OMAN ARAB BANK SAOC

Report and financial statements
for the year ended 31 December 2017

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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 2017, 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 2017 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.

Key audit matters

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

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

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

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
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. 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.

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

Key audit matters (continued)

Key audit matters	*How our audit addressed the key audit matters*
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.	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.
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.	Our audit procedures, among others, included the following: • We assessed the design and implementation and tested the operating effectiveness of key controls over the consistent application of management's assumptions and judgments 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 judgments 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.

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

Other information included in the Bank's 2017 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 2017 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 2017 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.

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.

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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 (continued)

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.

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
6 March 2018

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س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي – ١١٢، سلطنة عمان
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STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Notes	2017 RO'000	2016 RO'000
ASSETS			
Cash and balances with the Central Bank of Oman	7	**161,987**	253,106
Due from banks	8	**108,868**	30,080
Loans and advances and financing to customers	9	**1,654,013**	1,594,799
Investment securities	10	**138,421**	113,935
Other assets	11	**46,280**	45,401
Property and equipment	12	**29,430**	28,651
Total assets		**2,138,999**	2,065,972
LIABILITIES			
Due to banks	13	**4,011**	12,056
Deposits from customers	14	**1,746,856**	1,637,152
Other liabilities	15	**57,693**	59,503
Subordinated debt	17	**20,000**	70,000
Taxation	18	**4,891**	4,162
Total liabilities		**1,833,451**	1,782,873
EQUITY			
Share capital	19	**134,620**	127,000
Legal reserve	20	**38,476**	35,821
General reserve	21	**25,560**	25,560
Subordinated debt reserve	22	**8,000**	54,000
Special reserve	23	**2,760**	2,400
Cumulative changes in fair value		**(1,845)**	(72)
Retained earnings		**67,977**	8,390
Total equity attributable to the equity holders of the Bank		**275,548**	253,099
Perpetual Tier 1 capital bonds	24	**30,000**	30,000
Total equity		**305,548**	283,099
Total equity and liabilities		**2,138,999**	2,065,972
Contingent liabilities and commitments	37(a)	**897,448**	821,639

The financial statements were authorised for issue by the Board of Directors on 23 January 2018 and signed by:

Rashad Al-Musafir
Acting Chief Executive Officer

Rashad Muhammed Al Zubair
Chairman

The accompanying notes 1 to 43 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Notes	**2017** **RO'000**	2016 RO'000
Interest income	26	**88,115**	77,663
Interest expense	27	**(32,516)**	(27,765)
Net interest income		**55,599**	49,898
Fee and commission income - net	28	**14,393**	16,393
Investment income (loss)	29	**1,140**	(265)
Other operating income	30	**6,606**	5,984
Total income		**77,738**	72,010
Operating expenses	31	**(45,403)**	(44,792)
Allowance for loan impairment	9(a)	**(8,276)**	(14,384)
Recoveries/release from allowance for loan impairment	9(a)	**8,132**	6,705
Impairment of investments available-for-sale	10	**(728)**	(2,336)
Profit from sale of non-banking asset		**-**	2
Profit before tax from continuing operations		**31,463**	17,205
Income tax expense	18	**(4,916)**	(2,561)
Profit for the year from continuing operations		**26,547**	14,644
Discontinued operations			
Profit after tax for the year from discontinued operations	32	**-**	9,882
Profit for the year		**26,547**	24,526
Other comprehensive (expense) income that will be reclassified to the profit or loss			
Net change in fair value of available-for-sale investments		**(2,501)**	852
Recycling to profit or loss for impairment on available-for-sale investments		**728**	2,336
Other comprehensive (expense) income for the year		**(1,773)**	3,188
Total comprehensive income for the year		**24,774**	27,714
Earnings per share:			
Basic and diluted (RO)	33	**0.019**	0.019

The accompanying notes 1 to 43 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

	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 2017		**127,000**	**35,821**	**25,560**	**54,000**	**2,400**	**(72)**	**8,390**	**253,099**	**30,000**	**283,099**
Profit for the year		-	-	-	-	-	-	**26,547**	**26,547**	-	**26,547**
Other comprehensive expense, net of tax		-	-	-	-	-	**(1,773)**	-	**(1,773)**	-	**(1,773)**
Total comprehensive income (expense) for the year		-	-	-	-	-	**(1,773)**	**26,547**	**24,774**	-	**24,774**
Issue of bonus shares	19	**7,620**	-	-	-	-	-	**(7,620)**	-	-	-
Transfer to special reserve	23	-	-	-	-	**360**	-	**(360)**	-	-	-
Transfer to legal reserve	20	-	**2,655**	-	-	-	-	**(2,655)**	-	-	-
Transfer to retained earnings	22			-	**(50,000)**	-		**50,000**	-	-	-
Transfer to subordinated debt reserve	22	-	-	-	**4,000**	-		**(4,000)**	-	-	-
Interest distribution of Perpetual Tier 1 capital bonds	24	-	-	-	-	-	-	**(2,325)**	**(2,325)**	-	**(2,325)**
At 31 December 2017		**134,620**	**38,476**	**25,560**	**8,000**	**2,760**	**(1,845)**	**67,977**	**275,548**	**30,000**	**305,548**

The accompanying notes 1 to 43 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (continued)
Year ended 31 December 2017

