prepayments	2,118	2,159
Receivable from investment customers (i)	-	2,126
Positive fair value of derivatives (note 36)	166	148
Others	6,195	5,715
	45,401	40,856

(i) Receivable from investment customers

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

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016
12. Property and equipment

	<i>Land and buildings RO'000</i>	<i>Computer equipment RO'000</i>	<i>Equipment, furniture & fixtures RO'000</i>	<i>Motor vehicles RO'000</i>	<i>Capital work in progress RO '000</i>	<i>Total RO'000</i>
2016						
Cost						
At 1 January 2016	21,571	18,129	10,620	632	440	51,392
Additions	-	1,784	1,284	84	918	4,070
Transfers	-	17	-	-	(17)	-
Disposals	-	(217)	(498)	(60)	-	(775)
At 31 December 2016	<u>21,571</u>	<u>19,713</u>	<u>11,406</u>	<u>656</u>	<u>1,341</u>	<u>54,687</u>
Depreciation						
At 1 January 2016	1,573	12,988	7,887	380	-	22,828
Charge for the year	590	2,003	1,133	84	-	3,810
Relating to disposals	-	(102)	(440)	(60)	-	(602)
At 31 December 2016	<u>2,163</u>	<u>14,889</u>	<u>8,580</u>	<u>404</u>	<u>-</u>	<u>26,036</u>
Net book value						
At 31 December 2016	<u>19,408</u>	<u>4,824</u>	<u>2,826</u>	<u>252</u>	<u>1,341</u>	<u>28,651</u>
2015						
Cost						
At 1 January 2015	24,140	15,818	9,617	565	1,258	51,398
Additions	-	897	724	173	875	2,669
Transfers	-	1,414	279	-	(1,693)	-
Disposals	(2,569)	-	-	(106)	-	(2,675)
At 31 December 2015	<u>21,571</u>	<u>18,129</u>	<u>10,620</u>	<u>632</u>	<u>440</u>	<u>51,392</u>
Depreciation						
At 1 January 2015	3,552	11,499	6,648	377	-	22,076
Charge for the year	590	1,489	1,238	94	-	3,411
Relating to disposals	(2,569)	-	-	(91)	-	(2,660)
At 31 December 2015	<u>1,573</u>	<u>12,988</u>	<u>7,886</u>	<u>380</u>	<u>-</u>	<u>22,827</u>
Net book value						
At 31 December 2015	<u>19,998</u>	<u>5,141</u>	<u>2,734</u>	<u>252</u>	<u>440</u>	<u>28,565</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

13. Due to banks

	2016 RO'000	2015 RO'000
Current accounts	6,281	5,809
Money market acceptances	5,775	3,595
	<u>12,056</u>	<u>9,404</u>

14. Deposits from customers

	2016 RO'000	2015 RO'000
Term deposits	763,794	693,265
Demand and call accounts	632,283	668,923
Saving accounts	241,075	238,974
	<u>1,637,152</u>	<u>1,601,162</u>

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

	2016 RO'000	2015 RO'000
Private	1,248,389	1,180,459
Government	388,763	420,703
	<u>1,637,152</u>	<u>1,601,162</u>

Islamic customers' deposits

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

15. Other liabilities

	2016 RO'000	2015 RO'000
Liabilities against acceptances	24,133	21,133
Payable to investment customers (i)	-	19,403
Accrued expenses and other payables	8,096	13,881
Interest payable	18,390	9,567
Cheques and trade settlement payable	5,247	3,821
Staff terminal benefits (note 16)	1,429	2,297
Early retirement benefits	756	-
Interest and commission received in advance	1,309	1,508
Negative fair value of derivatives (note 36)	143	141
	<u>59,503</u>	<u>71,751</u>

(i) Payable to investment customers

The Bank sold its IMG business (note 32) during the year and as a result, balances due to investment customers were settled.

