SOHAR INTERNATIONAL BANK SAOG
(previously Bank Sohar SAOG)

INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

31 MARCH 2019

Registered office and principal place of business:

Bank Sohar Building
P.O.Box 44, Hai Al - Mina
PC 114, Muscat
Sultanate of Oman

Chairman's Report for the three months ended 31 March 2019

It is my privilege to present Sohar International's (the "Bank") results for the three months ended 31 March, 2019.

Financial results overview

The Bank's net profit for the three months ended 31 March 2019 amounted to OMR 10.15 million as compared to OMR 8.90 million during the same period in 2018, a growth of 14.0%.

Total operating income increased by 16.7% from OMR 21.81 million in the first three months of 2018 to OMR 25.45 million for the same period in 2019. Operating profit similarly increased by 11.2% from OMR 12.40 million in the first three months of 2018 to OMR 13.79 million for the same period in 2019. During the first three months of 2019, operating expenses increased by 24.0% to OMR 11.66 million compared to OMR 9.40 million in the first three months of 2018 as we continue to transform our organisation in line with our strategy.

Gross loans and advances increased by 9.37% from OMR 2.220 billion as at 31 March 2018 to OMR 2.428 billion as at 31 March 2019. Net loans and advances grew by 7.52% to OMR 2.337 billion as at 31 March 2019 from OMR 2.173 billion as at 31 March 2018. Total assets grew by 5.59% from OMR 2.924 billion as at 31 March 2018 to OMR 3.088 billion as at 31 March 2019. Customer deposits increased by 9.80% to OMR 1.818 billion as at 31 March 2019 compared to OMR 1.656 billion as at 31 March 2018. The bank's market share of private sector credit was 10.71% as at 28 Feb 2019 compared to 10.18% as at 31 March 2018, whilst its share of private sector deposits was 8.34% as at 28 Feb 2019 compared to 8.26% as at 31 March 2018.

Customer focus

During the quarter the Bank concluded the year-end Al Mumyaz Savings Scheme draws for 2018, prior to unveiling the new Sohar | Prize Scheme 2019. Launched under the theme of 'Now That's Winning', the new scheme has been crafted to celebrate the spirit of winning. To date the Bank has successfully conducted the first two monthly draws, at Barka and Sur, along with eight weekly draws via events in various branches and Willayats.

Promoting a sustainable innovation culture with a comprehensive digitisation strategy, the Bank has collaborated with Omantel to launch the 'eFloos' digital wallet that delivers a secure, fast and convenient e-payment facility. We are investing heavily in innovation and entrepreneurship to provide our customers with the best in class value added products and services.

Corporate social responsibility

The Bank expanded on its community engagement initiatives with a solid emphasis on encouraging and empowering local youth by sponsoring the graduation ceremony of the Oman College of Health Sciences and the Higher Institute for Health Specializations.

The Bank renewed sponsorship towards the second edition of the Oman Human Resource Forum that contributes towards the development of national talent.

Reflecting its spirit of winning under the new brand strategy, Sohar International became the exclusive sponsor of the 15 year old racing sensation, Shihab Al Habsi who is competing and winning at Formula 4 races around the world to realize his ultimate dream of winning in the Formula 1 arena.

We also extended support to the Oman Open Golf Tournament 2019 as Gold Sponsor, promoting Oman as a favourable destination for investment and tourism. Helping to create more awareness about the sport and its contribution to Oman's economy, the Bank conducted a social media competition in line with its sponsorship of the Oman Open 2019, further cementing our strong community engagement in the digital space.

Commending the extraordinary role played by Sohar International in assisting various differently-abled communities across the Sultanate we have been honoured by numerous organisations such as Special Olympics Oman, Oman Autism Association and Oman Association for the Disabled.

Looking ahead

We see greater demand for financing in the near future due to improved oil prices and the commitment of the government to continue focusing on infrastructure projects along with investments in sectors identified as key in the economic diversification plan. The Bank remains committed to continue strengthening its position, capitalizing on market opportunities, playing a positive role in enhancing the national economy and continuing to create value for its stakeholders.

Our vision is to forge ahead as a 'world-leading Omani service company', benchmarking every aspect of our performance against leading service providers and raising the bar for banking in Oman.

Recognition

Sincere thanks to the Central Bank of Oman and the Capital Market Authority for their continued support, guidance and vision , 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.

As always, 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 Saad Al-Ardhi
Chairman

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019
(RO'000)

	Note	**31 March 2019 (Unaudited)**	31 December 2018 (Audited)	31 March 2018 (Unaudited)
ASSETS				
Cash and balances with Central Bank	*B1*	**99,564**	72,456	54,591
Due from banks and other money market placements	*B2*	**43,545**	121,403	85,993
Loans, advances and financing, net	*B3*	**2,336,882**	2,251,930	2,173,471
Investment securities	*B4*	**540,360**	532,769	546,327
Property, equipment and fixtures		**27,868**	19,676	17,429
Investment properties		**2,900**	2,900	2,900
Other assets	*B5*	**36,459**	45,269	43,371
TOTAL ASSETS		**3,087,578**	3,046,403	2,924,082
LIABILITIES				
Due to banks and other money market borrowings	*B6*	**679,873**	722,061	761,044
Customers' deposits	*B7*	**1,818,147**	1,818,353	1,655,847
Other liabilities	*B8*	**74,274**	84,664	60,471
Subordinated loans		**35,645**	35,392	35,645
Compulsorily convertible bonds		**-**	-	2,429
Certificates of deposits		**503**	509	18,684
TOTAL LIABILITIES		**2,608,442**	2,660,979	2,534,120
SHAREHOLDERS' EQUITY				
Share capital	*B9*	**198,265**	198,265	196,311
Share premium	*B9*	**18,037**	18,037	17,607
Legal reserve		**24,375**	24,375	21,438
General reserve		**988**	988	988
Impairment reserve	*B10*	**737**	-	8,220
Fair value reserve		**(2,634)**	(2,124)	(2,475)
Subordinated loans reserve		**7,000**	7,000	-
Retained earnings		**32,368**	38,883	47,873
TOTAL SHAREHOLDERS' EQUITY		**279,136**	285,424	289,962
Perpetual Tier 1 capital securities	*B11*	**200,000**	100,000	100,000
TOTAL EQUITY		**479,136**	385,424	389,962
TOTAL LIABILITIES AND EQUITY		**3,087,578**	3,046,403	2,924,082
CONTINGENT LIABILITIES	*B12.a*	**499,704**	485,142	558,825
COMMITMENTS	*B12.b*	**522,536**	439,344	301,642
		Baizas	*Baizas*	*Baizas*
Net assets per share		**140.79**	143.96	147.71