	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 43 form part of these financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Notes	2017 RO'000	2016 RO'000
Operating activities			
Profit before tax from continuing operations		**31,463**	17,205
Profit before tax from discontinuing operations	**32**	**-**	123
Profit before tax		**31,463**	17,328
Adjustments:			
Depreciation	**12**	**3,680**	3,810
Impairment for credit losses	**9(a)**	**8,276**	14,384
Recoveries/release from impairment for credit losses	**9(a)**	**(8,132)**	(6,705)
Allowance for impairment in available-for-sale investment		**728**	2,336
Income from held-to-maturity investments	**26**	**(2,211)**	(1,408)
Profit on sale of property and equipment	**12**	**-**	(2)
Change in fair value of financial assets at fair value through profit or loss	**10**	**3**	(21)
Operating profit before working capital changes		**33,807**	29,722
Loans and advances and financing to customers		**(59,357)**	(82,907)
Other assets		**(879)**	(4,545)
Deposits from customers		**109,704**	35,990
Other liabilities		**(1,810)**	(12,796)
Cash from (used in) operations		**81,465**	(34,536)
Tax paid		**(4,187)**	(4,108)
Net cash generated from (used in) operating activities		**77,278**	(38,644)
Investing activities			
Proceeds from disposal of IMG	**32**	**-**	12,000
Held-to-maturity investments matured	**10**	**326,560**	336,790
Purchase of held-to-maturity investments	**10**	**(354,484)**	(335,858)
Purchase of investment available-for-sale	**10**	**(17,037)**	(6,517)
Financial assets at fair value through profit or loss		**9**	18
Proceeds from sale of investment available-for-sale	**10**	**17,962**	10,652
Income from maturing of held-to-maturity investments	**26**	**2,211**	1,408
Purchase of property and equipment	**12**	**(4,460)**	(4,070)
Proceeds from sale of property and equipment		**-**	5
Net cash (used in) from investing activities		**(29,239)**	14,428
Financing activities			
Proceeds from issue of share capital	**19**	**-**	11,000
Repayment of subordinated debt		**(50,000)**	-
Proceeds from issuance of Perpetual Tier 1 capital bonds	**22**	**-**	30,000
Interest distribution of Perpetual Tier 1 capital bonds		**(2,325)**	-
Dividends paid		**-**	(11,600)
Net cash (used in) from financing activities		**(52,325)**	29,400
Net (decrease) increase in cash and cash equivalents		**(4,286)**	5,184
Cash and cash equivalents at the beginning of the year		**270,630**	265,446
Cash and cash equivalents at the end of the year	**35**	**266,344**	270,630

The accompanying notes 1 to 43 form part of these financial statements.

1. Legal status and principal activities

Oman Arab Bank SAOC ("the Bank" or "OAB") was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. It is principally engaged in commercial 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 ("CBO") 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 CBO. 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 CBO 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 IBW's 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, 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.

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 profit or loss 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 profit or loss 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 profit or loss 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.

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 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 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.

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 CBO:

- 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.

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 profit or loss.

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 statement of cash flows, 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 CBO, 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 profit or loss 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 profit or loss.

2.8 Collateral pending sale

The Bank rarely 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.

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.

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.

Interest distribution on perpetual bonds, which are classified as equity, are recorded in the statement of changes in equity, when declared.

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.

2.18 Acceptances

Acceptances are disclosed on the 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. Summary of significant accounting policies (continued)

2.19 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. Changes in the fair value of any such derivative instruments are recognised immediately in the profit or loss within ‘Other operating income’.

2.20 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 profit or loss.

2.21 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.

2.22 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.

2. Summary of significant accounting policies (continued)

2.23 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.

2.24 Provisions

A provision is recognised if, as a result of past event, the Bank 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.

2.25 Directors’ remuneration

The Directors’ remuneration is governed as set out in the Articles 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.

2.26 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 sold its Investment Banking unit in 2016 (refer note 32). The segment information is set out in note 42.

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 profit or loss, 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. The 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 judgment, the Bank evaluates among other factors, the volatility in share price. However, any decline in fair value of an equity investment below its cost for a continuous period of more than 12 months is considered as prolonged, by the end of the current financial year. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

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.

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.

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 2017, the Bank has adopted all of the following 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 2017.

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements Cycle - 2014-2016
- Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The adoption of those standards and interpretations has not resulted in significant 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 2017:

IFRS 9 - Financial Instruments:
In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Bank's initial estimate of IFRS 9 is expected to impact equity attributable to the equity holders of the Bank by 1%-2% as of 1 January 2018.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Bank is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to re-assessment and changes upon instructions of the regulatory authority.

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)

(i) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

(ii) Expected credit losses

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

Determining criteria for significant increase in credit risk (SICR);

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

The CBO has issued guidelines relating to implementation of IFRS 9. The relevant requirements relating to transition are set out below:

- Should the existing loan loss impairment computed in accordance with the requirements of IAS 39 and CBO guidelines be higher than the impairment allowance computed under IFRS 9, the related difference (net of tax) be transferred to a loan loss impairment reserve from retained earnings as of 1 January 2018.
- ln the subsequent years, where the allowance for loan loss impairment computed in accordance with CBO requirements is higher than the allowance for loan loss impairment loss computed under IFRS 9, the difference (net of tax) should be transferred to the aforementioned loan loss impairment reserve from retained earnings.
- The related impairment reserve will not be available for dividend distribution or for inclusion in the regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

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)

(iii) Financial liabilities

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

(iv) Hedge accounting

Hedge accounting requirements of IFRS 9 are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9.

(v) Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank’s disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

IFRS 15 - Revenue from Contracts with Customers: IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date using the modified retrospective approach. The Bank has performed an initial impact assessment and concluded that the impact is not material as in majority of the Bank’s facility agreements with customers generally expected to be the only performance obligation and accordingly, adoption of IFRS 15 is not expected to have any impact on the Bank’s income and profit or loss.

IFRS 16 – Leases: The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of ’low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). For lessors, there is little change to the existing accounting in IAS 17 Leases. The Bank will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its 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.

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. Besides assessing the qualitative characteristics, 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 CBO circular number BM 977 dated 25 September 2004 and the special dispensation dated 20 September 2016 and 1 January 2017 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

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.1 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 generally 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 relationship managers remain in close contact with the borrowers. 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.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.1 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 but not impaired RO'000	Non performing loans RO'000	Gross Loans RO'000
Loans and advances with collateral available	**446,856**	**107,740**	**26,421**	**581,017**
Loans and advances with guarantees available	**42,595**	**-**	**7,958**	**50,553**
Balance as at 31 December 2017	**489,451**	**107,740**	**34,379**	**631,570**
Balance as at 31 December 2016	454,398	97,674	33,549	585,621

5.1.2 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 CBO.

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.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.2 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.

