



**SOHAR INTERNATIONAL BANK SAOG
(previously Bank Sohar SAOG)**

**INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019**

Chairman's Report for the nine months ended 30 September 2019

I am proud to present Sohar International's (the "Bank") achievements for the nine months ended September 30, 2019

Financial Performance

The Bank's net profit for the nine months ended 30 September 2019 amounted to OMR 25.059 million compared to OMR 21.940 million during the same period in 2018, reflecting a growth of 14.22%.

The Bank's total operating income increased by 6.27% from OMR 69.650 million in the first nine months of 2018 to OMR 74.018 million for the same period in 2019. Operating profit increased by 1.32% from OMR 39.821 million in the first nine months of 2018 to OMR 40.347 million for the same period in 2019. During the first nine months of 2019, operating expenses increased by 12.88% to OMR 33.671 million compared to OMR 29.829 million in the first nine months of 2018, reflecting our continued investment in people and core infrastructure. The Bank continues to focus on delivering sustainable growth in line with its strategic objectives.

The Bank's gross loans and advances increased by 12.48% from OMR 2.297 billion as at 30 September 2018 to OMR 2.584 billion as at 30 September 2019. Total assets grew by 12.47% from OMR 2.968 billion as at 30 September 2018 to OMR 3.338 billion as at 30 September 2019. Customer deposits increased by 16.19% to OMR 1.994 billion as at 30 September 2019 compared to OMR 1.717 billion as at 30 September 2018.

Successful Rights Issue

During the quarter the Bank successfully completed a rights issue resulting in an increase in shareholder's equity of OMR 40 million. The oversubscribed issuance reflects the confidence our shareholders have in the Banks' ability to continue its growth trajectory and deliver on its strategic imperatives. This outcome reaffirms Sohar International's strengthening market position and investor confidence, despite a challenging global, regional and international economic environment.

Winning Culture in Action

In the Bank's journey towards achieving excellence and the purpose of winning, Sohar International was honoured and acknowledged with various awards and accolades for their business leadership, growth, and CSR initiatives. The Bank was recognised for business excellence by the Oman Economic Review (OER) magazine at their 'Top 20 Awards'; and has also won two accolades at the AIWA awards, including the Best Performing Company award in the Large Segment Category and Best Corporate Social Responsibility Campaign award. This winning streak is further testament to the Bank's journey towards becoming a world-leading Omani service company that helps communities and people to prosper and grow.

Under the theme of 'Now that's Winning', Sohar International continued its Prize Scheme draws that rewarded prudent saving customers with attractive cash prizes. The incentivised campaign has been structured with the ultimate purpose of instilling a savings culture within the nation helping customers, communities and people to prosper and grow.

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Under the same campaign, the Bank invited residents of Salalah and the visiting tourists to be a part of an enthralling roadshow. The event focused on bringing communities together enabling the Bank to interact and touch base with them whilst giving stage to the Bank's prodigy, and the youngest Omani Formula 4 racing sensation, Shihab Al Habsi.

The quarter witnessed Sohar International sign memorandums of understanding with a reputed hospital and a service company in congruence to the Bank's purpose of helping people 'win'. The strategic alliances showcase the Bank's effort to fulfil its customers' needs and provide them with best-in-class services as engrained into the brand's principle to provide customers with more vision, more value, and more velocity in everything it does.

Building Customer Eco System

Sohar International has been awarded an advisory mandate for one of the largest textile manufacturers in Oman for their expansion. The advisory mandate includes forming a capital structure for the expansion, raising funds and offering shares on the Muscat Securities Market through an Initial Public Offering (IPO). This 'win' demonstrates Sohar International's vision to create a service company offering complete financial solutions to its clients and also demonstrates Sohar International's investment banking and advisory capabilities. This IPO will support the Capital Market Authority's vision of becoming an engine for sustainable economic growth and wealth creation.

Demonstrating our "International" capabilities

Sohar International has recently signed an exclusive agreement with European Financial Group (EFG), one of the largest and best capitalised Swiss private banks with an international footprint. As part of this agreement, both institutions intend to join efforts in order to provide financial institutions, sovereign wealth funds, family offices, pension funds and high net worth individuals with exclusive access to global investment opportunities and innovative products. The strategic alliance with EFG will combine our existing investment advisory business and wealth management platform with EFG's capability to access global markets and products. EFG is an ideal international financial partner and offers the security and solidity cherished by Omani clients.

Such strategic tie ups and initiatives are enabling Sohar International to deliver on its promise of providing banking for the customers' ever-changing world by bringing the best of the world to Oman and taking the best of Oman to the world.

Connecting with Customers & Communities

Celebrating occasions that bring communities closer together, Sohar International launched a digital campaign primarily on social media on the joyous occasion of Eid Al Adh'ha. The campaign that consisted of a competition garnered significant popularity and was rolled out with the ultimate objective of engaging and connecting with the people of this beloved nation. This ensured that the Bank had maximum presence on digital platforms and opened up many doors of communication for its followers and customers alike.

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Catering to and connecting with the lifestyles of the growing customer base, Sohar International continued its efforts in expanding the merchant base on its digital payment platform e-Floos. Such strategic efforts reinforce the Bank's commitment to support the government's ever-growing digitisation efforts across the Sultanate as well as fulfil the requirements of the customers ever changing worlds.

With digital platforms continuing to play an essential role in reaching out to stakeholders, Sohar International introduced an entirely new corporate website that is well in line with its new brand and brand philosophy. The new website has been developed to provide ease of navigation and add more value to the visitor's online journey.

Commitment to Omani youth

Providing a steppingstone to the youth of the nation, the quarter witnessed the graduation and completion of the first batch of interns under the Bank's Tomohi programme. Tomohi was introduced in the year 2018 with the objective of enhancing employment opportunities of Omani college and university graduates. The first 16 candidates successfully completed the programme allowing the floor to be open for the next batch that the Bank looks forward to welcome soon.

Furthering the academic scene within the nation, the Bank continues to promote knowledge-sharing platforms and initiatives, such as Chartered Financial Analysts' (CFA) Society of Oman to strengthen their role as a facilitator of socio-economic growth and progress. The aim of this initiative is to play a pivotal role in the country's economic development by enhancing the skill set of the Omani youth enabling them to pursue career opportunities that can enrich their lives as well as benefit the economy as a whole.

Sohar Islamic Developments

To provide easier access and convenience to customers and provide ample space and better working environment to staff, Sohar Islamic relocated its offices to Ghala. The new location also provides a fully functional Islamic branch in order to serve retail and corporate clients.

During the quarter Sohar Islamic sponsored and participated in the 2nd Salalah International Financial Islamic Conference, which brought together international industry experts to share knowledge and the latest research regarding the Islamic financial sector and products. The event was part of Sohar International's agenda to further develop the growth of Shari'a-compliant banking in Oman and to facilitate a greater understanding among practitioners for the benefit of all customers and stakeholders.

Looking Ahead

We see continued demand for financing in the near future despite oil prices at current levels due to the commitment of the government to continue focusing on infrastructure projects along with investments in sectors identified as key in the economic diversification plan. Despite economic headwinds, Sohar International is well positioned to further build on its market excellence, capitalize on upcoming opportunities, play a positive role in enhancing the national economy and continue to create sustainable value for its stakeholders.

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Recognition

I thank the Bank's stakeholders for their continued trust and confidence as well as the employees for their continued commitment and enthusiasm in producing superior results for the Bank.

I wish to again recognize the outstanding support, guidance and vision of the Central Bank of Oman and the Capital Market Authority, setting the platform for the financial sector to grow under the umbrella of strong governance, transparency and leadership.

Most respectfully I acknowledge the efforts of the Government of His Majesty the Sultan, for their commendable efforts in promoting the Banking sector in Oman, in line with His Majesty's vision.

Finally, and most passionately, I extend on behalf of my fellow Directors and all our loyal staff our heartfelt thanks to His Majesty Sultan Qaboos bin Said for his vision and benevolent leadership of our beloved country.