The interim condensed financial statements were approved and authorised for issue by the Board of Directors on 21 April 2019 and signed on their behalf by:

Chairman *Board member*

The accompanying notes A1 to E2 form an integral part of these interim condensed financial statements

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2019
(Unaudited)
(RO'000)

	Note	**31 March 2019**	31 March 2018
Interest income	*C1*	**35,085**	30,425
Interest expense	*C2*	**(19,473)**	(16,987)
Net interest income		**15,612**	13,438
Net income from Islamic financing and investing activities	*C3.b*	**1,289**	1,098
Other operating income	*C4*	**8,548**	7,272
Net gains on available for sale investments		**-**	-
TOTAL OPERATING INCOME		**25,449**	21,808
Staff costs		**(7,456)**	(5,881)
Other operating expenses	*C5*	**(3,612)**	(2,960)
Depreciation		**(591)**	(563)
TOTAL OPERATING EXPENSES		**(11,659)**	(9,404)
NET OPERATING INCOME BEFORE IMPAIRMENT PROVISIONS		**13,790**	12,404
Loan impairment charges and other credit risk provisions (net)	*C6*	**(2,537)**	(2,136)
PROFIT BEFORE TAX		**11,253**	10,268
Income tax expense		**(1,101)**	(1,364)
PROFIT FOR THE PERIOD		**10,152**	8,904
Profit for the period			
Conventional banking		**9,677**	8,615
Islamic banking		**475**	289
		10,152	8,904
		Baizas	*Baizas*
Basic earnings per share for the period	*C7*	**3.086**	2.558
Basic earnings per share for the period (annualized)	*C7*	**12.517**	10.374
Diluted earnings per share for the period	*C7*	**3.086**	2.544
Diluted earnings per share for the period (annualized)	*C7*	**12.517**	10.317

The accompanying notes A1 to E2 form an integral part of these interim condensed financial statements

STATEMENT OF COMPREHENSIVE INCOME (continued)
FOR THE THREE MONTHS ENDED 31 MARCH 2019
(Unaudited)
(RO'000)

	31 March 2019	31 March 2018
Profit for the period	**10,152**	8,904
Other comprehensive income that will not be reclassified to the income statement		
Revaluation losses on equity instruments held at fair value through other comprehensive income (FVOCI)	**(511)**	(85)
Total other comprehensive income that will not be reclassified to the income statement	**(511)**	(85)
Other comprehensive income that will be reclassified to the income statement		
Debt instruments at FVOCI:		
Net changes in allowance for expected credit losses	**1**	25
Total other comprehensive income that will be reclassified to the income statement	**1**	25
Total other comprehensive income for the period, net of income tax	**(510)**	(60)
Total comprehensive income for the period, net of income tax	**9,642**	8,844

The accompanying notes A1 to E2 form an integral part of these interim condensed financial statements

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2019
(Unaudited)
(RO'000)

	Share Capital	Share Premium	Legal Reserve	General Reserve	Impairment 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	-	-	-	-	-	-	-	10,152	10,152	-	10,152
Other comprehensive income for the period	-	-	-	-	-	(510)	-	-	(510)	-	(510)
Total comprehensive income for the period	-	-	-	-	-	(510)	-	10,152	9,642	-	9,642
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	-	-	-	-	-	-	-	(3,843)	(3,843)	-	(3,843)
Issue expenses - Additional Tier 1 capital	-	-	-	-	-	-	-	(191)	(191)	-	(191)
Transfers (Note B11)	-	-	-	-	737	-	-	(737)	-	-	-
Balance as at 31 March 2019	198,265	18,037	24,375	988	737	(2,634)	7,000	32,368	279,136	200,000	479,136

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2018
(Unaudited)
(RO'000

	Share capital	Share premium	Legal reserve	General reserve	Special reserve	Fair value reserve	Impairment 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)	(2,035)	4,151	1,315	328	-	328
Restated opening balance under IFRS 9	178,465	17,607	21,438	988	-	(2,691)	4,151	73,966	293,924	100,000	393,924
Total comprehensive income for the period											
Net profit for the period	-	-	-	-	-	-	-	8,904	8,904	-	8,904
Other comprehensive income for the period	-	-	-	-	-	(60)	-	-	(60)	-	(60)
Total comprehensive income for the period	-	-	-	-	-	(60)	-	8,904	8,844	-	8,844
Reclassification of net change in Fair value of equity instruments upon derecognition	-	-	-	-	-	276	-	(276)	-	-	-
Issue of bonus shares for 2017	17,846	-	-	-	-	-	-	(17,846)	-	-	-
Dividends paid for 2017	-	-	-	-	-	-	-	(8,923)	(8,923)	-	(8,923)
Additional Tier 1 coupon paid during the period	-	-	-	-	-	-	-	(3,843)	(3,843)	-	(3,843)
Issue expenses - Additional Tier 1 capital	-	-	-	-	-	-	-	(40)	(40)	-	(40)
Provision on credit impairment (BM 1149)	-	-	-	-	-	-	4,069	(4,069)	-	-	-
Balance as at 31 March 2018	196,311	17,607	21,438	988	-	(2,475)	8,220	47,873	289,962	100,000	389,962

INTERIM CONDENSED STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED 31 MARCH 2019
(Unaudited)
(RO'000)