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

Items on the statement of financial position	**2017 RO' 000**	2016 RO' 000
Cash and balances with Central Bank of Oman	**161,987**	253,106
Due from banks	**108,868**	30,080
Loans and advances		
Corporate loans	**981,990**	919,271
Personal loans	**722,482**	725,591
Other assets	**46,280**	45,401
Investments held to maturity		
Government development bonds	**85,847**	55,633
Treasury bills	**38,000**	40,290
	2,145,454	2,069,372
Off-Balance sheet items		
Letters of credit	**262,250**	197,931
Guarantees	**481,340**	482,070
Financial guarantees	**153,858**	141,638
Undrawn loan commitments	**62,767**	97,975
	960,215	919,614

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2017 and 31 December 2016 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) 59% (2016 – 60%) 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% (2016 – 77 %) of the total on-balance sheet items. Of the total loans and advances 86 % (2016 - 85 %) are neither past due nor impaired.
c) The impaired loans have remain unchanged at 2.9% as at 31 December 2017. The impaired personal loans constitute 0.58 % of the total loans at 31 December 2017 compared to 0.85 % at 31 December 2016.

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.4 Loans and advances and due from banks

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

31 December 2017	Loans and advances to customers RO' 000	Due from banks RO' 000	Total RO' 000
Neither past due nor impaired	**1,379,392**	**108,868**	**1,488,260**
Special mention loans	**191,508**	**-**	**191,508**
Past due but not impaired	**83,299**	**-**	**83,299**
Impaired	**50,273**	**-**	**50,273**
Gross loans and advances	**1,704,472**	**108,868**	**1,813,340**
Less: allowance for loan impairment and contractual interest not recognised	**(50,459)**	**-**	**(50,459)**
Net loans and advances	**1,654,013**	**108,868**	**1,762,881**
31 December 2016			
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
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)
Net loans and advances	1,594,799	30,080	1,624,879

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.4 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:

31 December 2017	**Retail loans RO' 000**	**Corporate loans RO' 000**	**Total RO' 000**
Standard loans	**709,620**	**753,071**	**1,462,691**
Special mention loans	**2,901**	**188,607**	**191,508**
Substandard loans	**1,834**	**926**	**2,760**
Doubtful loans	**2,438**	**1,525**	**3,963**
Loss	**5,689**	**37,861**	**43,550**
	722,482	**981,990**	**1,704,472**

At 31 December 2016	Retail loans RO' 000	Corporate loans RO' 000	Total RO' 000
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
	725,591	919,271	1,644,862

c) Age analysis of loans and advances past due but not impaired is set out below:

	2017 RO' 000	2016 RO' 000
Past due up to 30 days	**24,320**	78,616
Past due 30-60 days	**30,915**	567
Past due 60-90 days	**28,064**	537
Total	**83,299**	79,720
Fair value of collateral	**144,335**	49,140

d) Loans and advances individually impaired

Individually impaired loans	**50,273**	47,938
Fair value of collateral	**25,897**	25,219

5. Financial risk management (continued)

5.1.5 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 2017 amounted to RO 12,353,105 (2016 - RO 7,122,413).

5.1.6 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.

5.1.7 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The value of assets obtained by the Bank by taking possession held as collateral as security at 31 December 2017 is RO 183,000 (2016 - Nil).

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 management.

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 2017 may change by 0.08% (2016 – 0.09%) due to increase 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 39 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 2017 is 2.36% (2016 – 0.83%).

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:

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.3 Currency risk (continued)

Foreign currency

	2017	2016
	RO'000	RO'000
Net assets denominated in US Dollars	**36,539**	2,249
Net assets denominated in other foreign currencies	**3,174**	554
	39,713	2,803

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.

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.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical banking processes are tested to ascertain availability during such situations.

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 2017. 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.

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 2017					
Cash and balances with CBO	**-**	**-**	**-**	**161,987**	**161,987**
Due from banks	**-**	**-**	**-**	**108,868**	**108,868**
Loans and advances and financing to customers	**-**	**-**	**-**	**1,654,013**	**1,654,013**
Investment securities	**616**	**123,847**	**13,958**	**-**	**138,421**
Other assets	**-**	**-**	**-**	**46,280**	**46,280**
	616	**123,847**	**13,958**	**1,971,148**	**2,109,569**
31 December 2016					
Cash and balances with CBO	-	-	-	253,106	253,106
Due from banks	-	-	-	30,080	30,080
Loans and advances and financing to customers	-	-	-	1,594,799	1,594,799
Investment securities	628	95,923	17,384	-	113,935
Other assets	-	-	-	45,401	45,401
	628	95,923	17,384	1,923,386	2,037,321

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 2017		
Due to banks	**4,011**	**4,011**
Deposits from customers	**1,746,856**	**1,746,856**
Other liabilities	**57,693**	**57,693**
Subordinated bonds	**20,000**	**20,000**
	1,828,560	**1,828,560**
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
	1,778,711	1,778,711

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 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).

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. In addition, CBO mandated the banks in Oman to maintain a Capital Conservation Buffer (CCB) under Basel III of 0.625% in addition to the minimum capital of 12% from 1 January 2014 to 1 January 2019. Additional CCB of 0.625% must be maintained annually between 1 January 2017 and 1 January 2019.

	2017	2016
	RO'000	RO'000
Capital		
Common Equity Tier 1 (CET 1)	**260,267**	252,935
Additional Tier 1	**30,000**	30,000
Total Tier 1	**290,267**	282,935
Tier 2	**32,756**	38,687
Total capital base	**323,023**	321,622
Risk weighted assets		
Credit risk	**1,885,048**	1,852,546
Market risk	**30,713**	2,975
Operational risk	**143,438**	141,500
Total risk weighted assets	**2,059,199**	1,997,021
Capital adequacy ratio %	**15.69%**	16.11%

The Tier 1 capital consists of paid-up capital, reserves and perpetual bonds. 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

	2017	2016
	RO' 000	RO' 000
Cash in hand	**39,299**	37,782
Balances with the Central Bank of Oman:		
- Clearing account	**112,563**	166,699
- Placements	**9,625**	48,125
- Capital deposit	**500**	500
	161,987	253,106

(i) The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns an annual interest at 1% (2016 - 1%).