Mohammed Mahfoudh Al Ardhi
Chairman

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2019
(RO'000)

		30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
	Note			
ASSETS				
Cash and balances with Central Bank	<i>B1</i>	100,167	72,456	115,346
Due from banks and other money market placements	<i>B2</i>	73,349	121,403	32,682
Loans, advances and financing, net	<i>B3</i>	2,477,303	2,251,930	2,221,051
Investment securities	<i>B4</i>	602,854	532,769	528,976
Property, equipment and fixtures		36,024	19,676	17,150
Investment properties		2,900	2,900	2,900
Other assets	<i>B5</i>	45,789	45,269	50,216
TOTAL ASSETS		3,338,386	3,046,403	2,968,321
LIABILITIES				
Due to banks and other money market borrowings	<i>B6</i>	714,030	722,061	743,179
Customers' deposits	<i>B7</i>	1,994,441	1,818,353	1,716,562
Other liabilities	<i>B8</i>	67,668	84,664	66,728
Subordinated loans		35,654	35,392	35,654
Certificates of deposits		503	509	18,686
TOTAL LIABILITIES		2,812,296	2,660,979	2,580,809
SHAREHOLDERS' EQUITY				
Share capital	<i>B9</i>	236,360	198,265	198,265
Share premium	<i>B9</i>	19,942	18,037	18,037
Legal reserve		24,375	24,375	21,438
General reserve		988	988	988
Impairment reserve		-	-	3,702
Fair value reserve		(2,180)	(2,124)	(2,798)
Subordinated loans reserve		7,000	7,000	-
Retained earnings		39,605	38,883	47,880
TOTAL SHAREHOLDERS' EQUITY		326,090	285,424	287,512
Perpetual Tier 1 capital securities	<i>B10</i>	200,000	100,000	100,000
TOTAL EQUITY		526,090	385,424	387,512
TOTAL LIABILITIES AND EQUITY		3,338,386	3,046,403	2,968,321
CONTINGENT LIABILITIES				
COMMITMENTS	<i>B11.a</i>	392,835	485,142	516,454
	<i>B11.b</i>	374,350	439,344	309,841
Net assets per share		Baizas 137.96	<i>Baizas</i> 143.96	<i>Baizas</i> 145.01

The interim condensed financial statements were approved and authorised for issue by the Board of Directors on 28 Oct 2019 and signed on their behalf by:

Chairman

Board member

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

(Unaudited)
(RO'000)

		For the nine months ended		For the three months ended	
	Note	30 September 2019	30 September 2018	30 September 2019	30 September 2018
Interest income	C1	108,513	96,063	37,735	33,127
Interest expense	C2	(59,668)	(53,948)	(19,857)	(18,679)
Net interest income		48,845	42,115	17,878	14,448
Net income from Islamic financing and investing activities	C3.b	4,130	3,477	1,439	1,219
Other operating income	C4	21,043	24,058	5,149	11,480
TOTAL OPERATING INCOME		74,018	69,650	24,466	27,147
Staff costs		(21,633)	(17,788)	(7,166)	(5,965)
Other operating expenses	C5	(10,173)	(10,344)	(3,189)	(2,993)
Depreciation		(1,865)	(1,697)	(674)	(563)
TOTAL OPERATING EXPENSES		(33,671)	(29,829)	(11,029)	(9,521)
NET OPERATING INCOME BEFORE IMPAIRMENT PROVISIONS		40,347	39,821	13,437	17,626
Loan impairment charges and other credit risk provisions (net)	C6	(12,820)	(14,189)	(7,111)	(8,270)
PROFIT BEFORE TAX		27,527	25,632	6,326	9,356
Income tax expense		(2,468)	(3,692)	149	(1,398)
PROFIT FOR THE PERIOD		25,059	21,940	6,475	7,958
Profit for the period					
Conventional banking		24,183	21,771	6,642	7,632
Islamic banking		876	169	(167)	326
		25,059	21,940	6,475	7,958
Basic earnings per share for the period	C7	Baizas 6.402	<i>Baizas</i> 7.131	Baizas (0.536)	<i>Baizas</i> 2.043

STATEMENT OF COMPREHENSIVE INCOME (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019
(Unaudited)
(RO'000)

	For the nine months ended		For the three months ended	
	30 September 2019	30 September 2018	30 September 2019	30 September 2018
Profit for the period	25,059	21,940	6,475	7,958
<i>Other comprehensive income that will not be reclassified to the income statement</i>				
Revaluation (losses) / gains on equity instruments held at fair value through other comprehensive income (FVOCI)	(716)	(928)	(26)	(231)
Total other comprehensive income / (loss) that will not be reclassified to the income statement	(716)	(928)	(26)	(231)
<i>Other comprehensive income that will be reclassified to the income statement</i>				
Debt instruments at FVOCI:				
Net changes in allowance for expected credit losses	-	6	-	(2)
Total other comprehensive income that will be reclassified to the income statement	-	6	-	(2)
Total other comprehensive income / (loss) for the period, net of income tax	(716)	(922)	(26)	(233)
Total comprehensive income for the period, net of income tax	24,343	21,018	6,449	7,725

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019
(Unaudited)
(RO'000)

	Share Capital	Share Premium	Legal Reserve	General Reserve	Fair Value Reserve	Subordinated Loans Reserve	Retained Earnings	Total Shareholder's Equity	Perpetual Tier 1 Capital Securities	Total Equity
Balance as at 1 January 2019	198,265	18,037	24,375	988	(2,124)	7,000	38,883	285,424	100,000	385,424
Total comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	25,059	25,059	-	25,059
Other comprehensive income / (loss) for the period	-	-	-	-	(716)	-	-	(716)	-	(716)
Total comprehensive income for the period	-	-	-	-	(716)	-	25,059	24,343	-	24,343
Issue of rights shares	38,095	-	-	-	-	-	-	38,095	-	38,095
Share premium received	-	1,905	-	-	-	-	-	1,905	-	1,905
Reclassification of net change in fair value of equity instruments upon de- recognition	-	-	-	-	683	-	(683)	-	-	-
Dividends paid for 2018	-	-	-	-	-	-	(11,896)	(11,896)	-	(11,896)
Issue of Perpetual Tier1 Capital Securities	-	-	-	-	-	-	-	-	100,000	100,000
Additional Tier 1 coupon paid during the period	-	-	-	-	-	-	(11,532)	(11,532)	-	(11,532)
Issue expenses - Additional Tier 1 capital	-	-	-	-	-	-	(226)	(226)	-	(226)
Reclassification of fair value of debt instruments to investment securities	-	-	-	-	(23)	-	-	(23)	-	(23)
Balance as at 30 September 2019	236,360	19,942	24,375	988	(2,180)	7,000	39,605	326,090	200,000	526,090

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

(Unaudited)

(RO'000)

	Share capital	Share premium	Legal reserve	General reserve	Special reserve	Impairment reserve	Fair value reserve	Retained earnings	Total Shareholders' Equity	Perpetual Tier 1 Capital Securities	Total Equity
Balance as at 1 January 2018	178,465	17,607	21,438	988	3,103	-	(656)	72,651	293,596	100,000	393,596
Impact of adopting IFRS 9 (Note 4)	-	-	-	-	(3,103)	1,303	(2,018)	(8,945)	(12,763)	-	(12,763)
Restated opening balance under IFRS 9	178,465	17,607	21,438	988	-	1,303	(2,674)	63,706	280,833	100,000	380,833
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	-	21,940	21,940	-	21,940
Other comprehensive income / (loss) for the period	-	-	-	-	-	-	(922)	-	(922)	-	(922)
Total comprehensive income for the period	-	-	-	-	-	-	(922)	21,940	21,018	-	21,018
Reclassification of net change in Fair value of equity instruments upon de- recognition	-	-	-	-	-	-	798	(798)	-	-	-
Issue of bonus shares for 2017	17,846	-	-	-	-	-	-	(17,846)	-	-	-
Conversion of compulsorily convertible bonds	1,954	430	-	-	-	-	-	-	2,384	-	2,384
Dividends paid for 2017	-	-	-	-	-	-	-	(8,923)	(8,923)	-	(8,923)
Additional Tier 1 coupon paid during the period	-	-	-	-	-	-	-	(7,746)	(7,746)	-	(7,746)
Issue expenses - Additional Tier 1 capital	-	-	-	-	-	-	-	(54)	(54)	-	(54)
Provision on credit impairment (BM 1149)	-	-	-	-	-	2,399	-	(2,399)	-	-	-
Balance as at 30 September 2018	198,265	18,037	21,438	988	-	3,702	(2,798)	47,880	287,512	100,000	387,512

INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019
(Unaudited) (RO'000)

	30 September 2019	30 September 2018
OPERATING ACTIVITIES		
Profit before tax	27,527	25,632
Adjustments for:		
Depreciation	1,865	1,697
Loan impairment charges and other credit risk provisions, net	12,820	14,189
Net losses on fair value through profit or loss (FVTPL) investments	561	1,701
Profit on sale of fixed assets	(2)	-
Capital work in progress written off	-	1,100
Income from Islamic investment activities	(921)	(661)
Interest on investments	(12,944)	(9,891)
Interest accrued on subordinated loans and compulsorily convertible bonds	1,832	1,866
Cash from operating activities before changes in operating assets and liabilities	30,738	35,633
Due from banks and other money market placements	2,207	15,463
Loans, advances and financing	(237,558)	(134,451)
Investment in held for trading securities	(23,317)	(5,245)
Other assets	(1,460)	(27,672)
Due to banks and other money market borrowings	(98,376)	391,645
Customers' deposits	176,086	73,715
Certificate of deposits	(6)	174
Other liabilities	(17,252)	36,562
Cash from operating activities	(168,938)	385,824
Income tax paid	(1,296)	(4,118)
Net cash from / (used in) operating activities, net of tax	(170,234)	381,706
INVESTING ACTIVITIES		
Purchase of investments	(49,338)	(38,809)
Proceeds from sale/redemption of investments	605	763
Acquisition of property, equipment and fixtures	(18,210)	(2,846)
Income from Islamic investment activities	856	210
Interest received on investments	12,944	9,891
Net cash used in investing activities	(53,143)	(30,791)
FINANCING ACTIVITIES		
Dividends paid	(11,896)	(8,923)
Issue of rights shares	38,095	-
Share premium received	1,905	-
Interest paid on subordinated loans and compulsorily convertible bonds	(1,570)	(1,622)
Issue of perpetual Tier 1 capital securities	100,000	-
Interest paid on perpetual Tier 1 capital securities	(11,532)	(7,746)
Issue expenses of perpetual Tier 1 capital securities	(226)	(54)
Net cash (used in) / from financing activities	114,776	(18,345)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(108,601)	332,570
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	344,710	13,516
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	236,109	346,086
REPRESENTING:		
Cash and balances with Central Bank (other than capital deposit) (note B1)	99,664	114,845
Due from banks and other money market placements with OM of 90 days (note B2)	67,311	23,673
Investments securities with original maturity (OM) of 90 days (note B4.b)	274,010	273,987
Due to banks and other money market borrowings with OM of 90 days (note B8)	(204,876)	(66,419)
	236,109	346,086

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

AS AT 30 SEPTEMBER 2019
(RO'000)

A1 Legal status and principal activities

Bank Sohar SAOG (“the Bank”) was established in the Sultanate of Oman on 4 March 2007 as a public joint stock company and is primarily engaged in commercial, investment and Islamic banking through a network of thirty commercial banking branches and eight Islamic banking branches within the Sultanate of Oman. The Bank operates under commercial, investment and an Islamic banking licence issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman. The Bank has its primary listing on the Muscat Securities Market.

With effect from 30 April 2013, the Bank obtained a license to operate an Islamic Banking Window (“Sohar Islamic”). Sohar Islamic offers a full range of Islamic banking services and products. The principal activities of the window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Istisna'a, Salam and providing commercial banking services, investment and other activities permitted under Islamic Banking Regulatory Framework (IBRF).

On 18 December 2018, an extraordinary meeting of the shareholders of Bank Sohar SAOG was held and the shareholders of the bank passed a resolution to amend Section (1) of the Articles of Association of the Bank to change the name of the Bank from ‘Bank Sohar SAOG’ to ‘Sohar International Bank SAOG’ (hereinafter referred to as the ‘Bank’). This has been confirmed by Ministry of Commerce and Industry on 14 January 2019 by issuing new set of Company documents.

The Bank employed 854 employees as of 30 September 2019 (31 December 2018:804, 30 September 2018: 783).

A2 Basis of preparation

These interim condensed financial statements are prepared in accordance with International Accounting Standard No.34 - “Interim Financial Reporting “. Since these are interim condensed financial statements, they do not contain all information and disclosures for the full financial statements prepared in accordance with IFRS. Therefore it should be read in conjunction with the Bank’s annual financial statements as at 31 December 2018.

A2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), relevant requirements of the Commercial Companies Law of Oman of 1974, as amended, Capital Market Authority and the applicable regulations of the CBO.

In accordance with the Royal Decree 69/2012 regarding the amendment in the Banking Law 2000, CBO has issued circular no. IB - 1 under which a complete Islamic Banking Regulatory Framework (IBRF) has been promulgated. The framework identifies the permissible form of trade related modes of financing including purchase of goods by banks from their customers and immediate resale to them at appropriate profit in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon.

The financial results of the Islamic Banking Window have been reflected in these financial statements for reporting purposes after eliminating inter branch transactions / balances. A complete set of standalone financial statements of Sohar Islamic, prepared under AAOIFI, is included in the Bank’s annual report.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments classified as trading and at fair value through profit or loss (FVTPL) are measured at fair value;
- financial assets at fair value through other comprehensive income (applicable from 1 January 2018);

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

A2.3 Functional and presentation currency

These financial statements are presented in Rial Omani, which is the Bank’s functional currency. All financial information presented in Rial Omani has been rounded to the nearest thousands, unless otherwise indicated.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2019
(RO'000)

A2 Basis of preparation (continued)

A2.4 Use of estimates and judgements (continued)

In preparation of the Bank's financial statements, management is required to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular 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.

A3 Changes in accounting policies and disclosures

A3.1 Standards, amendments and interpretations effective in 2019 and relevant for the Bank's operations

For the period ended 30 September 2019, 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 2019.

A3.1.a IFRS 16 Leases

The Bank for the first time has applied IFRS 16 Leases (as issued by the IASB in January 2016) as of 1 January 2019, same date as the effective date of the standard. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lease accounting by removing the distinction between operating and finance leases. It requires the recognition of a right-to-use asset and a lease liability at the commencement date for all leases, except for short term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers). In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Impact on Lessee Accounting:

The Bank has adopted the modified retrospective approach method without restatement of comparatives with respect to all existing renewable operating leases. Adopting IFRS 16 as of 1 January 2019, the Bank has:

- 1) Recognized right-to-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments measured at the incremental borrowing rate for all existing operating leases as per residual contractual period.
- 2) Recognized depreciation of right-to-use assets and interest on lease liabilities in the consolidated statement of comprehensive income. Both these expenses are included within other operating expenses in the statement of comprehensive income.
- 3) The Bank excluded all existing operating leases which will be vacated and not renewable under twelve months.
- 4) For leases which will not be renewed, the Bank has opted to recognize a lease expense on a straight-line-basis as permitted by IFRS 16. This expense is presented within other operating expenses in the statement of comprehensive income.

The adoption of the above did not result in any changes to previously reported net profit or equity of the Bank.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
AS AT 30 SEPTEMBER 2019
(RO'000)

B1 Cash and balances with Central Bank

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Cash	22,605	24,374	23,071
Capital deposit with CBO	503	505	504
Balance with CBO	77,059	47,577	91,771
	100,167	72,456	115,346

- (i) The capital deposit with CBO cannot be withdrawn without its approval.
- (ii) During the period, average minimum balance to be kept with CBO as statutory reserves is RO 75.83 million (31 December 2018: RO 72.42 million, 30 September 2018: RO 72.25 million).