	31 March 2019	31 March 2018
OPERATING ACTIVITIES		
Profit before tax	**11,253**	10,268
Adjustments for:		
Depreciation	**591**	563
Loan impairment charges and other credit risk provisions, net	**2,537**	2,136
Net losses on fair value through profit or loss (FVTPL) investments	**177**	528
Profit on sale of fixed assets	**(2)**	-
Income from Islamic investment activities	**(306)**	(205)
Interest on investments	**(4,004)**	(2,979)
Interest accrued on subordinated loans and compulsorily convertible bonds	**604**	630
Cash from operating activities before changes in operating assets and liabilities	**10,850**	10,941
Due from banks and other money market placements	**1,438**	14,574
Loans, advances and financing	**(87,181)**	(75,392)
Investment in held for trading securities	**(644)**	(477)
Other assets	**7,645**	(20,172)
Due to banks and other money market borrowings	**(121,362)**	(101,689)
Customers' deposits	**(208)**	13,002
Certificate of deposits	**(6)**	171
Other liabilities	**(9,001)**	32,014
Cash from operating activities	**(198,469)**	(127,028)
Income tax paid	**(1,296)**	(4,118)
Net cash from / (used in) operating activities, net of tax	**(199,765)**	(131,146)
INVESTING ACTIVITIES		
Purchase of investments, net	**(7,896)**	(27,040)
Proceeds from sale/redemption of investments	**7**	2,054
Acquisition of property, equipment and fixtures	**(8,781)**	(882)
Income from Islamic investment activities	**244**	-
Interest received on investments	**4,004**	2,963
Net cash used in investing activities	**(12,422)**	(22,905)
FINANCING ACTIVITIES		
Dividends paid	**(11,896)**	(8,923)
Interest paid on subordinated loans and compulsorily convertible bonds	**(352)**	(352)
Issue of perpetual Tier 1 capital securities	**100,000**	-
Interest paid on perpetual Tier 1 capital securities	**(3,843)**	(3,843)
Issue expenses of perpetual Tier 1 capital securities	**(191)**	(39)
Net cash (used in) / from financing activities	**83,718**	(13,157)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(128,469)**	(167,208)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	**344,710**	13,516
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**216,241**	(153,692)
REPRESENTING:		
Cash and balances with Central Bank (other than capital deposit) (note B1)	**99,064**	54,091
Due from banks and other money market placements with OM of 90 days (note B2)	**48,737**	76,100
Investments securities with original maturity (OM) of 90 days (note B4.b)	**274,145**	293,733
Due to banks and other money market borrowings with OM of 90 days (note B8)	**(205,705)**	(577,616)
	216,241	(153,692)

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 seven 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 835 employees as of 31 March 2019 (31 December 2018:804, 31 March 2018: 744).

A2 Basis of preparation

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 and also in US Dollars, for the convenience of readers. The US Dollar amounts, which are presented in these financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385 and RO 1 = 1000 baizas. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands, unless otherwise indicated.

A2.4 Use of estimates and judgements

In preparation of the Bank's financial statements, management requires 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

A2 Basis of preparation (continued)

A2.4 Use of estimates and judgements (continued)

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. Estimates considered by the Bank to have a significant risk of material adjustment in subsequent periods are discussed in note A5.

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 31 March 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.
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) As a practical expedient approach is selected, the Bank assumed based on past history that the operating leases with respect to branch network, offsite ATMs and head offices will continue for the next 5 years and hence lease term of 5 years is considered for all existing operating leases except a few which will be vacated within less than 12 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 except as mentioned below.

A3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank:

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Annual Improvements 2015 - 2017 cycle (issued in 2017)
  - IAS 23 Borrowing Costs

A4 Significant accounting policies

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements, except for the changes related to IFRS 16 as explained in A3.1.

A4.1 Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income, except for non-monetary financial assets, such as equities classified as fair value through other comprehensive income which are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

A4.2 Revenue and expense recognition

A4.2.a Interest income and expense

Under IFRS 9, interest income and expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash 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. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Interest income which is doubtful of recovery is included in impairment allowance and excluded from income until it is received in cash.

When a financial asset becomes credit-impaired (as set out in Note A 4.3.g) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

A4.2.b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes and equity investments classified as fair value through other comprehensive income are presented in other comprehensive income.

Net income from financial assets at fair value through profit or loss, including all realised and unrealised fair value changes, interest, dividend and foreign exchange differences are presented in the income statement for the year.

A4.2.c Dividend income

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

A4.2.d Fees and commission

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income, which is not an integral part of the effective interest rate of a financial instrument, is accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Bank based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

A4 Significant accounting policies (continued)

A4.2 Revenue and expense recognition (continued)

A4.2.d Fees and commission (continued)

Other fees and commission income – including account or loan servicing fees, advisory fee, investment management fees and sales commission– are recognised as the related services are performed. Loan syndication fees and placement fees are recognised when the loan has been arranged. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

A4.2.e Provisions

A provision is recognised if, as a result of a 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 obligation. Provisions are equivalent to the amortised value of the future liabilities which is 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.

A4.2.f Offsetting of income and expense

Income and expenses are presented on a net basis only when permitted by the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

A4.2.g Temporary significant influence

The Bank is exempt from applying the equity method when significant influence over an associate is intended to be temporary. The temporary significant influence infers that there is an evidence that an associate is acquired with the intention to reduce its stake that it no more has a significant influence on the investee company by soliciting investors to inject fresh capital to the investee company. The investment is classified as available for sale in the financial statements.

A4.3 Financial instruments

A4.3.a Date of recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

A4.3.b Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

A4.3.c Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in note A4.3.c(i);
- FVOCI, as explained in notes A4.3.c (iv) and A4.3.c(v); or
- FVTPL, as explained in note A4.3.c(vii)

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.c Measurement categories of financial assets and liabilities (continued)

(i) Due from banks and other money market placements, loans, advances and financing and, financial investments at amortised cost

From 1 January 2018, the Bank only measures due from banks and other money market placements, loans, advances and financing and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

- *Business model assessment*

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

- *Assessment whether contractual cash flows are solely payments of principal and interest (The 'SPPI' test)*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.c Measurement categories of financial assets and liabilities (continued)

(i) Due from banks and other money market placements, loans, advances and financing and, financial investments at amortised cost (continued)

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

(ii) Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, futures, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note B24. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. Hedge documentation, effectiveness assessment, and discontinuation accounting disclosures are provided in Note A4.4.n.

Embedded derivatives:

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

(iii) Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in other operating income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.c Measurement categories of financial assets and liabilities (continued)

(iv) Debt instruments at FVOCI (Policy applicable from 1 January 2018)

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

These instruments largely comprise assets that had previously been classified as financial investments available for sale under IAS 39.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

(v) Equity instruments at FVOCI (Policy applicable from 1 January 2018)

Upon initial recognition, the Bank occasionally elects to irrevocably classify some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

(vi) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

(vii) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria is met. Such 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; or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.c Measurement categories of financial assets and liabilities (continued)

(vii) Financial assets and financial liabilities at fair value through profit or loss (continued)

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

(viii) Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement and an ECL provision as set out in Note A4.3.f.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

(ix) Financial liabilities

Under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The amount presented separately in OCI related to changes in own credit risk of a designated financial liability at FVTPL are not recycled to profit or loss, even when the liability is derecognised and the amounts are paid. Instead, own credit gains and losses should be reclassified to retained earnings within equity upon derecognition of the relevant liability.