7. Cash and balances with the Central Bank of Oman (continued)

(ii) During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves is RO 52.662 million (2016: RO 49.137 million).

8. Due from banks

	2017 RO'000	2016 RO'000
Money market placements	**93,747**	16,659
Current accounts	**15,121**	13,421
	108,868	30,080

At 31 December 2017, 81 % of the Bank's placements were with eight banks rated in the range of Aa3 to Baa3 and 19% of the placements were with Oman Housing Bank SAOC, which is owned by Government (2016– 60 % of the Bank's placements were with Oman Housing Bank SAOC, which is owned by Government).

9. Loans and advances and financing to customers

	2017 RO' 000	2016 RO' 000
Corporate loans		
Term loans	**710,437**	654,920
Overdrafts	**146,469**	143,753
Bills discounted	**74,965**	87,278
Islamic Finance	**50,119**	33,320
	981,990	919,271
Personal loans		
Consumer loans	**431,166**	451,242
Mortgage loans	**249,475**	235,171
Overdrafts	**755**	1,807
Credit cards	**8,052**	4,657
Islamic Finance	**33,034**	32,714
	722,482	725,591
Gross loans and advances	**1,704,472**	1,644,862
Less: allowance for loan impairment and contractual interest not recognised (refer to note (a) below)	**(50,459)**	(50,063)
Net loans and advances	**1,654,013**	1,594,799

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:

2017	**Allowance for loan impairment RO' 000**	**Contractual interest not recognised RO' 000**	**Total RO' 000**
Balance at 1 January 2017	**43,788**	**6,275**	**50,063**
Provided during the year	**8,276**	**3,299**	**11,575**
Amounts written off during the year	**(2,342)**	**(705)**	**(3,047)**
Amounts released/recovered during the year	**(6,575)**	**(1,557)**	**(8,132)**
Balance at 31 December 2017	**43,147**	**7,312**	**50,459**

2016	Impairment for credit losses RO' 000	Contractual interest not recognised RO' 000	Total RO' 000
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)
At 31 December 2016	43,788	6,275	50,063

At 31 December 2017, RO 21,216,990 (2016 - RO 22,964,562) 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 2017, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 50,272,537 (31 December 2016 - RO 47,937,954).

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:

2017	**Personal RO'000**	**Corporate RO'000**	**Total RO'000**
Musharaka	**24,851**	**22,384**	**47,235**
Murabaha	**4,658**	**8,142**	**12,800**
Ijarah Muntahia Bittamleek	**3,525**	**13,410**	**16,935**
Wakala	**-**	**6,183**	**6,183**
At 31 December	**33,034**	**50,119**	**83,153**

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 2016	32,714	33,320	66,034

(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:

	2017 RO' 000	2016 RO' 000
Personal loans	**722,482**	725,591
Construction	**280,754**	299,485
Manufacturing	**114,990**	112,047
Mining and quarrying	**127,172**	110,621
Services	**89,845**	77,860
Import trade	**50,448**	54,744
Transportation	**76,472**	52,528
Electricity, water and gas	**51,827**	49,112
Wholesale and retail trade	**51,786**	46,089
Financial institutions	**55,401**	35,173
Agriculture and allied activities	**5,492**	4,998
Export trade	**1,066**	663
Lending to non-residents	**1,305**	-
Others	**75,432**	75,951
	1,704,472	1,644,862

Of the above, loans with variable interest rates amount to RO 706,079,194 (2016 - RO 673,931,694), loans carrying fixed interest rates amount to RO 915,239,806 (2016 - RO 904,896,306) and Islamic finance contracts amounts to RO 83,152,563 (2016: 66,034,051).

10. Investment securities

	2017 Carrying value RO'000	2017 Cost RO'000	2016 Carrying value RO'000	2016 Cost RO'000
Available-for-sale				
- quoted	**13,100**	**14,990**	16,536	18,915
- unquoted	**858**	**887**	848	877
	13,958	**15,877**	17,384	19,792
Designated as at fair value through profit or loss				
- quoted	**431**	**440**	440	378
- unquoted	**131**	**325**	131	325
	562	**765**	571	703
Held-for-trading				
- quoted	**54**	**95**	57	95
	54	**95**	57	95
Held-to-maturity				
Oman Government development bonds and Sukuk	**85,847**	**85,847**	55,633	55,633
Treasury bills	**38,000**	**38,000**	40,290	40,290
	123,847	**123,847**	**95,923**	**95,923**
Total investment securities	**138,421**	**140,584**	113,935	116,513

Refer note 38 for the maturity profile of the investment securities.

10. Investment securities (continued)

The following table presents the Bank's investment securities along with the movement in the investment securities:

2017	**At 1 January 2017 RO'000**	**Additions RO'000**	**Disposals (sale & redemption) RO'000**	**Changes in fair value recorded in profit or loss RO'000**	**Changes in fair value recorded in equity RO'000**	**At 31 December 2017 RO'000**
Available-for- sale						
Quoted – level 1	16,536	17,027	(17,962)	(728)	(1,773)	13,100
Unquoted – level 3	848	10	-	-	-	858
Designated as at fair value through profit or loss						
Quoted – level 1	440	440	(449)	-	-	431
Unquoted – level 3	131	-	-	-	-	131
Held for trading						
Quoted – level 1	57	-	-	(3)	-	54
Investments held to maturity	95,923	354,484	(326,560)	-	-	123,847
At 31 December 2017	113,935	371,961	(344,971)	(731)	(1,773)	138,421

2016	*At 1 January 2016 RO'000*	*Additions RO'000*	*Disposals (sale & redemption) RO'000*	*Changes in fair value recorded in profit or loss RO'000*	*Changes in fair value recorded in equity RO'000*	*At 31 December 2016 RO'000*
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

10. Investment securities (continued)

Available-for-sale investments amounting to RO 833,751 (2016: RO 833,751) are recorded at cost. Management believes that the fair value cannot be reliably measured for these unquoted investments.