B2 Due from banks and other money market placements

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
<i>Local currency:</i>			
Money market placements	-	5,000	-
	-	5,000	-
<i>Foreign currency:</i>			
Money market placements	52,099	94,367	3,853
Lending to banks	6,333	8,666	9,214
Demand balances	15,262	13,812	19,822
	73,694	116,845	32,889
	73,694	121,845	32,889
Expected credit loss allowance (ECL)	(345)	(442)	(207)
	73,349	121,403	32,682

The analysis of changes in the ECL allowance on due from banks and other money market placements is as follows:

	30 September 2019 (Unaudited)				31 December 2018 (Audited)	30 September 2018 (Unaudited)
	Stage 1	Stage 2	Stage 3	Total	Total	Total
As at 1 January	232	210	-	442	1,039	1,039
Impact of adopting IFRS 9	-	-	-	-	281	281
Loan written off against ECL allowance	-	-	-	-	(966)	(966)
Net (release)/charge for the period (C6)	(34)	(63)	-	(97)	88	(147)
	198	147	-	345	442	207

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B3 Loans, advances and financing, net

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Corporate	1,710,499	1,578,223	1,562,836
Retail	873,414	762,437	734,484
Gross loans, advances and financing	2,583,913	2,340,660	2,297,320
Expected credit loss allowance	(92,964)	(79,349)	(67,756)
Contractual interest not recognised	(13,646)	(9,381)	(8,513)
	(106,610)	(88,730)	(76,269)
Net loans, advances and financing	2,477,303	2,251,930	2,221,051

Gross loans, advances and financing include RO 207.95 million (31 December 2018: RO 183.21 million, 30 September 2018:174.07 million) under Islamic mode of financing through Sohar Islamic financing activities.

Loans, advances and financing comprise:

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Loans	2,303,898	2,051,105	1,994,573
Overdrafts	119,343	127,920	141,245
Loans against trust receipts	105,211	107,727	105,677
Bills discounted	55,461	53,908	55,825
Gross loans, advances and financing	2,583,913	2,340,660	2,297,320
Expected credit loss allowance	(92,964)	(79,349)	(67,756)
Contractual interest not recognised	(13,646)	(9,381)	(8,513)
	(106,610)	(88,730)	(76,269)
Net loans, advances and financing	2,477,303	2,251,930	2,221,051

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B3 Loans, advances and financing, net (continued)

The analysis of changes in the gross carrying amount and corresponding ECL allowance on loans, advances and financing is as follows:

Gross carrying amount	30 September 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	1,825,751	437,926	76,983	2,340,660
New assets originated or purchased	637,585	216,663	12,363	866,611
Assets derecognised or repaid	(448,575)	(161,844)	(12,939)	(623,358)
Transfers to Stage 1	28,159	(27,693)	(466)	-
Transfers to Stage 2	(264,022)	258,922	5,100	-
Transfers to Stage 3	(1,891)	1,548	343	-
As at 30 September 2019	1,777,007	725,522	81,384	2,583,913

	30 September 2019 (Unaudited)				31 December 2018 (Audited) Total	30 September 2018 (Unaudited) Total
	Stage 1	Stage 2	Stage 3	Total		
ECL allowance as at 1 January 2019	12,695	33,629	33,025	79,349	42,946	42,946
Impact of adopting IFRS 9	-	-	-	-	18,948	8,311
Expected credit losses recognised	2,647	21,883	2,759	27,289	-	-
Recoveries from expected credit losses	(5,972)	(4,898)	(3,312)	(14,182)	-	-
Loans brought back from memorandum portfolio	-	-	508	508	-	-
Transfers to Stage 1	2,636	(2,214)	(422)	-	-	-
Transfers to Stage 2	(2,174)	2,985	(811)	-	-	-
Transfers to Stage 3	(60)	(1,108)	1,168	-	-	-
Net charge for the period (C6)	-	-	-	-	17,455	16,499
	9,772	50,277	32,915	92,964	79,349	67,756

The analysis of changes in contractual interest not recognised is as follows:

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Contractual interest not recognised			
Balance at beginning of year	9,381	6,537	6,537
Not recognised during the period	6,038	3,792	2,680
Written back due to recovery	(1,773)	(948)	(704)
Balance at end of the period	13,646	9,381	8,513

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained to comply with rules; regulations and guidelines issued by CBO on loans, advances and financing that are impaired. As of 30 September 2019, loans and advances on which interest was not being accrued or where interest was reserved amounted to RO 81.384 million. (31 December 2018: RO 76.986 million, 30 September 2018: 75.263 million)

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B3 Loans, advances and financing, net (continued)

Additional disclosures on Non-performing loans (NPL) coverage as per BM 1149 is given below:

30 September 2019
(Unaudited)

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	7,804	12,820	5,016
Provisions required as per CBO norms / held as per IFRS 9	95,135	112,374	17,239
Gross NPL ratio (percentage)*	3.18	3.15	(0.03)
Net NPL ratio (percentage)*	0.98	1.41	0.43

*NPL ratios are calculated on the basis of funded non-performing loans and advances.

The below table provides a Comparison of provision held as per IFRS 9 and required as per CBO circular BM 977

Classification:		Gross carrying amount (1)	CBO Provision (2)	IFRS 9 Provisions (3)	Difference between CBO and IFRS 9 (4)=(2)-(3)	Net carrying amount (5)=(1)-(3)	IFRS 9 Reserve interest	CBO Reserve interest
CBO	IFRS 9							
Standard	Stage 1	1,776,459	21,361	9,764	11,597	1,766,695	-	-
	Stage 2	350,815	4,174	10,270	(6,096)	340,545	-	-
	Stage 3	172	4	54	(50)	118	-	-
Sub Total		2,127,446	25,539	20,088	5,451	2,107,358		
Special mention	Stage 1	26	-	-	-	26	-	-
	Stage 2	374,133	11,709	39,931	(28,222)	334,202	-	-
	Stage 3	89	2	39	(37)	50	-	-
Sub Total		374,248	11,711	39,970	(28,259)	334,278		
Substandard	Stage 1	3	-	-	-	3	-	-
	Stage 2	315	4	5	(1)	310	-	-
	Stage 3	4,736	1,223	1,900	(677)	2,836	105	105
Sub Total		5,054	1,227	1,905	(678)	3,149	105	105
Doubtful	Stage 1	453	-	7	(7)	446	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	13,471	4,577	3,235	1,342	10,236	251	251
Sub Total		13,924	4,577	3,242	1,335	10,682	251	251
Loss	Stage 1	66	-	1	(1)	65	-	-
	Stage 2	259	-	71	(71)	188	-	-
	Stage 3	62,916	38,404	41,333	(2,929)	21,583	13,290	13,290
Sub Total		63,241	38,404	41,405	(3,001)	21,836	13,290	13,290
Gross loans, advances and financing								
	Stage 1	1,777,007	21,361	9,772	11,589	1,767,235	-	-
	Stage 2	725,522	15,887	50,277	(34,390)	675,245	-	-
	Stage 3	81,384	44,210	46,561	(2,351)	34,823	13,646	13,646
Sub Total		2,583,913	81,458	106,610	(25,152)	2,477,303	13,646	13,646
*On:	Stage 1	882,489	31	2,156	(2,125)	880,333	-	-
Due from banks	Stage 2	178,695	-	3,568	(3,568)	175,127	-	-
Investment securities	Stage 3	1,243	-	40	(40)	1,203	-	-
Loan commitments & financial guarantees	Total	1,062,427	31	5,764	(5,733)	1,056,663		
Total	Stage 1	2,659,496	21,392	11,928	9,464	2,647,568	-	-
	Stage 2	904,217	15,887	53,845	(37,958)	850,372	-	-
	Stage 3	82,627	44,210	46,601	(2,391)	36,026	13,646	13,646
	Total	3,646,340	81,489	112,374	(30,885)	3,533,966	13,646	13,646