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.d Derecognition

(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.

For derecognition due to substantial modification, refer note A4.3.o.

(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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

A4.3.e Offsetting of financial assets and financial liabilities

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.

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.f Impairment of financial assets (Policy applicable from 1 January 2018)

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition which they are measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

(i) Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

(ii) Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1
When financing are first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2
When a financing exposure has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.f Impairment of financial assets (Policy applicable from 1 January 2018) (continued)

Stage 3
Financing exposure considered credit-impaired. The Bank records an allowance for the LTECLs.

At initial recognition of a financial asset, the Bank recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

Stage 1
Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses

Stage 2
Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset

Stage 3
There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

(iii) The calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

(iv) Presentation of allowanace for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

(v) Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.f Impairment of financial assets (Policy applicable from 1 January 2018) (continued)

(vi) Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

(vii) Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

(viii) Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Gross domestic product
- Savings and investment
- Inflation
- Trade statistics
- Demographics
- Revenue and expenditure
- Public debt
- Real estate
- Composite indicators
- Oil prices and production

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

(ix) Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed periodically based on the type of asset, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued by certified third party valuers.

(x) Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.g Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected amortised fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

A4.3.h Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

A4.3.i Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

A4.3.j Fair value measurement

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. 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

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.j Fair value measurement

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.

A4.3.k Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

A4.3.l Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counterparty liability for amounts received under these agreements is included in 'due to banks and other money market borrowings'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in 'due from banks and other money market placements'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

A4.3.m 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.

A4 Significant accounting policies (continued)

A4.3 Financial instruments (continued)

A4.3.n Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or trading liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from the equity to statement of comprehensive income as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

(iii) Other non-trading derivative

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in statement of comprehensive income.

A4.3.o Modifications of financial assets and liabilities

Financial assets
If the terms of a financial asset are modified, the bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

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

A4 Significant accounting policies (continued)

A4.4 Property, equipment and fixtures

Items of property, equipment and fixtures are measured at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset and preparing the asset for its intended use. Depreciation is provided on a straight-line basis over the estimated useful lives of property, equipment and fixtures, except freehold land. The estimated useful lives for the current year are as follows:

Asset	**Years**
Motor vehicles	5
Furniture and fixtures	6-7
Office equipment	6-7
Production software	10

Land and capital work in progress are not depreciated, but tested for impairment. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

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

A4.5 Investment properties

Investment properties comprise plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. These are currently held for an undetermined business use and not occupied by the Bank. These are carried at the average valuation of the two professional valuators carried out during 2008. Subsequent to initial measurement these properties are carried at cost less accumulated impairments, if any.

A4.6 Deposits, debt securities issued and subordinated liabilities

All money market and customer deposits are initially measured at fair value plus transaction cost and subsequently carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortised cost using the effective interest method. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

A4.7 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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 adjustment to tax payable in respect of previous years.

Deferred tax assets/liabilities are calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

A4 Significant accounting policies (continued)

A4.8 Fiduciary assets

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

A4.9 Leases

The Bank has adopted IFRS 16 Leases as of 1 January 2019 without restatement of comparatives with respect to all existing renewable operating leases. The Bank has opted 5 years as the lease term for all of the existing leases of branches, offsite ATMs and head office based on past history except a few exceptions which the Bank will not renew once the lease term is expired. The Bank has opted to disclose depreciation on right-to-use assets and interest on lease liabilities as part of other operating expenses in the statement of comprehensive income.

A4.10 Financial guarantees

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

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

A4.11 Employee benefits

A4.11.a 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.

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

A4.11.b Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A4.12 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes or similar instruments.

A4.13 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the balance sheet date.

A4 Significant accounting policies (continued)

A4.14 Segmental reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's CEO (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

A4.15 Directors' remuneration and sitting fees

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

The Annual General Meeting determines and approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided such fees, in accordance with Article 106 of the Commercial Companies Law of Oman of 1974 as amended, 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 does not exceed RO 200,000. The sitting fee for each Director does not exceed RO 10,000 in one year.

A4.16 Perpetual Tier I Capital Securities

The Bank classifies Perpetual Tier I Capital Securities as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the Tier I Capital Securities. The Bank's Perpetual Tier I Capital Securities 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.

A5 Critical accounting estimates and judgements

The preparation of financial statements requires 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.

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 are on:

A5.1 Financial Instruments (applicable from 1 January 2018)

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;

A5 Critical accounting estimates and judgements (continued)

A5.1 Financial Instruments (applicable from 1 January 2018) (continued)

- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

A5.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Bank uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for certain available for sale financial assets that are not traded in active markets.

A5.3 Taxation

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

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

A5.4 Fair value estimation of unquoted securities

In cases where the underlying assets are fair valued such as private equity funds, management uses net assets value. Management believes that net assets values of these investments are representative of their fair values as the majority of the underlying assets are fair valued and the reported net assets of those entities takes into account the updated fair values changes.

A5.5 Fee and commission income

The recognition of fee and commission income depends on the purpose for which fees are assessed and the basis of accounting for any associated 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 on the execution of a significant act.

(RO'000)

B1 Cash and balances with Central Bank

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Cash	**22,134**	24,374	15,874
Capital deposit with CBO	**501**	505	501
Balance with CBO	**76,929**	47,577	38,216
	99,564	72,456	54,591

(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 74.1 million (31 December 2018: RO 72.42 million, 31 March 2018: RO 70.85million).

B2 Due from banks and other money market placements

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Local currency:			
Money market placements	**-**	5,000	-
	-	5,000	-
Foreign currency:			
Money market placements	**19,296**	94,367	53,328
Lending to banks	**6,990**	8,666	14,767
Demand balances	**17,442**	13,812	18,188
	43,728	116,845	86,283
	43,728	121,845	86,283
			-
Expected credit loss allowance	**(183)**	(442)	(290)
	43,545	121,403	85,993

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

	31 March 2019 (Unaudited)				31 December (Audited)	31 March (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)	**(223)**	**(36)**	**-**	**(259)**	88	(64)
As at 31 March	**9**	**174**	**-**	**183**	442	290

(RO'000)

B3 Loans, advances and financing, net

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Corporate	**1,637,204**	1,578,223	1,529,705
Retail	**790,725**	762,437	690,153
Gross loans, advances and financing	**2,427,929**	2,340,660	2,219,858
Expected credit loss allowance	**(81,138)**	(79,349)	(39,330)
Contractual interest not recognised	**(9,909)**	(9,381)	(7,057)
	(91,047)	(88,730)	(46,387)
Net loans, advances and financing	**2,336,882**	2,251,930	2,173,471

Gross loans, advances and financing include RO 194.26 million (31 December 2018: RO 183.21 million, 31 March 2018:154.31 million) under Islamic mode of financing through Sohar Islamic financing activities.