16. Staff terminal benefits

	2016 RO'000	2015 RO'000
At 1 January	2,297	2,279
Charge for the year	351	380
Payment to employees during the year	(1,219)	(362)
At 31 December	<u>1,429</u>	<u>2,297</u>

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.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

17. Subordinated debt (continued)**i) 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 (2015: 5.5% per annum), payable semi-annually with the principal payable on maturity.

ii) 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

	2016 RO'000	2015 RO'000
Statement of comprehensive income:		
Current year	3,908	4,091
Prior years	256	(186)
Deferred tax	(256)	(41)
	<u>3,908</u>	<u>3,864</u>
Disclosed in statement of comprehensive income as follows:		
Tax on profit for the year from continuing operations	2,561	3,805
Tax on profit for the year from discontinued operations (note 32)	1,347	59
	<u>3,908</u>	<u>3,864</u>
Statement of financial position		
Current year	4,140	4,085
Deferred tax	22	278
	<u>4,162</u>	<u>4,363</u>
Deferred tax liability		
At 1 January	278	319
Movement for the year	(256)	(41)
	<u>22</u>	<u>278</u>
At 31 December	<u>22</u>	<u>278</u>

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%. The Corporate tax rate in Oman is expected to increase to 15% in accordance with expected amendments to the Income Tax Law of the Sultanate of Oman. 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 13.66% (2015 – 12.22 %). The deferred tax liability has been recognised at the effective rate of 12 % (2015 - 12%).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

18. Taxation (continued)

	2016	2015
	RO'000	RO'000
Profit before tax	28,434	32,875
Tax at the applicable rate of 12% after statutory deduction of RO 30,000	3,408	3,941
Tax effect of temporary differences	(256)	(41)
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	1,012	5
Less: Deferred tax liability created during the year	(256)	(41)
Tax expense for the year	3,908	3,864

Status of tax assessments

The assessments for the years up to 2010 are complete. The assessments for 2011 to 2015 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 authorised capital of the Bank is RO 200,000,000 and the issued share capital comprises 1,270,000,000 fully paid shares of RO 0.100 each (2015: 1,160,000,000 fully paid shares of RO 0.100 each). The paid up share capital of the Bank was increased during May 2016 by RO 11 Million through a rights issue to the existing shareholders at RO 0.100 baizas per share. RO 14 million has been assigned as capital for the Islamic Banking services of the Bank (2015: RO 13 million)

	Country of incorporation	Share holding %	2016	2015
			RO'000	RO'000
Oman International Development & Investment Co. SAOG	Oman	50.99	64,758	59,149
Arab Bank Plc	Jordan	49.00	62,230	56,840
Oman Real Estate Investment Services SAOC (formerly Oman Investment Services SAOC)	Oman	0.01	12	11
			127,000	116,000

20. Legal reserve

In accordance with Article 106 of the Commercial Companies Law of 1974, as amended of the Sultanate of Oman, 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

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. RO 1 Million was transferred in March 2016 from general reserve to the retained earnings in order to create the special reserve as required by the Central Bank of Oman.

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 and loans 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 and loans.

23. Special reserve

During 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 profit on sale of the premises has been set aside as a special reserve, which requires prior approval of the Central Bank of Oman for any distribution.

24. Perpetual Tier 1 Capital Bonds

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

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

25. Dividend proposed and paid

The Board of Directors proposed a stock dividend of RO 0.060 per share totalling to RO 7.62 million for the year ended 31 December 2016 (2015 - cash dividend of RO 0.100 per share totalling to RO 11.60 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

During the year, a cash dividend of RO 0.100 per share totalling to RO 11.60 million was paid as approved by shareholders in their annual general meeting held on 24 March 2016.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

26. Interest income

	2016 RO'000	2015 RO'000
Loans and advances	75,524	62,766
Oman Government Development Bonds and Sukuk	1,408	1,198
Certificates of deposits and Treasury Bills	427	238
Placements with banks and other money market placements	304	253
	<u>77,663</u>	<u>64,455</u>

27. Interest expense

	2016 RO'000	2015 RO'000
Time deposits	18,387	10,414
Subordinated Debt	3,861	2,839
Call accounts	1,373	1,001
Borrowings	2,854	772
Savings accounts	302	295
	<u>26,777</u>	<u>15,321</u>

28. Fee and commission income – net

	2016 RO'000	2015 RO'000
Fee and commission income	17,966	23,069
Fee and commission expense	(1,573)	(2,658)
	<u>16,393</u>	<u>20,411</u>

29. Investment income – net

	2016 RO'000	2015 RO'000
Fair value changes	21	(133)
(Loss) / profit on sale of investment securities	(940)	1,767
Dividend income	654	877
	<u>(265)</u>	<u>2,511</u>

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016

30. Other operating income

	2016 RO'000	2015 RO'000
Exchange income	5,335	5,275
Other income	649	374
	<u>5,984</u>	<u>5,649</u>

31. Operating expenses

	2016 RO'000	2015 RO'000
Staff costs (refer below)	28,671	25,993
Other operating expenses	13,227	12,473
Depreciation from continuing operations	3,752	3,363
Directors' remuneration	130	133
	<u>45,780</u>	<u>41,962</u>