*Other items not covered under CBO circular BM 977 and related instructions

	IFRS 9	CBO
Gross loans advances and financing	92,964	81,458
Due from Banks	345	31
Investment securities	1,666	-
Loan commitment and financial guarantees	3,753	-
	98,728	81,489
Contractual interest not recognised	13,646	13,646
Total	112,374	95,135

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B3 Loans, advances and financing, net (continued)

Loans with renegotiated terms are defined as loans that have been restructured due to deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

CBO classification	IFRS 9 classification RO'000	Gross carrying amount RO'000	CBO Provision RO'000	IFRS 9 Provisions RO'000	Difference between CBO and IFRS 9 RO'000	Net carrying amount RO'000	IFRS 9 Reserve interest RO'000	CBO Reserve interest RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)	(9)
Classified as performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	121,397	7,467	22,563	(15,096)	98,834	-	-
	Stage 3	-	-	-	-	-	-	-
Total		121,397	7,467	22,563	(15,096)	98,834	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Total		-	-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-	-
	Stage 2	121,397	7,467	22,563	(15,096)	98,834	-	-
	Stage 3	-	-	-	-	-	-	-
	Total		121,397	7,467	22,563	(15,096)	98,834	-

B4 Investment securities

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Held at fair value through P&L (FVTPL)	121,522	98,592	114,307
Held at fair value through other comprehensive income (FVOCI)	291,950	293,026	294,468
Held at amortised cost	189,382	141,151	120,201
	602,854	532,769	528,976

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B4 Investment securities (continued)

B4.a Held at FVTPL

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Government development bonds – Oman	109,638	86,270	104,305
Sukuk trust certificates – secured	8,273	8,099	5,351
Unquoted securities	2,500	2,500	2,500
Others	1,111	1,723	2,151
	121,522	98,592	114,307

- Unquoted securities include an investment of RO 2.5 million in the Oman Development Fund SAOC (“Fund”). The Bank currently holds 12.66% stake in the Fund (31 December 2018: 12.66%, 30 September 2018: 16.9%).

B4.b Held at FVOCI

	Carrying / fair value 30 September 2019	Cost 30 September 2019	Carrying / fair value 31 December 2018	Cost 31 December 2018	Carrying / fair value 30 September 2018	Cost 30 September 2018
Unquoted securities	-	34	-	34	-	34
Quoted securities	17,940	20,085	18,909	21,022	20,481	23,268
	17,940	20,119	18,909	21,056	20,481	23,302
Treasury bills	274,033	274,623	274,117	273,350	273,987	274,651
Expected credit loss allowance	(23)	-	-	-	-	-
	274,010	274,623	274,117	273,350	273,987	274,651
	291,950	294,742	293,026	294,406	294,468	297,953

B4.c Held at amortised cost

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Quoted	191,025	142,147	118,126
Unquoted	-	-	3,063
	191,025	142,147	121,189
Expected credit loss allowance	(1,643)	(996)	(988)
	189,382	141,151	120,201

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B4 Investment securities (continued)

The analysis of changes in the fair value and the corresponding ECL allowance on debt investments classified as held at amortised cost is as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	118,100	24,047	-	142,147
New assets originated or purchased	42,494	8,181	-	50,675
Assets derecognised or matured (exclusing write offs)	(1,797)	-	-	(1,797)
At 30 September 2019	158,797	32,228	-	191,025

	Stage 1	Stage 2	Stage 3	Total	31 December 2018	30 September 2018
ECL allowance as at 1 January 2019	319	677	-	996	-	-
Impact of adopting IFRS9	-	-	-	-	332	332
Net charge for the period (C6)	227	420	-	647	664	656
	546	1,097	-	1,643	996	988

B5 Other assets

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Acceptances	23,988	30,252	31,568
Prepayments	2,836	2,206	3,299
Receivables	-	1,478	1,876
Positive fair value of derivatives	5,093	1,883	3,061
Others	9,767	9,450	10,412
Right to use Assets	4,105	-	-
	45,789	45,269	50,216

B6 Due to banks and other money market borrowings

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
<i>Local currency:</i>			
Money market borrowings	-	10,001	5,013
Demand balances	8,797	4,934	4,481
	8,797	14,935	9,494
<i>Foreign currency:</i>			
Money market borrowings	492,529	397,824	424,459
Demand balances	-	118	139
Syndicated borrowings	212,704	309,184	309,087
	705,233	707,126	733,685
	714,030	722,061	743,179

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B7 Customers' deposits

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Term deposits	983,433	1,014,776	1,017,407
Demand deposits	714,245	508,610	399,799
Saving deposits	282,089	276,524	278,321
Margin deposits	14,674	18,443	21,035
	<u>1,994,441</u>	<u>1,818,353</u>	<u>1,716,562</u>

	30 September 2019 (Unaudited)			31 December 2018 (Audited)			30 September 2018 (Unaudited)		
	Conventional banking	Islamic banking	Total	Conventional banking	Islamic banking	Total	Conventional banking	Islamic banking	Total
Term deposits	877,645	105,788	983,433	893,856	120,920	1,014,776	904,312	113,095	1,017,407
Demand deposits	630,978	83,267	714,245	497,353	11,257	508,610	391,201	8,598	399,799
Saving deposits	248,992	33,097	282,089	235,787	40,737	276,524	233,287	45,034	278,321
Margin deposits	8,735	5,939	14,674	10,532	7,911	18,443	13,371	7,664	21,035
Total	<u>1,766,350</u>	<u>228,091</u>	<u>1,994,441</u>	<u>1,637,528</u>	<u>180,825</u>	<u>1,818,353</u>	<u>1,542,171</u>	<u>174,391</u>	<u>1,716,562</u>

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B8 Other liabilities

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Acceptances	23,988	30,252	31,568
Staff entitlements	4,896	3,691	3,388
Income tax payable	6,088	4,988	3,656
Negative fair value of derivatives (B14)	556	3,702	4,155
Deferred tax liabilities	555	483	443
Other accruals and provisions	24,617	36,936	22,159
Expected credit loss allowance on loan commitments and financial guarantees	3,753	4,612	1,359
Lease liability	3,215	-	-
	67,668	84,664	66,728

The analysis of changes in the gross carrying amount and corresponding ECL allowance on loan commitments and financial guarantees is as follows:

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	659,775	104,841	1,642	766,258
New exposures	356,553	55,685	(38)	412,200
Exposure derecognised or matured/ lapsed (excluding write offs)	(346,969)	(41,245)	(603)	(388,817)
Transfers to Stage 1	1,342	(1,310)	(32)	-
Transfers to Stage 2	(24,006)	24,006	-	-
Transfers to Stage 3	(90)	(188)	278	-
At 30 September 2019	646,605	141,789	1,247	789,641

ECL	Stage 1	Stage 2	Stage 3	Total	31 December 2018	30 September 2018
ECL allowance as at 1 January 2019	2,654	1,948	10	4,612	-	-
Impact of adopting IFRS 9	-	-	-	-	2,493	4,059
Expected credit losses recognised	746	1,006	9	1,761	-	-
Recoveries from expected credit losses	(1,961)	(663)	4	(2,620)	-	-
Transfers to Stage 1	16	(16)	-	-	-	-
Transfers to stage 2	(65)	65	-	-	-	-
Transfers to stage 3	(1)	(16)	17	-	-	-
Net charge for the period (C6)	-	-	-	-	2,119	(2,700)
	1,389	2,324	40	3,753	4,612	1,359

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B9 Share capital and Share premium

The authorised share capital of the Bank is 4,000,000,000 shares of RO 0.100 each (31 December 2018: 4,000,000,000 shares, 30 September 2018: 4,000,000,000 shares). The issued and paid up share capital of the Bank is 2,363,598,772 shares of RO 0.100 each (31 December 2018: 1,982,646,391 shares, 30 September 2018: 1,982,646,391 shares). The share capital of the Bank is RO 236.360 million (31 December 2018: RO 198.265 million, 30 September 2018: RO 198.265 million)

On 25 July 2019, the Bank issued 380,952,381 shares through rights issue to its existing shareholders at a price of 107 baizas per share consisting of nominal value of 100 baizas per share plus premium of 5 baizas and 2 baizas per share to cover the rights issue expenses, resulting in increase in share capital by RO 38.095 million and share premium by RO 1.905 million respectively.