During the year ended 31 December 2017, 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 85,845,938 (2016: RO 55,632,542). The bonds are denominated in Rial Omani and US dollars and carry interest rates varying between 3.00% to 5.75% (2016 – 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 38,000,000 (2016: RO 40,290,000) and RO 636,000 (2016: RO 636,000) respectively. The treasury bills are denominated in Rial Omani and carry yield rates ranging between 0.75% to 1% (2016: 0.46% to 0.86%). The maturity profiles of the held-to-maturity investments, based on the remaining maturity from the reporting date, are as follows:

	2017	2016
	RO’000	RO’000
Treasury bills		
Upto 3 months	**38,000**	40,290
Government bonds		
1 to 5 years	**35,151**	49,684
Above 5 years	**50,060**	5,313
Sukuk bonds		
1 to 5 years	**636**	636
Total	**123,847**	95,923

11. Other assets

	2017	2016
	RO 000	RO 000
Customers’ indebtedness against acceptances	**25,021**	24,133
Fees receivable	**3,722**	6,634
Interest receivable	**8,657**	6,155
Prepayments	**1,849**	2,118
Positive fair value of derivatives (note 36)	**321**	166
Others	**6,710**	6,195
	46,280	45,401

12. Property and equipment

	Land and buildings RO'000	***Computer Equipment RO'000***	***furniture & fixtures RO'000***	***Motor vehicles RO'000***	***work in progess RO '000***	***Total RO'000***
2017						
Cost						
At 1 January 2017	**21,571**	**19,713**	**11,406**	**656**	**1,341**	**54,687**
Additions	**-**	**1,250**	**2,941**	**11**	**258**	**4,460**
Transfers	**-**	**546**	**61**	**-**	**(607)**	**-**
Disposals	**-**	**(3)**	**(39)**	**-**	**-**	**(42)**
At 31 December 2017	**21,571**	**21,506**	**14,369**	**667**	**992**	**59,105**
Depreciation						
At 1 January 2017	**2,163**	**14,889**	**8,580**	**404**	**-**	**26,036**
Charge for the year	**590**	**1,869**	**1,146**	**75**	**-**	**3,680**
Relating to disposals	**-**	**(2)**	**(39)**	**-**	**-**	**(41)**
At 31 December 2017	**2,753**	**16,756**	**9,687**	**479**	**-**	**29,675**
Net book value						
At 31 December 2017	**18,818**	**4,750**	**4,682**	**188**	**992**	**29,430**

	Land and buildings RO'000	*Computer equipment RO'000*	*Equipment, furniture & fixtures RO'000*	*Motor vehicles RO'000*	*Capital work in progress RO '000*	*Total RO'000*
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	21,571	19,713	11,406	656	1,341	54,687
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	2,163	14,889	8,580	404	-	26,036
Net book value						
At 31 December 2016	19,408	4,824	2,826	252	1,341	28,651

13. Due to banks

	2017 RO'000	2016 RO'000
Current accounts	**4,011**	6,281
Money market acceptances	**-**	5,775
	4,011	12,056

14. Deposits from customers

	2017 RO'000	2016 RO'000
Term deposits	**738,813**	763,794
Demand and call accounts	**736,032**	632,283
Saving accounts	**272,011**	241,075
	1,746,856	1,637,152

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

	2017 RO'000	2016 RO'000
Private	**1,351,964**	1,248,389
Government	**394,892**	388,763
	1,746,856	1,637,152

Islamic customers' deposits

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

	2017 RO'000	2016 RO'000
Wakala acceptances	**72,008**	58,162
Current account - Qard	**14,679**	6,814
Mudaraba accounts	**3,218**	2,486
	89,905	67,462

15. Other liabilities

	2017 RO'000	2016 RO'000
Liabilities against acceptances	**25,021**	24,133
Interest payable	**17,901**	18,390
Accrued expenses and other payables	**8,610**	8,096
Cheques and trade settlement payable	**3,364**	5,247
Staff terminal benefits (note 16)	**1,158**	1,429
Interest and commission received in advance	**1,349**	1,309
Early retirement benefits	**-**	756
Negative fair value of derivatives (note 36)	**290**	143
	57,693	59,503

16. Staff terminal benefits

	2017 RO'000	2016 RO'000
At 1 January	**1,429**	2,297
Charge for the year	**225**	351
Payment to employees during the year	**(495)**	(1,219)
At 31 December	**1,158**	1,429

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.

	2017 RO'000	2016 RO'000
Subordinated bonds (i)	**-**	50,000
Subordinated loans (ii)	**20,000**	20,000
	20,000	70,000

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 matured in May 2017.

17. Subordinated debt (continued)

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

	2017 **RO'000**	2016 RO'000
Statement of profit or loss:		
Current year	**4,725**	3,908
Prior years	**120**	256
Deferred tax	**71**	(256)
	4,916	3,908
Disclosed in statement of comprehensive income as follows:		
Tax on profit for the year from continuing operations	**4,916**	2,561
Tax on profit for the year from discontinued operations (note 32)	**-**	1,347
	4,916	3,908
Statement of financial position		
Current year	**4,798**	4,140
Deferred tax	**93**	22
	4,891	4,162
Deferred tax liability		
At 1 January	**22**	278
Movement for the year	**71**	(256)
At 31 December	**93**	**22**

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 15% (2016: 12%). For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 15.02% (2016 – 13.66%). The deferred tax liability has been recognised at the effective rate of 15% (2016 - 12%).

18. Taxation (continued)

	2017 RO'000	2016 RO'000
Profit before tax	**31,463**	28,434
Tax at the applicable rate of 15% (2016: 12%)	**4,719**	3,408
Tax effect of temporary differences	**74**	(256)
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit deductible in determining taxable profit	**(68)**	1,012
Prior year	**120**	-
Less: Deferred tax liability created during the year	**71**	(256)
Tax expense for the year	**4,916**	3,908

Status of tax assessments

The assessments for the years up to 2013 are complete. The assessments for 2014 to 2016 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 1,346,200,000 fully paid shares of RO 0.100 each (2016: 1,270,000,000 fully paid shares of RO 0.100 each). The paid up share capital of the Bank was increased during 2017 by RO 7.62 million through the issuance of bonus shares to 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 (2016: RO 14 million)

	Country of incorporation	**Share holding %**	**2017 RO'000**	2016 RO'000
Oman International Development & Investment Co. SAOG	Oman	**50.99**	**68,643**	64,758
Arab Bank Plc	Jordan	**49.00**	**65,964**	62,230
Oman Real Estate Investment Services SAOC (formerly Oman Investment Services SAOC)	Oman	**0.01**	**13**	12
			134,620	127,000

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.