Details of staff costs are as follows:

Salaries	19,392	17,064
Allowances	4,103	4,081
Social security costs	1,971	1,769
End of service benefits relating to continuing operations	299	380
Early retirement benefits	756	-
Other costs	2,150	2,699
	<u>28,671</u>	<u>25,993</u>

32. Profit from sale of discontinued operations

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

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

NOTES TO THE FINANCIAL STATEMENTS
 At 31 December 2016
32. Profit from sale of discontinued operations (continued)

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

The results of IMG for the year are presented below:

	2016 RO'000	2015 RO'000
Brokerage and other investment income -net	1,822	2,049
Expenses		
Salaries and related costs	(1,241)	(1,060)
General and administrative expenses	(400)	(453)
Depreciation on equipment	(58)	(48)
Total expenses	(1,699)	(1,561)
Profit before tax for the year from discontinued operations	123	488
Gain on disposal	11,106	-
	11,229	488
Income tax expense (including tax on gain on disposal)	(1,347)	(59)
Profit after tax for the year from discontinued operations	9,882	429

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

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

	2016 RO'000	2015 RO'000
Operating	(572)	(5,103)
Investing	380	-
	(192)	(5,103)
Earnings per share for profit for the year from discontinued operations		
Basic and diluted (RO)	0.080	0.004

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33. 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:

	2016	2015
Profit for the year (RO'000)	24,526	29,011
Less: Issue expenses of Perpetual Tier 1 capital bonds (RO'000)	(34)	-
	<u>24,492</u>	<u>29,011</u>
Profit for the period attributable to equity holders of the bank after issuance expenses of Tier 1 capital bonds	24,492	29,011
Weighted average number of shares outstanding during the year	123,092,896	1,160,000,000
Basic earning per share (RO)	<u>0.020</u>	<u>0.025</u>

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.

34. 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 2016, the management fees as per the agreement amounted to RO 73,578 (2015: RO 87,033).

Disposal of IMG

During the year, the Bank has sold its investment banking activities to Ubhar Capital SAOC, which is owned by Ominvest, Arab Bank Switzerland and OIF. Details are set out in note 32.

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:

2016	Major shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	4,000	54,060	58,060
Customers' deposits	1,352	12,273	13,625
Investments	-	440	440
Payables to Investment Customers	-	-	-
Receivables from Investment Customers	-	-	-
Due from banks	14,739	-	14,739
Due to banks	3,615	-	3,615
Stand by line of credit	48,125	-	48,125
Letters of credit, guarantees and acceptances	192,729	4,129	196,858

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At 31 December 2016

34. Related party transactions (continued)

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
Payable to investment customers	-	557	663
Receivables from investment customers	-	122	2,259
Investments	-	57	1,449
Due from banks	21,764	-	10,673
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

Movement of loans and advances given to related parties:

	2016 RO'000	2015 RO'000
At 1 January 2016	66,449	49,868
Disbursed during the year	250,191	107,945
Paid during the year	(258,580)	(91,364)
At 31 December 2016	<u>58,060</u>	<u>66,449</u>

None of the loans and advances given to related parties were identified as impaired and no provision for any impairment has been recognised (2015: none identified or recognised)

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

31 December 2016	Major shareholders RO'000	Others RO'000	Total RO'000
Interest and commission income	760	1,610	2,370
Interest expense	578	7	585
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

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016

34. Related party transactions (continued)**Key management compensation**

The Directors' remuneration is set out in Note 31. The remuneration of other members of key management during the year was as follows:

	2016 RO'000	2015 RO'000
Salaries and other short-term benefits	1,086	1,079
End of service benefits	33	101
	<u>1,119</u>	<u>1,180</u>

35. Cash and cash equivalents

	2016 RO'000	2015 RO'000
Cash and balances with the Central Bank of Oman (CBO) (note 7)	253,106	192,124
Due from banks (note 8)	30,080	83,226
Less: due to banks (note 13)	(12,056)	(9,404)
Restricted deposits included under balances with the CBO	(500)	(500)
	<u>270,630</u>	<u>265,446</u>

36. 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 2016	<i>Positive fair value RO'000 (note 11)</i>	<i>Negative fair value RO'000 (note 15)</i>	<i>Notional amount RO'000</i>	<i>Within 3 months RO'000</i>	<i>3 - 12 months RO'000</i>
Purchase contracts	166	-	13,199	7,193	6,006
Sale contracts	-	(143)	(13,176)	(7,176)	(6,000)
	<u>166</u>	<u>(143)</u>	<u>23</u>	<u>17</u>	<u>6</u>