As of 30 September 2019, the following shareholders held 10% or more of the Bank's capital, either individually or together with related parties:

	<i>Number of shares</i>	<i>% Holding</i>
Oman Investment & Finance Co. SAOG	363,263,536	15.37
The Royal Court of Affairs	344,353,500	14.57

B10 Perpetual Tier 1 Capital Securities

The Bank issued its first Perpetual Tier 1 Capital Securities amounting to RO 100 million on 25 September 2017. These securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.75%. Thereafter the interest rate will reset at five year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity.

On 14 March 2019, the Bank issued its second issuance of Perpetual Tier 1 Capital Securities amounting to RO 100 million. These securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.50% with interest rate reset at five year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity.

Both the securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. They do not have a fixed or final maturity date. The Bank may at its discretion and after prior consent from the relevant regulatory authority, exercise its option to redeem the securities in full (not in part) on the first Call Date, i.e the 5th anniversary of the Issue Date, and on every fifth anniversary thereafter, again subject to the prior consent of the regulatory authorities. The Bank at its sole discretion may elect not to distribute interest. This is not considered as an event of default. If the Bank does not pay interest, on a scheduled interest payment date (for whatever reason), it cannot make any other distribution or payment on or with respect to its ordinary shares or any of its other Common Equity Tier 1 instruments or securities, ranking junior to or pari passu with the Perpetual Tier 1 Capital Securities unless and until it has paid one interest payment in full on the securities. The terms of the Perpetual Tier 1 Capital Securities issuance allow the Bank to write-down (in whole or in part) any amounts due to the holders of the securities under certain circumstances.

RO 11.532 million was paid as coupon during Sep 2019 (Sep 2018 : RO 7.746 million) on its 2017 and 2019 Perpetual Tier 1 capital securities and is recognised in the statement of changes in equity.

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B11 Contingent liabilities and commitments

B11.a Contingent liabilities

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

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Guarantees	321,197	379,037	400,225
Documentary letters of credit	71,638	106,105	116,229
	<u>392,835</u>	<u>485,142</u>	<u>516,454</u>

B11.b Commitments

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

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Capital commitments	1,524	1,658	1,326
Credit related commitments	372,826	437,686	308,515
	<u>374,350</u>	<u>439,344</u>	<u>309,841</u>

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B12 Related party transactions

In the ordinary course of business the Bank enters into transactions with certain of its directors, shareholders, senior management, Shari'a supervisory board, Shari'a reviewer and companies in which they have a significant interest. These transactions are conducted on an arm's length basis and are approved by the Bank's management and Board of Directors.

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

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Key management personnel			
Loans, advances and financing at the end of period	2,436	2,330	2,589
Loans disbursed during the period	515	165	146
Loans repaid during the period	(257)	(304)	(277)
Deposits at the end of the period	1,104	985	868
Deposits received during the period	528	410	265
Deposits paid during the period	(525)	(134)	(230)
Interest income during the period	63	99	82
Interest expense during the period	46	-	-
Other related parties			
Loans, advances and financing at the end of period	77,915	84,058	67,229
Loans disbursed during the period	57,621	87,554	59,324
Loans repaid during the period	(5,759)	(4,462)	(823)
Deposits at the end of the period	6,882	7,963	3,062
Deposits received during the period	4,378	8,207	2,393
Deposits paid during the period	(823)	(3,621)	(3,602)
Interest income during the period	2,554	2,405	1,372
Interest expense during the period	411	48	30
Key management personnels' compensation			
Salaries and other short term benefits	3,284	4,147	5,320
Post-employment benefits	89	213	187
Directors' sitting fees and remuneration	178	184	171
Shari'a Supervisory Board members	33	50	36

The aggregate amount of balances and the income and expenses generated with shareholders holding 10% or more of the Banks' shares are as follows:

	30 September 2019 (Unaudited)	31 December 2018 (Audited)	30 September 2018 (Unaudited)
Loans, advances and (balance at end of the period)	7,500	4,000	9
Loans disbursed during the period	7,500	4,000	9
Loans repaid during the period	-	-	-
Deposits (balance at end of period)	5,769	2,395	145
Deposits received during the period	3,374	2,009	4
Deposits paid during the period	-	(875)	(1,120)
Interest income during the period	135	42	4
Interest expense during the period	410	12	3

As at 30 September 2019, no loans to related parties are classified under stage 3 (31 December 2018: nil, 30 September 2018: nil)

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B13 Fair value of financial instruments

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

- i) In the accessible principal market for the asset or liability; or
- ii) In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Bank considers that the fair value of financial instruments was not significantly different to their carrying value (including accrued interest) at each of those dates. The table below sets out the classification and fair value of each class of financial assets and liabilities:

At 30 September 2019 (Unaudited)	Amortised cost	FVOCI	FVTPL	Total carrying (including accrued interest)/fair value
Assets				
Cash and balances with Central Bank	100,167	-	-	100,167
Due from banks and other money market placements	73,349	-	-	73,349
Loans, advances and financing	2,477,303	-	-	2,477,303
Investments	189,382	291,950	121,522	602,854
Other assets (excluding prepayments)	42,953	-	-	42,953
Total	2,883,154	291,950	121,522	3,296,626
Liabilities				
Due to banks and other money market borrowings				714,030
Customers' deposits				1,994,441
Other liabilities (excluding other accruals & provisions)				43,051
Subordinated loans				35,654
Certificates of deposits				503
Total				2,787,679

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B13 Fair value of financial instruments (continued)

	Amortised cost RO'000	FVOCI RO'000	FVTPL RO'000	Total carrying (including accrued interest)/fair value RO'000
At 31 December 2018 (Audited)				
Assets				
Cash and balances with Central Bank	72,456	-	-	72,456
Due from banks and other money market placements	121,403	-	-	121,403
Loans, advances and financing	2,251,930	-	-	2,251,930
Investments	141,151	293,026	98,592	532,769
Other assets (excluding prepayments)	43,063	-	-	43,063
Total	2,630,003	293,026	98,592	3,021,621
Liabilities				
Due to banks and other money market borrowings				722,061
Customers' deposits				1,818,353
Other liabilities (excluding other accruals & provisions)				47,728
Subordinated loans				35,392
Certificates of deposits				509
Total				2,624,043

	Amortized cost RO'000	FVOCI RO'000	FVTPL RO'000	Total carrying (including accrued interest)/fair value RO'000
At 30 September 2018 (Unaudited)				
Assets				
Cash and balances with Central Bank	115,346	-	-	115,346
Due from banks and other money market placements	32,682	-	-	32,682
Loans, advances and financing	2,221,051	-	-	2,221,051
Investments	120,201	294,468	114,307	528,976
Other assets (excluding prepayments)	46,917	-	-	46,917
Total	2,536,197	294,468	114,307	2,944,972
Liabilities				
Due to banks and other money market borrowings				743,179
Customers' deposits				1,716,562
Other liabilities (excluding other accruals & provisions)				44,569
Subordinated loans				35,654
Compulsorily convertible bonds				-
Certificates of deposits				18,686
Total				2,558,650

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B13 Fair value of financial instruments (continued)

The table below analyses financial instruments measured at fair value at the end of the reporting period:

30 September 2019 (Unaudited)	Investment securities	Positive fair value of derivatives	Negative fair value of derivatives	Total
Level 1	6,390	-	-	6,390
Level 2	404,582	5,093	(556)	409,119
Level 3	2,500	-	-	2,500
	<u>413,472</u>	<u>5,093</u>	<u>(556)</u>	<u>418,009</u>