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. An amount of RO 1 million was transferred in 2016 from general reserve to retained earnings in order to create the special reserve as required by CBO. No transfers were made from / to general reserve during the year 2017.

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. During the year, the subordinated bonds amounting to RO 50 million matured in May 2017 and accordingly, the reserve amounting to RO 50 million was released to retained earnings.

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 amounting to RO 2.4 million has been set aside as a special reserve, which requires prior approval of the Central Bank of Oman for any distribution.

On 20 June 2017, the CBO issued a circular in relation to the reserve requirements for restructured accounts. In accordance with the circular, a reserve should be computed at 10% for all the restructured accounts. Accordingly, the Bank has transferred an amount of RO 360,489 (2016: RO Nil) from retained earnings to special reserve.

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 cash dividend of RO 0.011 per share totalling to RO 14.81 million for the year ended 31 December 2017 (2016 - stock dividend of RO 0.006 per share totalling to RO 7.62 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

During the year, a stock dividend of RO 0.006 per share totalling to RO 7.620 million was paid as approved by shareholders in their annual general meeting held on 28 March 2017.

26. Interest income

	2017 RO'000	2016 RO'000
Loans and advances	**84,320**	75,524
Oman Government development bonds and sukuk	**2,211**	1,408
Treasury bills	**540**	427
Placements with banks and other money market placements	**1,044**	304
	88,115	77,663

27. Interest expense

	2017 RO'000	2016 RO'000
Time deposits	**23,522**	18,387
Subordinated debt	**2,087**	3,861
Call accounts	**1,826**	1,373
Borrowings	**2,801**	2,854
Savings accounts	**2,280**	1,290
	32,516	27,765

28. Fee and commission income – net

	2017 RO'000	2016 RO'000
Fee and commission income	**15,331**	17,966
Fee and commission expense	**(938)**	(1,573)
	14,393	16,393

29. Investment income – net

	2017 RO'000	2016 RO'000
Fair value changes	**(3)**	21
Profit (loss) on sale of investments	**495**	(940)
Dividend income	**648**	654
	1,140	(265)

30. Other operating income

	2017 RO'000	2016 RO'000
Exchange income	**5,763**	5,335
Other income	**843**	649
	6,606	5,984

31. Operating expenses

	2017 RO'000	2016 RO'000
Staff costs (refer below)	**27,190**	28,671
Other operating expenses	**14,399**	12,239
Depreciation from continuing operations	**3,680**	3,752
Directors' remuneration	**134**	130
	45,403	44,792

Details of staff costs are as follows:

	2017 RO'000	2016 RO'000
Salaries	**18,366**	19,392
Allowances	**3,912**	4,103
Social security costs	**1,898**	1,971
End of service benefits relating to continuing operations (note 16)	**225**	299
Early retirement benefits	**-**	756
Other costs	**2,789**	2,150
	27,190	28,671

32. Profit from sale of discontinued operations

During 2016, the Bank signed a Memorandum of Understanding with OMINVEST, Arab Bank Switzerland and Oman Investment Fund to sell its investment banking activities, which were 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 SAOC. 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 during the year 2016. As at 31 December 2016, IMG was classified as a discontinued operation and following assets were sold to Ubhar Capital SAOC and liabilities related to discontinued operations amounted to RO 514,000 were settled by the Bank.

32. Profit from sale of discontinued operations (continued)

i) Property and equipment sold amounting to RO 170,000; and
ii) Investment in FSGF amounting to RO 210,000.

During 2016, the results of IMG for the year were presented below:

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

IMG was part of Oman Arab Bank and was 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 were as follows:

	2016 RO’000
Operating	(572)
Investing	380
	(192)

Earnings per share for profit for the year from discontinued operations	
Basic and diluted (RO)	0.080

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:

	2017	2016
Profit for the year (RO'000)	**26,547**	24,526
Less: Issue expenses of Perpetual Tier 1 capital bonds (RO'000)	**-**	(34)
Less: Interest distribution of Perpetual Tier 1 capital bonds	**(2,325)**	-
Profit for the period attributable to equity holders of the bank after issuance expenses of Tier 1 capital bonds	**24,222**	24,492
Weighted average number of shares outstanding during the year	**125,799,454**	125,799,454
Basic earning per share (RO)	**0.019**	0.019

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.

During the year 2016, the Bank issued stock dividend amounting to RO 7.62 million at RO 0.100 per share. As the issue was without any consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

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 2017, the management fees as per the agreement amounted to RO 79,641 (2016: RO 73,578).

Disposal of IMG
During 2016, the Bank has sold its investment banking activities to Ubhar Capital SAOC, which is owned by Ominvest, Arab Bank Switzerland and Oman Investment Fund. 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:

2017	**Major shareholders RO'000**	**Others RO'000**	**Total RO'000**
Loans and advances	**11,500**	**56,007**	**67,507**
Customers' deposits	**619**	**22,566**	**23,185**
Due from banks	**35,725**	**-**	**35,725**
Due to banks	**1,538**	**-**	**1,538**
Stand by line of credit	**48,125**	**-**	**48,125**
Letters of credit, guarantees and acceptances	**153,179**	**16,090**	**169,269**

34. Related party transactions (continued)

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
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

Movement of loans and advances given to related parties:

	2017 RO'000	2016 RO'000
At 1 January	**58,060**	66,449
Disbursed during the year	**258,055**	234,737
Paid during the year	**(248,608)**	(243,126)
At 31 December	**67,507**	58,060

None of the loans and advances given to related parties were identified as impaired and no provision for any impairment has been recognised (2016: none identified or recognised)