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016

36. Derivative financial instruments (continued)

31 December 2015	<i>Positive fair value RO'000 (note 11)</i>	<i>Negative fair value RO'000 (note 15)</i>	<i>Notional amount RO'000</i>	<i>Within 3 months RO'000</i>	<i>3 - 12 months RO'000</i>
Purchase contracts	148	-	12,377	8,326	4,051
Sale contracts	-	(141)	(12,370)	(8,321)	(4,049)
	<u>148</u>	<u>(141)</u>	<u>7</u>	<u>5</u>	<u>2</u>

Derivative financial instruments are fair valued as level 2.

37. 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:

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

Letters of credit and guarantees amounting to RO 510,560 thousand (2015 - RO 530,135 thousand) were counter guaranteed by other banks.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

37. Contingent liabilities and commitments (continued)

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

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

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 1,975 thousand (2015- RO 363 thousand).

(c) Undrawn loan commitments

At the reporting date, outstanding undrawn loan commitments amounted to RO 97,975 thousand (2015- RO 58,448 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:

	<i>Up to 1 year</i> RO'000	<i>1 to 5</i> years RO'000	<i>Over</i> 5 years RO'000	<i>Total</i> RO'000
2016				
Capital commitments	1,945	-	-	1,945
Undrawn loan commitments	-	97,975	-	97,975
	<i>Up to 1 year</i> RO'000	<i>1 to 5</i> years RO'000	<i>Over</i> 5 years RO'000	<i>Total</i> RO'000
2015				
Capital commitments	363	-	-	363
Undrawn loan commitments	-	58,448	-	58,448

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016

37. Contingent liabilities and commitments (continued)

(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's financial statements.

38. 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.

2016	On demand	3 to 12 months RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
	or within 3 months RO'000				
Assets					
Cash and balances with the Central Bank of Oman	214,279	17,564	11,585	9,678	253,106
Due from banks	30,080	-	-	-	30,080
Loans and advances	234,796	129,967	421,011	809,025	1,594,799
Investment securities	57,797	20,641	30,210	5,287	113,935
Other assets	36,750	8,361	265	25	45,401
Property and equipment	-	-	-	28,651	28,651
Total assets	573,702	176,533	463,071	852,666	2,065,972
Liabilities					
Due to banks	12,056	-	-	-	12,056
Deposits from customers	414,278	561,178	365,541	296,155	1,637,152
Other liabilities	42,888	9,745	5,476	1,394	59,503
Subordinated bond and Perpetual Tier 1 Capital bonds	-	50,000	20,000	30,000	100,000
Taxation	3,927	235	-	-	4,162
Total liabilities	473,149	621,158	391,017	327,549	1,812,873
Net assets	100,553	(444,625)	72,054	525,117	253,099
Forward exchange contracts at notional amounts (note 36)					
Purchase contracts	7,193	6,006	-	-	13,199
Sale contracts	(7,176)	(6,000)	-	-	(13,176)
	17	6	-	-	23

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

38. Assets and liabilities maturity profile (continued)

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
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
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 36)					
Purchase contracts	8,326	4,051	-	-	12,377
Sale contracts	(8,321)	(4,049)	-	-	(12,370)
	5	2	-	-	7

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

38. 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.

2016	<i>On demand or within 3 months RO'000</i>	<i>3 to 12 months RO'000</i>	<i>1 to 5 years RO'000</i>	<i>Over 5 years RO'000</i>	<i>Total RO'000</i>
Letters of guarantee	231,792	213,770	178,131	15	623,708
Letters of credit	183,100	14,653	178	-	197,931
	<u>414,892</u>	<u>228,423</u>	<u>178,309</u>	<u>15</u>	<u>821,639</u>
2015					
Letters of guarantee	248,560	253,868	123,571	-	625,999
Letters of credit	203,006	25,374	5,483	-	233,863
	<u>451,566</u>	<u>279,242</u>	<u>129,054</u>	<u>-</u>	<u>859,862</u>

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 37.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

39. 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.