Loans, advances and financing comprise:

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Loans	**2,134,067**	2,051,105	1,925,153
Overdrafts	**127,485**	127,920	129,583
Loans against trust receipts	**111,859**	107,727	118,169
Bills discounted	**54,518**	53,908	46,953
Gross loans, advances and financing	**2,427,929**	2,340,660	2,219,858
Expected credit loss allowance	**(81,138)**	(79,349)	(39,330)
contractual interest not recognised	**(9,909)**	(9,381)	(7,057)
	(91,047)	(88,730)	(46,387)
Net loans, advances and financing	**2,336,882**	2,251,930	2,173,471

(RO'000)

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:

	31 March 2019 (Unaudited)			
Gross carrying amount	**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	**366,100**	**70,266**	**8,751**	**445,117**
Assets derecognised or repaid	**(284,181)**	**(64,462)**	**(9,205)**	**(357,848)**
Transfers to Stage 1	**100,113**	**(100,113)**	**-**	**-**
Transfers to Stage 2	**(32,450)**	**34,195**	**(1,745)**	**-**
Transfers to Stage 3	**(116)**	**(3,324)**	**3,440**	**-**
As at 31 March 2019	**1,975,217**	**374,488**	**78,224**	**2,427,929**

	31 March 2019 (Unaudited)				31 December 2018 (Audited)	31 March 2018 (Unaudited)
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total	Total
ECL allowance as at 1 January	**12,695**	**33,629**	**33,025**	**79,349**	42,946	42,945
Impact of adopting IFRS 9	**-**	**-**	**-**	**-**	18,948	(5,389)
Transfers to Stage 1	**4,105**	**(3,570)**	**(535)**	**-**	-	-
Transfers to Stage 2	**(66)**	**1,180**	**(1,114)**	**-**	-	-
Transfers to Stage 3	**(12)**	**(705)**	**717**	**-**	-	
Transfer to memoranda accounts	**-**	**-**	**-**	**-**	-	76
Net charge for the year (C6)	**(5,360)**	**7,666**	**(517)**	**1,789**	17,455	1,698
As at 31 March	**11,362**	**38,200**	**31,576**	**81,138**	79,349	39,330

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

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Contractual interest not recognised			
Balance at beginning of year	**9,381**	6,537	6,537
Not recognised during the period	**942**	3,792	752
Written back due to recovery	**(414)**	(948)	(232)
Balance at end of the period	**9,909**	9,381	7,057

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 31 March 2019, loans and advances on which interest was not being accrued or where interest was reserved amounted to RO 78.224 million. (31 December 2018: RO 76.986 million, 31 March 2018:48.155 million)

(RO'000)

B3 Loans, advances and financing, net (continued)

Additional disclosures on NPL coverage as per BM 1149 is given below:

31 March 2019
(Unaudited)

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	1,748	2,537	789
Provisions required as per CBO norms / held as per IFRS 9	85,037	98,050	13,013
Gross NPL ratio (percentage)*	3.23	3.22	(0.01)
Net NPL ratio (percentage)*	1.29	1.57	0.28

*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 norms

CBO classification	IFRS 9 classification	Gross carrying amount	CBO Provision	IFRS 9 Provisions	Difference between CBO and IFRS 9	Net carrying amount	IFRS 9 Reserve interest	CBO Reserve interest
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)	(9)
Standard	Stage 1	1,968,106	24,192	11,339	12,853	1,956,767	-	-
	Stage 2	149,313	1,804	6,727	(4,923)	142,586	-	-
	Stage 3	214	2	134	(132)	80	-	-
Sub Total		**2,117,633**	**25,998**	**18,200**	**7,798**	**2,099,433**	**-**	-
Special mention	Stage 1	6,121	76	15	61	6,106	-	-
	Stage 2	224,307	10,682	31,178	(20,496)	193,129	-	-
	Stage 3	59	1	18	(17)	41	**1**	1
Sub Total		**230,487**	**10,759**	**31,211**	**(20,452)**	**199,276**	**1**	1
Substandard	Stage 1	61	-	-	-	61	-	-
	Stage 2	65	-	17	(17)	48	-	-
	Stage 3	5,847	1,418	1,810	(392)	4,037	99	99
Sub Total		**5,973**	**1,418**	**1,827**	**(409)**	**4,146**	**99**	**99**
Doubtful	Stage 1	272	-	3	(3)	269	-	-
	Stage 2	367	-	136	(136)	231	-	-
	Stage 3	26,192	11,077	9,855	1,222	16,337	301	301
Sub Total		**26,831**	**11,077**	**9,994**	**1,083**	**16,837**	**301**	**301**
Loss	Stage 1	657	-	5	(5)	652	-	-
	Stage 2	436	-	142	(142)	294	-	-
	Stage 3	45,912	25,839	19,759	6,080	26,153	9,508	9,508
Sub Total		**47,005**	**25,839**	**19,906**	**5,933**	**27,099**	**9,508**	**9,508**
Total	Stage 1	**1,975,217**	**24,268**	**11,362**	**12,905**	**1,963,855**	**-**	**-**
	Stage 2	**374,488**	**12,485**	**38,200**	**(25,715)**	**336,288**	**-**	**-**
	Stage 3	**78,224**	**38,337**	**31,576**	**6,762**	**46,648**	**9,909**	**9,909**
	Total	**2,427,929**	**75,090**	**81,138**	**(6,048)**	**2,346,791**	**9,909**	**9,909**

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	88,219	8,270	13,023	(4,753)	75,196	-	-
	Stage 3	-	-	-	-	-	-	-
Total		**88,219**	**8,270**	**13,023**	**(4,753)**	**75,196**	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-	-
	Stage 2	88,219	8,270	13,023	(4,753)	75,196	-	-
	Stage 3	-	-	-	-	-	-	-
	Total	**88,219**	**8,270**	**13,023**	**(4,753)**	**75,196**	-	-

B4 Investment securities

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Held at FVTPL	**99,230**	98,592	122,396
Held at FVOCI	**292,695**	293,026	310,878
Held at amortised cost	**148,435**	141,151	113,053
	540,360	532,769	546,327

B4.a Held at FVTPL

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Government development bonds – Oman	**86,716**	86,270	105,393
Sukuk trust certificates – secured	**8,271**	8,099	5,351
Unquoted securities	**2,500**	2,500	2,254
Others	**1,743**	1,723	9,398
Total	**99,230**	98,592	122,396

- Unquoted securities includes 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%, 31 March 2018: 16.9%).