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

31 December 2017	**Major shareholders RO'000**	**Others RO'000**	**Total RO'000**
Interest and commission income	**937**	**2,397**	**3,334**
Interest expense	**561**	**152**	**713**

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

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:

	2017 RO'000	2016 RO'000
Salaries and other short-term benefits	**1,261**	1,086
End of service benefits	**174**	33
	1,435	1,119

35. Cash and cash equivalents

	2017 RO'000	2016 RO'000
Cash and balances with the CBO (note 7)	**161,987**	253,106
Due from banks (note 8)	**108,868**	30,080
Less: due to banks (note 13)	**(4,011)**	(12,056)
Restricted deposits included under balances with the CBO	**(500)**	(500)
	266,344	270,630

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:

	Positive fair value RO'000 (note 11)	***Negative fair value RO'000 (note 15)***	***Notional amount RO'000***	***Within 3 months RO'000***	***3 - 12 months RO'000***
31 December 2017					
Purchase contracts	**321**	**-**	**33,548**	**26,104**	**7,444**
Sale contracts	**-**	**(290)**	**(33,516)**	**(26,085)**	**(7,431)**
	321	**(290)**	**32**	**19**	**13**

36. Derivative financial instruments (continued)

31 December 2016	*Positive fair value RO'000 (note 11)*	*Negative fair value RO'000 (note 15)*	*Notional amount RO'000*	*Within 3 months RO'000*	*3 - 12 months RO'000*
Purchase contracts	166	-	13,199	7,193	6,006
Sale contracts	-	(143)	(13,176)	(7,176)	(6,000)
	166	(143)	23	17	6

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:

	2017 RO'000	2016 RO'000
Letters of credit	**262,250**	197,931
Guarantees	**481,340**	482,070
Financial guarantees	**153,858**	141,638
	897,448	821,639

Letters of credit and guarantees amounting to RO 557,458,987 (2016: RO 510,559,661) were counter guaranteed by other banks.

Letters of credit and guarantees include RO 311,868 (2016: RO 467,951) relating to non-performing loans.

37. Contingent liabilities and commitments (continued)

(a) Letters of credit and guarantees (continued)

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

	2017 **RO'000**	2016 RO'000
Construction	**322,321**	287,085
Utilities	**236,007**	235,761
Export trade	**235,188**	152,983
Government	**45,064**	70,014
Import trade	**25,303**	40,319
Transportation	**16,046**	17,801
Wholesale and retail trade	**11,711**	10,670
Services	**2,823**	4,462
Manufacturing	**2,929**	2,544
Mining and quarrying	**56**	-
	897,448	821,639

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 4,645,780 (2016: RO 1,944,717).

(c) Undrawn loan commitments

At the reporting date, outstanding undrawn loan commitments amounted to RO 62,767,000 (2016: RO 97,975,000). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

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

	Up to 1 year ***RO'000***	***1 to 5 years*** ***RO'000***	***Over 5 years*** ***RO'000***	***Total*** ***RO'000***
2017				
Capital commitments	**4,645**	**-**	**-**	**4,645**
Undrawn loan commitments	**-**	**62,767**	**-**	**62,767**

	Up to 1 year *RO'000*	*1 to 5 years* *RO'000*	*Over 5 years* *RO'000*	*Total* *RO'000*
2016				
Capital commitments	1,945	-	-	1,945
Undrawn loan commitments	-	97,975	-	97,975

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.

2017	**On demand or within 3 months RO'000**	**3 to 12 months RO'000**	**Sub total RO'000**	**1 to 5 years RO'000**	**Over 5 years RO'000**	**Total RO'000**
Assets						
Cash and balances with the CBO	124,132	15,460	139,592	12,449	9,946	161,987
Due from banks	108,868	-	108,868	-	-	108,868
Loans and advances and financing to customers	198,126	216,046	414,172	436,272	803,569	1,654,013
Investment securities	37,613	19,000	56,613	28,667	53,141	138,421
Other assets	37,562	8,700	46,262	-	18	46,280
Property and equipment	-	-	-	-	29,430	29,430
	506,301	259,206	765,507	477,388	896,104	2,138,999
Liabilities						
Due to banks	4,011	-	4,011	-	-	4,011
Deposits from customers	435,823	539,644	975,467	435,949	335,440	1,746,856
Other liabilities	40,275	10,982	51,257	5,951	485	57,693
Subordinated bond	-	-	-	20,000	-	20,000
Taxation	4,798	93	4,891	-	-	4,891
	484,907	550,719	1,035,626	461,900	335,925	1,833,451
Net assets	**21,394**	**(291,513)**	**(270,119)**	**15,488**	**560,179**	**305,548**
Forward exchange contracts at notional amounts (note 36)						
Purchase contracts	26,104	7,444	33,548	-	-	33,548
Sale contracts	(26,085)	(7,431)	(33,516)	-	-	(33,516)
	19	**13**	**32**	**-**	**-**	**32**

38. Assets and liabilities maturity profile (continued)

2016	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Assets						
Cash and balances with the CBO	214,279	17,564	231,843	11,585	9,678	253,106
Due from banks	30,080	-	30,080	-	-	30,080
Loans and advances	234,796	129,967	364,763	421,011	809,025	1,594,799
Investment securities	57,797	20,641	78,438	30,210	5,287	113,935
Other assets	36,750	8,361	45,111	265	25	45,401
Property and equipment	-	-	-	-	28,651	28,651
Total assets	573,702	176,533	750,235	463,071	852,666	2,065,972
Liabilities						
Due to banks	12,056	-	12,056	-	-	12,056
Deposits from customers	414,278	561,178	975,456	365,541	296,155	1,637,152
Other liabilities	42,888	9,745	52,633	5,476	1,394	59,503
Subordinated bond	-	50,000	50,000	20,000	-	70,000
Taxation	3,927	235	4,162	-	-	4,162
Total liabilities	473,149	621,158	1,094,307	391,017	297,549	1,782,873
Net assets	100,553	(444,625)	(344,072)	72,054	555,117	283,099
Forward exchange contracts at notional amounts (note 36)						
Purchase contracts	7,193	6,006	13,199	-	-	13,199
Sale contracts	(7,176)	(6,000)	(13,176)	-	-	(13,176)
	17	6	23	-	-	23

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.