31 December 2018 (Audited)	Investment securities	Positive fair value of derivatives	Negative fair value of derivatives	Total
Level 1	7,360	-	-	7,360
Level 2	381,758	1,883	(3,702)	379,939
Level 3	2,500	-	-	2,500
	<u>391,618</u>	<u>1,883</u>	<u>(3,702)</u>	<u>389,799</u>

30 September 2018 (Unaudited)	Investments	Positive fair value of derivatives	Negative fair value of derivatives	Total
Level 1	8,931	-	-	8,931
Level 2	397,344	3,061	(4,155)	396,250
Level 3	2,500	-	-	2,500
	<u>408,775</u>	<u>3,061</u>	<u>(4,155)</u>	<u>407,681</u>

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B14 Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts, analysed by term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

As at 30 September 2019 (Unaudited)	Positive Fair Value	Negative Fair Value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	More than 1 year
Forward foreign exchange purchase contracts	25	529	359,471	194,336	35,484	129,651
Forward foreign exchange sales contracts	5,068	27	191,072	30,009	35,220	125,843

As at 31 December 2018 (Audited)	Positive Fair Value	Negative Fair Value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	More than 1 year
Forward foreign exchange purchase contracts	51	3,660	440,506	276,027	164,479	-
Forward foreign exchange sales contracts	1,832	42	439,918	275,701	164,217	-

As at 30 September 2018 (Unaudited)	Positive Fair Value	Negative Fair Value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	More than 1 year
Forward foreign exchange purchase contracts	218	3,937	437,996	277,286	150,810	9,900
Forward foreign exchange sales contracts	2,843	218	436,982	274,333	153,024	9,625

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C1 Interest income

	For the nine months ended		For the three months ended	
	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Loans and advances to customers	93,894	83,104	32,654	28,948
Due from banks and other money market placements	1,675	3,068	447	658
Investments	12,944	9,891	4,634	3,521
	<u>108,513</u>	<u>96,063</u>	<u>37,735</u>	<u>33,127</u>

C2 Interest expense

	For the nine months ended		For the three months ended	
	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Customers' deposits	36,778	30,960	12,552	10,534
Subordinated loans	1,832	1,832	617	617
Due to banks and other money market borrowings	21,058	21,122	6,688	7,528
Compulsorily convertible bonds	-	34	-	-
	<u>59,668</u>	<u>53,948</u>	<u>19,857</u>	<u>18,679</u>

C3 Net income earned from Islamic financing and investing activities

C3.a Gross income earned from Islamic financing and investing activities

	For the nine months ended		For the three months ended	
	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Financing to customers	7,690	6,151	2,711	2,212
Due from banks and other money market placements	312	136	68	24
Investment securities	921	661	308	240
	<u>8,923</u>	<u>6,948</u>	<u>3,087</u>	<u>2,476</u>

C3.b Profit paid to depositors / money market borrowings

	For the nine months ended		For the three months ended	
	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Profit paid to depositors	4,366	3,283	1,545	1,168
Profit paid to banks and other money market borrowings	427	188	103	89
	<u>4,793</u>	<u>3,471</u>	<u>1,648</u>	<u>1,257</u>
Net income from Islamic financing and investing activities	<u>4,130</u>	<u>3,477</u>	<u>1,439</u>	<u>1,219</u>

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C4 Other operating income

	For the nine months ended		For the three months ended	
	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Fees and commission	14,594	12,882	3,299	4,878
Net gains from foreign exchange dealings	5,510	11,702	1,398	6,469
Bad debt recovery	(17)	153	(3)	65
Profit on sale of fixed assets	2	-	-	-
Dividend income	1,515	1,022	640	642
Losses from FVTPL investments	(561)	(1,701)	(185)	(574)
	<u>21,043</u>	<u>24,058</u>	<u>5,149</u>	<u>11,480</u>

C5 Other operating expenses

	For the nine months ended		For the three months ended	
	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Operating and administration costs	7,679	7,079	2,425	2,305
Occupancy cost	2,283	1,958	742	668
Capital work in progress written off	-	1,100	-	-
Directors remuneration	146	130	-	-
Directors fees	32	41	7	8
Shari'a supervisory board remuneration and fees	33	36	15	12
	<u>10,173</u>	<u>10,344</u>	<u>3,189</u>	<u>2,993</u>

C6 Loan impairment charges and other credit risk provisions, net

	For the nine months ended		For the three months ended	
	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Impairment charges provided/(released) on:				
Loans, advance and financing (B3)	13,107	16,374	6,950	9,247
Loan commitments and financial guarantees (B8)	(859)	(2,700)	138	(1,363)
Due from banks and other money market placements(B2)	(97)	(147)	(62)	(192)
Debt securities at amortised cost (B4)	647	656	65	581
Debt securities at FVOCI	-	6	-	(3)
Loans written off	22	-	20	-
Loan impairment charges and other credit risk provisions under IFRS 9, net	<u>12,820</u>	<u>14,189</u>	<u>7,111</u>	<u>8,270</u>

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C6 Loan impairment charges and other credit risk provisions, net (continued)

The analysis of changes in the ECL allowance on due from banks and other money market placements, loans, advances and financing (excluding contractual interest not recognised), investments and loan commitments and financial guarantees is as follows:

	Stage 1	Stage 2	Stage 3	Total
(Unaudited)				
As at 1 January 2019	15,923	36,464	33,035	85,422
Expected credit losses recognised	3,620	23,309	2,768	29,697
Recoveries from expected credit losses	(7,967)	(5,624)	(3,308)	(16,899)
Loans brought back from memorandum portfolio	-	-	508	508
Transfers to Stage 1	2,652	(2,230)	(422)	-
Transfers to Stage 2	(2,239)	3,050	(811)	-
Transfers to Stage 3	(61)	(1,124)	1,185	-
At 30 September 2019	11,928	53,845	32,955	98,728

C7 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing net profit for the year by the weighted average number of shares outstanding during the period.

	For the nine months ended		For the three months ended	
	30 September 2019	30 September 2018	30 September 2019	30 September 2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit for the period	25,059	21,940	6,475	7,958
Less: Tier 1 coupons	(11,532)	(7,746)	(7,689)	(3,903)
Less: Tier 1 issuance expenses	(226)	(54)	-	(5)
Profit for the period attributable to equity holders of the Bank after coupon and issuance cost on Perpetual Tier 1 Capital Securities (B10)	13,301	14,140	(1,214)	4,050
Weighted average number of shares outstanding during the period (in thousands)	2,077,536	1,982,646	2,264,220	1,982,646
Basic earnings per share for the period (baizas)	6.402	7.131	(0.536)	2.043

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D Financial risk management

D1 Exposure to Liquidity risk

The Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Leverage Ratio is calculated in accordance with Basel III framework and guidelines adopted by CBO as per circular BM 1127, BM 1147 and BM 1157. The complete disclosures required under these circulars are available on the investor relations page of the Bank's website.