(RO'000)

B4 Investment securities (continued)

B4.b Held at FVOCI

	Carrying / fair value 31 March 2019	**Cost 31 March 2019**	Carrying / fair value 31 December 2018	Cost 31 December 2018	Carrying / fair value 31 March 2018	Cost 31 March 2018
Unquoted securities	**-**	**34**	-	34	-	34
Quoted securities	**18,550**	**21,172**	18,909	21,022	17,121	19,611
Treasury bills	**274,145**	**274,893**	274,117	273,350	293,757	294,202
	292,695	**296,099**	293,026	294,406	310,878	313,847

B4.c Held at amortised

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Quoted	**149,783**	142,147	111,051
Unquoted	**-**	-	3,063
	149,783	142,147	114,114
Expected credit loss allowance	**(1,348)**	(996)	(1,061)
Total	**148,435**	141,151	113,053

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	**3,805**	**3,941**	**-**	**7,746**
Assets derecognised or matured (exlcuding write offs)	**(110)**	**-**	**-**	**(110)**
At 31 March 2019	**121,795**	**27,988**	**-**	**149,783**

	Stage 1	**Stage 2**	**Stage 3**	**Total**	31 December 2018	31 March 2018
ECL allowance as at 1 January 2019	**319**	**677**	**-**	**996**	-	-
Impact of adopting IFRS9	**-**	**-**	**-**	**-**	332	923
Net charge for the period (C6)	**108**	**244**	**-**	**352**	664	138
At 31 March 2019	**427**	**921**	**-**	**1,348**	996	1,061

(RO'000)

B5 Other assets

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Acceptances	**10,411**	30,252	28,463
Prepayments	**3,545**	2,206	3,285
Receivables	**14**	1,478	4,185
Positive fair value of derivatives	**2,509**	1,883	1,793
Others	**10,396**	9,450	5,645
Right to use Assets	**9,584**	-	-
Total	**36,459**	45,269	43,371

B6 Due to banks and other money market borrowings

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Local currency:			
Money market borrowings	**28,630**	10,001	15,241
Demand balances	**4,008**	4,934	32,843
	32,638	14,935	48,084
Foreign currency:			
Money market borrowings	**434,411**	397,824	404,007
Demand balances	**6**	118	-
Syndicated borrowings	**212,818**	309,184	308,953
	647,235	707,126	712,960
	679,873	722,061	761,044

(RO'000)

B7 Customers' deposits

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Term deposits	**1,033,027**	1,014,776	950,108
Demand deposits	**485,910**	508,610	409,648
Saving deposits	**281,587**	276,524	278,695
Margin deposits	**17,623**	18,443	17,396
	1,818,147	1,818,353	1,655,847

	31 March 2019 (Unaudited)			31 December 2018 (Audited)			31 March 2018 (Unaudited)		
	Conventional banking	**Islamic banking**	**Total**	Conventional banking	Islamic banking	Total	Conventional banking	Islamic banking	Total
Retail customers:									
Term deposits	**92,546**	**27,523**	**120,069**	80,196	15,547	95,743	86,091	20,419	106,510
Demand deposits	**23,800**	**3,150**	**26,950**	22,706	3,799	26,505	23,824	11,297	35,121
Saving deposits	**242,508**	**25,882**	**268,390**	235,787	25,497	261,284	242,772	17,963	260,735
Corporate customers:									
Term deposits	**828,436**	**84,522**	**912,958**	813,660	105,373	919,033	759,937	83,661	843,598
Demand deposits	**447,163**	**11,797**	**458,960**	474,647	7,458	482,105	374,482	45	374,527
Saving deposits	**-**	**13,197**	**13,197**	-	15,240	15,240	-	17,960	17,960
Margin deposits	**10,388**	**7,235**	**17,623**	10,532	7,911	18,443	8,097	9,299	17,396
Total	**1,644,841**	**173,306**	**1,818,147**	1,637,528	180,825	1,818,353	1,495,203	160,644	1,655,847

(RO'000)

B8 Other liabilities

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Acceptances	**10,411**	30,252	28,463
Staff entitlements	**2,402**	3,691	1,994
Income tax payable	**4,797**	4,988	1,412
Negative fair value of derivatives (B14)	**905**	3,702	1,694
Deferred tax liabilities	**480**	483	359
Dividends payable	**11,896**	-	8,923
Other accruals and provisions	**28,244**	36,936	13,133
Expected credit loss allowance on loan commitments and financial guarantees	**5,448**	4,612	4,493
Lease liability	**9,691**	-	-
Total	**74,274**	84,664	60,471

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	**303,323**	**18,273**	**64**	**321,660**
Exposure derecognised or matured/ lapsed (excluding write offs)	**(163,771)**	**(22,715)**	**(348)**	**(186,834)**
Transfers to Stage 1	**10,527**	**(10,565)**	**-**	**(38)**
Transfers to Stage 2	**(16,260)**	**16,260**	**-**	**-**
Transfers to Stage 3	**(5)**	**26**	**31**	**52**
At 31 March 2019	**793,589**	**106,120**	**1,389**	**901,098**

ECL	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	31 December 2018	31 March 2018
ECL allowance as at 1 January 2019	**2,654**	**1,948**	**10**	**4,612**	-	-
Impact of adopting IFRS 9	**-**	**-**	**-**	**-**	2,493	4,059
Transfers to Stage 1	**56**	**(56)**	**-**	**-**	-	-
Net charge for the period (C6)	**585**	**251**	**-**	**836**	2,119	434
At 31 March 2019	**3,295**	**2,143**	**10**	**5,448**	4,612	4,493

(RO'000)

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, 31 March 2018: 4,000,000,000 shares). The issued and paid up share capital of the Bank is 1,982,646,391 shares of RO 0.100 each (31 December 2018: 1,982,646,391 shares, 31 March 2018: 1,963,110,866 shares). The share capital of the Bank is RO 198.265 million (31 December 2018: RO 198.265 million, 31 March 2018: RO 196.311 million)