2017	***On demand or within 3 months RO'000***	***3 to 12 months RO'000***	***1 to 5 years RO'000***	***Over 5 years RO'000***	***Total RO'000***
Letters of guarantee	**277,811**	**169,699**	**187,688**	**-**	**458,248**
Letters of credit	**255,688**	**6,562**	**-**	**-**	**439,200**
Total commitments and contingencies	**533,499**	**176,261**	**187,688**	**-**	**897,448**
2016					
Letters of guarantee	231,792	213,770	178,131	15	623,708
Letters of credit	183,100	14,653	178	-	197,931
Total commitments and contingencies	414,892	228,423	178,309	15	821,639

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.

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.

2017	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	161,487	161,987
Due from banks	0.94	93,747	-	-	-	15,121	108,868
Loans and advances	5.08	528,730	163,155	913,657	48,471	-	1,654,013
Investment securities at fair value		-	-	-	-	14,574	14,574
Investment–held to maturity	1.67	23,000	19,000	28,668	53,179	-	123,847
Other assets		8,657	-	-	-	37,623	46,280
Property and equipment		-	-	-	-	29,430	29,430
Total assets		**654,134**	**182,155**	**942,325**	**102,150**	**258,235**	**2,138,999**
Liabilities							
Due to banks		-	-	-	-	4,011	4,011
Deposits from customers	1.58	426,011	331,338	175,924	-	813,583	1,746,856
Other liabilities		3,364	-	-	-	54,329	57,693
Subordinated debt	5.50	-	-	20,000	-	-	20,000
Taxation		-	-	-	-	4,891	4,891
Total liabilities		**429,375**	**331,338**	**195,924**	**-**	**876,814**	**1,833,451**
Total interest sensitivity gap		**224,759**	**(149,183)**	**746,401**	**102,150**	**(618,579)**	**305,548**

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

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	5.50	-	50,000	20,000	-		70,000
Taxation		-	-	-	-	4,162	4,162
Total liabilities		382,817	451,887	179,109	-	769,060	1,782,873
Total interest sensitivity gap		19,989	(73,274)	705,223	48,285	(417,124)	283,099

40. Geographical distribution of assets and liabilities

2017	**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	**161,987**	**-**	**-**	**-**	**-**	**161,987**
Due from banks	**55,395**	**38,427**	**13,380**	**779**	**887**	**108,868**
Loans and advances	**1,654,013**	**-**	**-**	**-**	**-**	**1,654,013**
Investment securities	**132,977**	**4,134**	**-**	**-**	**1,310**	**138,421**
Other assets	**46,280**	**-**	**-**	**-**	**-**	**46,280**
Property and equipment	**29,430**	**-**	**-**	**-**	**-**	**29,430**
Total assets	**2,080,082**	**42,561**	**13,380**	**779**	**2,197**	**2,138,999**
Liabilities						
Due to banks	**680**	**2,261**	**430**	**-**	**640**	**4,011**
Deposits from customers	**1,746,856**	**-**	**-**	**-**	**-**	**1,746,856**
Other liabilities	**57,693**	**-**	**-**	**-**	**-**	**57,693**
Subordinated bonds	**20,000**	**-**	**-**	**-**	**-**	**20,000**
Taxation	**4,891**	**-**	**-**	**-**	**-**	**4,891**
Total liabilities	**1,830,120**	**2,261**	**430**	**-**	**640**	**1,833,451**

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

41. Customer concentrations

2017	Assets Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Liabilities Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
Personal	**-**	**722,482**	**-**	**506,106**	**-**	**511**
Corporate	**108,868**	**981,990**	**14,574**	**845,859**	**4,011**	**888,446**
Government	**-**	**-**	**123,847**	**394,891**	**-**	**8,491**
	108,868	**1,704,472**	**138,421**	**1,746,856**	**4,011**	**897,448**

2016	Assets Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Liabilities Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
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
	30,080	1,644,862	113,935	1,637,152	12,056	821,639

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 2017. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2017 and 2016 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.

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 2017 or 2016.

	Continued Operations					Discontinued Operations	
					Sub-Total		Total
2017	**Retail banking RO'000**	**Corporate banking RO'000**	**Support and unallocated functions RO'000**	**Al-Yusr RO'000**	**RO'000**	**Investment banking RO'000**	**RO'000**
Interest income	**37,558**	**46,762**	**3,795**	**-**	**88,115**	**-**	**88,115**
Interest expense	**(5,268)**	**(10,560)**	**(16,688)**	**-**	**(32,516)**	**-**	**(32,516)**
Other operating income	**7,753**	**8,499**	**3,885**	**2,002**	**22,139**	**-**	**22,139**
Total operating income	**40,043**	**44,701**	**(9,008)**	**2,002**	**77,738**	**-**	**77,738**
Assets	**671,204**	**900,640**	**484,987**	**82,168**	**2,119,165**	**-**	**2,138,999**
Liabilities	**488,072**	**1,168,879**	**86,595**	**89,905**	**1,813,617**	**-**	**1,833,451**
Allowance for impairment	**17,707**	**31,769**	**-**	**983**	**50,459**	**-**	**50,459**

2016							
Interest income	35,058	40,467	2,138	-	77,663	-	77,663
Interest expense	(3,067)	(17,980)	(6,718)	-	(27,765)	-	(27,765)
Other operating income	9,051	9,253	1,719	2,089	22,112	1,822	23,995
Total operating income	41,042	31,740	(2,861)	2,089	72,010	1,822	73,893
Assets	679,605	850,164	451,341	65,028	2,046,138	19,834	2,065,972
Liabilities	450,585	1,118,807	125,887	67,760	1,763,039	19,834	1,782,873
Allowance for impairment	16,311	32,748	-	1,004	50,063	-	50,063

43. Comparative figures

No material corresponding figures for 2016 included for comparative purposes were reclassified.