2016	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	252,606	253,106
Due from banks	0.36	16,659	-	-	-	13,421	30,080
Loans and advances	4.66	339,702	358,478	854,122	42,497	-	1,594,799
Investment securities at fair value		-	-	-	-	18,012	18,012
Investment-held to maturity	1.67	40,290	20,135	30,210	5,288	-	95,923
Other assets		6,155	-	-	-	39,246	45,401
Property and equipment		-	-	-	-	28,651	28,651
Total assets		402,806	378,613	884,332	48,285	351,936	2,065,972
Liabilities							
Due to banks		-	-	-	-	12,056	12,056
Deposits from customers	1.23	377,570	401,887	159,109	-	698,586	1,637,152
Other liabilities		5,247	-	-	-	54,256	59,503
Subordinated debt and perpetual bonds	5.50	-	50,000	20,000	30,000	-	100,000
Taxation		-	-	-	-	4,162	4,162
Total liabilities		382,817	451,887	179,109	30,000	769,060	1,812,873
Total interest sensitivity gap		19,989	(73,274)	705,223	18,285	(417,124)	253,099

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2016

39. Assets and liabilities re-pricing profile (continued)

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
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 bonds	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

NOTES TO THE FINANCIAL STATEMENTS
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40. Geographical distribution of assets and liabilities

2016	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	253,106	-	-	-	-	253,106
Due from banks	10,314	10,508	8,126	388	744	30,080
Loans and advances	1,594,799	-	-	-	-	1,594,799
Investment securities	108,723	3,901	-	-	1,311	113,935
Other assets	45,401	-	-	-	-	45,401
Property and equipment	28,651	-	-	-	-	28,651
Total assets	2,040,994	14,409	8,126	388	2,055	2,065,972
Liabilities						
Due to banks	4,345	4,613	764	-	2,334	12,056
Deposits from customers	1,637,152	-	-	-	-	1,637,152
Other liabilities	59,503	-	-	-	-	59,503
Subordinated bonds	70,000	-	-	-	-	70,000
Taxation	4,162	-	-	-	-	4,162
Total liabilities	1,775,162	4,613	764	-	2,334	1,782,873
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

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41. Customer concentrations

	Assets			Liabilities		
	Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
2016						
Personal	-	725,591	-	459,813	-	200
Corporate	30,080	919,271	18,012	788,576	12,056	672,536
Government	-	-	95,923	388,763	-	148,903
	<u>30,080</u>	<u>1,644,862</u>	<u>113,935</u>	<u>1,637,152</u>	<u>12,056</u>	<u>821,639</u>
2015						
Personal	-	635,288	-	445,57	-	200
Corporate	83,226	927,138	21,503	734,884	9,404	683,066
Government	-	1,958	96,854	420,703	-	176,596
	<u>83,226</u>	<u>1,564,384</u>	<u>118,357</u>	<u>1,601,162</u>	<u>9,404</u>	<u>859,862</u>

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42. 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 2016. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2016 and 2015 is set out in note 40.

For management purposes, the conventional operations of the Bank is organised into four 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.
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.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

42. Segment information (continued)

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 2016 or 2015.

	Continued operations					Discontinued operations	Total
	Retail banking	Corporate banking	Support and unallocated functions	Al-Yusr	Sub-Total	Investment banking	
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
2016							
Interest income	35,058	40,467	2,138	-	77,663	-	77,663
Interest expense	(2,079)	(17,980)	(6,657)	-	(26,716)	(61)	(26,777)
Other operating income	9,051	9,253	1,659	2,089	22,052	1,883	23,935
Total operating income	42,029	31,739	(2,859)	2,089	72,998	1,822	74,820
Assets	679,605	850,164	466,888	65,030	2,061,687	22,791	2,084,478
Liabilities	450,585	1,118,807	171,435	67,760	1,808,587	22,791	1,831,378
Allowance for impairment	16,311	32,748	-	1,004	50,063	-	50,063
2015							
Interest income	30,570	32,136	1,749	-	64,455	-	64,455
Interest expense	(1,244)	(10,466)	(3,611)	-	(15,321)	-	(15,321)
Other operating income	12,469	9,929	2,545	1,359	26,302	4,318	30,620
Total operating income	41,795	31,599	683	1,359	75,436	4,318	79,754
Assets	586,225	883,637	408,581	62,312	1,940,755	41,944	1,982,699
Liabilities	448,399	1,103,377	111,083	51,877	1,714,736	41,944	1,756,680
Allowance for impairment	18,973	25,041	-	799	44,813	-	44,813

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43. Fiduciary activities

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

	2016	2015
	RO'000	RO'000
Funds under management	<u> -</u>	<u> 288,283</u>

44. Comparative figures

No material corresponding figures for 2015 included for comparative purposes were reclassified.