During April 2018, the remaining portion of compulsorily convertible bonds of RO 2.429 million as of 31 March 2018 was converted into ordinary shares of the Bank resulting in issuance of 19,535,525 shares amounting to RO 1.95 million and thereby increasing share capital from RO 196.311 million as of 31 March 2018 to RO 198.265 million. The balance of RO 430 thousand was credited to share premium account. The share premium reserve as of 31 March 2019 is RO 18.04 million (31 December 2018: RO 18.04 million, 31 March 2018: RO 17.61 million)

As of 31 March 2019, the following shareholders held 10% or more of the Bank's capital, either individually or together with related parties:

	Number of shares	***% Holding***
Oman Investment & Finance Co. SAOG	**304,714,636**	**15.37**
The Royal Court of Affairs	**288,852,420**	**14.57**

B10 Impairment Reserve

Effective Jan 2018, IFRS 9 was implemented replacing existing IAS39. CBO circular BM 1149 requires the Bank to create a reserve for the difference between CBO provisions and IFRS 9, provided CBO provision is higher. During Q1 2019, RO 0.7 million was transferred for the difference existing between IFRS 9 ECL impairments and CBO provision for the Sohar Islamic window.

B11 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 capital 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 capital Securities issuance 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 Tier 1 Capital Securities unless and until it has paid one interest payment in full on the Tier 1 Capital Securities. The Tier 1 Capital Securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders of the Securities under certain circumstances.

RO 3.843 million was paid as coupon during Q1 2019 (Q1 2018 : RO 3.843 million) on its 2017 Perpetual Tier 1 capital securities issuance and is recognised in the statement of changes in equity.

(RO'000)

B12 Contingent liabilities and commitments

B12.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.

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Guarantees	**107,789**	379,037	436,684
Documentary letters of credit	**391,915**	106,105	122,141
	499,704	485,142	558,825

B12.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.

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Capital commitments	**1,442**	1,658	1,222
Credit related commitments	**521,094**	437,686	300,420
	522,536	439,344	301,642

(RO'000)

B13 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:

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Key management personnel			
Loans, advances and financing at the end of period	**3,011**	2,330	6,249
Loans disbursed during the period	**890**	165	290
Loans repaid during the period	**(76)**	(304)	(431)
Deposits at the end of the period	**1,593**	985	1,648
Deposits received during the period	**355**	410	468
Deposits paid during the period	**(299)**	(134)	(219)
Interest income during the period	**6**	99	98
Other related parties			
Loans, advances and financing at the end of period	**48,899**	84,058	50
Loans disbursed during the period	**21,856**	87,554	6,984
Loans repaid during the period	**(4)**	(4,462)	(6,109)
Deposits at the end of the period	**4,032**	7,963	12,512
Deposits received during the period	**1,425**	8,207	3,051
Deposits paid during the period	**(555)**	(3,621)	(234)
Interest income during the period	**91**	2,405	71
Interest expense during the period	**5**	48	118
Key management personnels' compensation			
Salaries and other short term benefits	**1,608**	4,147	1,295
Post-employment benefits	**31**	213	35
Directors' sitting fees and remuneration	**158**	184	18
Shari'a Supervisory Board members	**4**	50	-

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

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Loans, advances and financing at the end of year	-	4,000	2,455
Loans disbursed during the period	-	4,000	1,448
Loans repaid during the period	-	-	(69)
Deposits at the end of the period	**2,435**	2,395	(58)
Deposits received during the period	**40**	2,009	6
Deposits paid during the period	-	(875)	(1,245)
Interest income during the period	-	42	37
Interest expense during the period	-	12	1

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

(RO'000)

B14 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 31 March 2019 (Unaudited)	Amortised cost	FVOCI	FVTPL	Total carrying (including accrued interest)/fair value
Assets				
Cash and balances with Central Bank	**99,564**	**-**	**-**	**99,564**
Due from banks and other money market placements	**43,545**	**-**	**-**	**43,545**
Loans, advances and financing	**2,336,882**	**-**	**-**	**2,336,882**
Investments	**148,435**	**292,695**	**99,230**	**540,360**
Other assets (excluding prepayments)	**32,914**	**-**	**-**	**32,914**
Total	**2,661,340**	**292,695**	**99,230**	**3,053,265**
Liabilities				
Due to banks and other money market borrowings				**679,873**
Customers' deposits				**1,818,147**
Other liabilities (excluding other accruals & provisions)				**46,030**
Subordinated loans				**35,645**
Certificates of deposits				**503**
Total				**2,580,198**

B14 Fair value of financial instruments (continued)

At 31 December 2018 (Audited)	Amortised cost RO'000	FVOCI RO'000	FVTPL RO'000	Total carrying (including accrued interest)/fair value RO'000
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

At 31 March 2018 (Unaudited)	Loans and receivables RO'000	Held to maturity RO'000	Available for sale RO'000	Total carrying (including accrued interest)/fair value RO'000
Assets				
Cash and balances with Central Bank	54,591	-	-	54,591
Due from banks and other money market placements	85,993	-	-	85,993
Loans, advances and financing	2,173,471	-	-	2,173,471
Investments	113,053	310,878	122,396	546,327
Other assets (excluding prepayments)	40,086	-	-	40,086
Total	2,467,194	310,878	122,396	2,900,468
Liabilities				
Due to banks and other money market borrowings				761,044
Customers' deposits				1,655,847
Other liabilities (excluding other accruals & provisions)				47,338
Subordinated loans				2,429
Compulsorily convertible bonds				18,684
Certificates of deposits				35,645
Total				2,520,987

(RO'000)

B14 Fair value of financial instruments (continued)

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

31 March 2019 (Unaudited)	**Investment securities**	**Positive fair value of derivatives**	**Negative fair value of derivatives**	**Total**
Level 1	**6,999**	**-**	**-**	**6,999**
Level 2	**382,426**	**2,509**	**(905)**	**384,030**
Level 3	**2,500**	**-**	**-**	**2,500**
	391,925	**2,509**	**(905)**	**393,529**

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
	391,618	1,883	(3,702)	389,799

31 March 2018 (Unaudited)	Investments	Positive fair value of derivatives	Negative fair value of derivatives	Total
Level 1	5,570	-	-	5,570
Level 2	425,450	1,793	(1,694)	425,549
Level 3	2,254	-	-	2,254
	433,274	1,793	(1,694)	433,373

(RO'000)

B15 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, therefore, 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.