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

	Carrying amount	Gross nominal outflow	Within 3 months	3 - 12 months	Over 1 year
30 September 2019					
(Unaudited)					
Non – derivative liabilities					
Due to banks and other money market borrowings	714,030	740,978	210,759	13,832	516,387
Customers' deposits	1,994,441	2,014,872	1,139,548	412,062	463,262
Other liabilities	67,668	67,669	67,669	-	-
Subordinated loans	35,654	44,726	880	1,577	42,269
Certificate of deposits	503	548	6	18	524
Total	2,812,296	2,868,793	1,418,862	427,489	1,022,442
31 December 2018					
(Audited)					
Non – derivative liabilities					
Due to banks and other money market borrowings	722,061	731,335	111,094	218,595	401,646
Customers' deposits	1,818,353	1,970,967	1,032,784	494,711	443,472
Other liabilities	84,664	84,664	84,664	-	-
Subordinated loans	35,392	46,318	366	2,084	43,868
Certificate of deposits	509	509	-	-	509
Total	2,660,979	2,833,793	1,228,908	715,390	889,495
30 September 2018					
(Unaudited)					
Non – derivative liabilities					
Due to banks and other money market borrowings	743,179	778,744	14,688	275,221	488,835
Customers' deposits	1,716,562	1,815,951	1,049,836	373,644	392,471
Other liabilities	66,728	66,728	66,728	-	-
Subordinated loans	35,654	47,180	862	1,588	44,730
Certificate of deposits	18,686	18,755	185	18,022	548
Total	2,580,809	2,727,358	1,132,299	668,475	926,584

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D Financial risk management (continued)

D2 Capital management

D2.1 Regulatory capital

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

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

	30 September 2019 (Unaudited)	31 December 2018 (audited)	30 September 2018 (Unaudited)
CET 1 capital			
Ordinary share capital	236,360	198,265	198,265
Share premium	19,942	18,037	18,037
Legal reserve	24,375	24,375	21,438
General reserve	988	988	988
Subordinated loan reserve	7,000	7,000	-
Retained earnings	51,501	38,883	56,803
Dividends declared	(11,896)	(11,896)	(8,923)
Fair value losses	(2,189)	(2,133)	(2,826)
Total CET 1 capital	326,081	273,519	283,782
Additional Tier 1 capital			
Perpetual Tier 1 Capital Securities	200,000	100,000	100,000
Total Tier 1 capital	526,081	373,519	383,782
Tier 2 capital			
Impairment allowance on portfolio basis	24,879	25,062	7,475
Fair value gains	4	4	4
Subordinated loan	28,000	28,000	35,000
Total Tier 2 capital	52,883	53,066	42,479
Total regulatory capital	578,964	426,585	426,261
Risk weighted assets			
Credit and market risks	2,843,693	2,679,306	2,592,953
Operational risk	157,920	157,920	140,106
Total risk weighted assets	3,001,613	2,837,226	2,733,059
Capital adequacy ratio			
Total regulatory capital expressed as a percentage of total risk weighted assets	19.29%	15.04%	15.60%
Total tier I capital expressed as a percentage of total risk weighted assets	17.53%	13.16%	14.04%
Total CET 1 capital expressed as a percentage of total risk weighted assets	10.86%	9.64%	10.38%

Disclosures required under Basel III and circular BM-1114 dated 17 November 2013 issued by CBO are available on the investor relations page of the Bank's website.

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E Segmental information

Segmental information is presented for the Bank's operating segments. For management purposes the Bank is organised into the following operating segments:

Retail banking:

- Including loans to and deposits from retail customers, credit card and fund transfer facilities.

Wholesale banking:

- Corporates including loans to and deposits from large and mid-sector corporates, small & medium enterprises and trade finance customers
- Government and project finance syndication including loans to and deposits from government and financial institutions, project finance and syndicated loans.
- Investments including proprietary investments, correspondent and investment banking.
- Treasury including money market instruments, derivatives and foreign exchange products

Head office

- includes balance sheet, income and expense related items that are not directly related to the Bank's operating segments

Islamic banking

- Including Islamic financing activities, current accounts, unrestricted investment accounts and other products and services to corporate and individual customers under Shari'a principles.

The CEO monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment.

Transfer pricing between operating segments is on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external counterparty or customer amounted to 10% or more of the Bank's total revenue in 2019 or 2018.

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E1 Segmental information (continued)

	<i>Retail banking RO'000</i>	<i>Wholesale banking RO'000</i>	<i>Head Office RO'000</i>	<i>Islamic banking RO'000</i>	<i>Total RO'000</i>
30 September 2019					
Income Statement					
Interest income	29,860	78,653	-	-	108,513
Interest expense	(15,968)	(43,700)	-	-	(59,668)
Net interest income	13,892	34,953	-	-	48,845
Net income from Islamic financing and investing activities	-	-	-	4,130	4,130
Other operating income	3,732	16,893	2	416	21,043
Total Operating income	17,624	51,846	2	4,546	74,018
Total Operating expenses	(16,900)	(13,585)	-	(3,186)	(33,671)
Net Operating Income	724	38,261	2	1,360	40,347
Impairment on investment securities	-	(647)	-	14	(633)
Loan impairment charges and other credit risk provisions, net	(9)	(11,835)	-	(343)	(12,187)
Segment profit / (loss)	715	25,779	2	1,031	27,527
Income tax expense	(65)	(2,248)	-	(155)	(2,468)
Profit / (loss) for the period	650	23,531	2	876	25,059
Balance sheet					
Assets					
Cash and balances with Central Bank	-	82,442	-	17,725	100,167
Due from banks and other money market placements	-	60,922	-	12,427	73,349
Loans, advances and financing, net	756,795	1,515,732	-	204,776	2,477,303
Investment securities	-	581,845	-	21,009	602,854
Property, equipment and fixtures	-	-	34,995	1,029	36,024
Investment properties	-	-	2,900	-	2,900
Other assets	-	-	44,887	902	45,789
TOTAL ASSETS	756,795	2,240,941	82,782	257,868	3,338,386
Liabilities					
Due to banks and other money market borrowings	-	714,030	-	-	714,030
Customers' deposits	403,852	1,362,498	-	228,091	1,994,441
Other liabilities	-	-	64,858	2,810	67,668
Subordinated loans	-	-	35,654	-	35,654
Certificate of deposits	-	503	-	-	503
TOTAL LIABILITIES	403,852	2,077,031	100,512	230,901	2,812,296
TOTAL EQUITY	-	-	497,733	28,357	526,090
TOTAL LIABILITIES AND EQUITY	403,852	2,077,031	598,245	259,258	3,338,386

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E1 Segmental information (continued)

	<i>Retail banking</i>	<i>Wholesale banking</i>	<i>Head Office</i>	<i>Islamic banking</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<i>30 September 2018</i>					
<i>Income Statement</i>					
Interest income	27,215	68,848	-	-	96,063
Interest expense	(13,484)	(40,464)	-	-	(53,948)
Net interest income	13,731	28,384	-	-	42,115
Net income from Islamic financing and investing activities	-	-	-	3,477	3,477
Other operating income	3,140	20,475	-	443	24,058
Total Operating income	16,871	48,859	-	3,920	69,650
Total Operating expenses	(15,238)	(10,786)	(1,100)	(2,705)	(29,829)
Net Operating Income	1,633	38,073	(1,100)	1,215	39,821
Impairment on investment securities	-	(650)	-	(10)	(660)
Loan impairment charges and other credit risk provisions, net	(6,791)	(5,732)	-	(1,006)	(13,529)
Segment profit / (loss)	(5,158)	31,691	(1,100)	199	25,632
Income tax expense	774	(4,601)	165	(30)	(3,692)
Profit / (loss) for the period	(4,384)	27,090	(935)	169	21,940
<i>Balance sheet</i>					
<i>Assets</i>					
Cash and balances with Central Bank	-	100,445	-	14,901	115,346
Due from banks and other money market placements	-	28,447	-	4,235	32,682
Loans, advances and financing, net	655,737	1,392,753	-	172,561	2,221,051
Investment securities	-	507,615	-	21,361	528,976
Property, equipment and fixtures	-	-	16,057	1,093	17,150
Investment properties	-	-	2,900	-	2,900
Other assets	-	-	50,617	(401)	50,216
TOTAL ASSETS	655,737	2,029,260	69,574	213,750	2,968,321
<i>Liabilities</i>					
Due to banks and other money market borrowings	-	733,797	-	9,382	743,179
Customers' deposits	374,284	1,167,887	-	174,391	1,716,562
Other liabilities	-	-	63,651	3,077	66,728
Subordinated loans	-	-	35,654	-	35,654
Certificate of deposits	-	18,686	-	-	18,686
TOTAL LIABILITIES	374,284	1,920,370	99,305	186,850	2,580,809
TOTAL EQUITY	-	-	359,047	28,465	387,512
TOTAL LIABILITIES AND EQUITY	374,284	1,920,370	458,352	215,315	2,968,321

E2 Comparative figures

Certain comparative figures for 2018 have been reclassified in order to conform to the presentation for the current period. Such reclassifications do not affect previously reported net profit or shareholders' equity.