				Notional amounts by term to maturity		
As at 31 March 2019 (Unaudited)	**Positive Fair Value**	**Negative Fair Value**	**Notional amount**	**Within 3 months**	**3 - 12 months**	**More than 1 year**
Forward foreign exchange purchase contracts	**3**	**903**	**387,114**	**280,900**	**64,529**	**41,685**
Forward foreign exchange sales contracts	**2,506**	**2**	**157,911**	**75,477**	**42,009**	**40,425**

				Notional amounts by term to maturity		
As at 31 December 2018 *(Audited)*	Positive Fair Value	Negative Fair Value	Notional amount	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	-

				Notional amounts by term to maturity		
As at 31 March 2018 *(Unaudited)*	Positive Fair Value	Negative Fair Value	Notional amount	Within 3 months	3 - 12 months	More than 1 year
Forward foreign exchange purchase contracts	655	1,338	671,971	351,102	249,141	71,728
Options	32	32	44,352	44,352	-	-
Forward foreign exchange sales contracts	1,106	324	671,361	351,173	248,699	71,490
Options	32	32	44,352	44,352	-	-

(RO'000)

C1 Interest income

	31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Interest income on :		
Loans and advances to customers	**30,334**	26,230
Due from banks and other money market placements	**747**	1,216
Investments	**4,004**	2,979
	35,085	30,425

C2 Interest expense

	31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Interest expense on :		
Customers' deposits	**11,477**	9,912
Subordinated loans	**604**	604
Due to banks and other money market borrowings	**7,392**	6,445
Compulsorily convertible bonds	**-**	26
	19,473	16,987

C3 Net income earned from Islamic financing and investing activities

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

	31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Financing to customers	**2,388**	1,912
Due from banks and other money market placements	**104**	46
Investments	**306**	205
	2,798	2,163

C3.b Profit paid to depositors / money market borrowings

	31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Profit paid to depositors	**1,340**	1,023
Profit paid to banks and other money market borrowings	**169**	42
	1,509	1,065
Net income from Islamic financing and investing activities	**1,289**	1,098

(RO'000)

C4 Other operating income

	31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Fees and commission	**6,085**	4,616
Net gains from foreign exchange dealings	**1,918**	2,871
Bad debt recovery	**-**	44
Profit on sale of fixed assets	**2**	-
Dividend income	**720**	269
Losses from FVTPL investments	**(177)**	(528)
	8,548	7,272

C5 Other operating expenses

	31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Operating and administration costs	**2,711**	2,293
Occupancy cost	**739**	637
Directors remuneration	**146**	-
Directors sitting fees	**12**	18
Shari'a supervisory board remuneration and sitting fees	**4**	12
	3,612	2,960

C6 Loan impairment charges and other credit risk provisions, net

	31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Provided during the period:		
Impairment charges provided/(released) on:		
Loans, advance and financing (B3)	**1,789**	1,698
Loan commitments and financial guarantees (B8)	**836**	434
Due from banks and other money market placements	**(259)**	(64)
Debt securities at amortised cost	**352**	138
Debt securities at FVOCI	**(1)**	7
Loans written back during the period	**(180)**	(77)
Loan impairment charges and other credit risk provisions under IFRS 9, net	**2,537**	2,136
Total portfolio impairment	**2,537**	2,136

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:

31 March 2019 (Unaudited)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019	**15,900**	**36,464**	**33,035**	**85,399**
Transfers to Stage 1	4,161	(3,626)	(535)	-
Transfers to Stage 2	(66)	(1180)	(1114)	-
Transfers to Stage 3	(12)	(705)	717	-
Net charge for the period	(4,890)	8,125	(517)	**2,718**
At 31 March 2019	**15,093**	**41,438**	**31,586**	**88,117**

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.

	31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Profit for the period	**10,152**	8,904
Less: Additional Tier 1 Coupon	**(3,843)**	(3,843)
Less: issue expenses – Additional Tier 1 capital	**(190)**	(40)
Profit for the period attributable to equity holders of the Bank after coupon and issuance cost on Additional Tier 1 capital securities	**6,119**	5,021
Weighted average number of shares outstanding during the period (in thousands)	**1,982,646**	1,963,111
Basic earnings per share for the period (**baizas**)	**3.086**	2.558
Basic earnings per share annualized (**baizas**)	**12.517**	10.374

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders (after adjusting for interest on the compulsorily convertible bonds, net of income tax) for the year by the weighted average number of ordinary shares including the dilutive potential of ordinary shares that would be issued on the conversion of the compulsorily convertible bonds into ordinary shares. The compulsorily convertible bonds were fully converted during April 2018.

	31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Profit for the period attributable to equity holders of the Bank after coupon and issuance cost on Additional Tier 1 capital securities	**6,119**	5,021
Interest on convertible bonds, net of income tax	**-**	22
	6,119	5,043
Weighted average number of shares outstanding after dilution during the period (in thousands)	**1,982,488**	1,982,488
Diluted earnings per share for the period (**baizas**)	**-**	2.544
Diluted earnings per share annualized (**baizas**)	**-**	10.317

The reconciliation of weighted average number of shares shown under basic earnings and diluted earnings are as follow:

	31 March 2019 In thousands	31 March 2018 In thousands
Weighted average number of shares outstanding during the year	**1,982,488**	1,963,111
Dilutive potential of ordinary shares to be issued on the conversion of convertible bonds	**-**	19,377
Weighted average number of shares outstanding during the period	**1,982,488**	1,982,488

(RO'000)

D Financial risk management

D1 Exposure to Liquidity risk

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.

31 March 2019 (Unaudited)	**Carrying amount**	**Gross nominal outflow**	**Within 3 months**	**3 - 12 months**	**Over 1 year**
Non – derivative liabilities					
Due to banks and other money market borrowings	**679,873**	**688,973**	**250,594**	**193,268**	**245,111**
Customers' deposits	**1,818,147**	**1,927,833**	**749,452**	**520,171**	**658,210**
Other liabilities	**74,274**	**74,274**	**74,274**	**-**	**-**
Subordinated loans	**35,645**	**45,947**	**870**	**1,581**	**43,496**
Certificate of deposits	**503**	**560**	**6**	**18**	**536**
Total	**2,608,442**	**2,737,587**	**1,075,196**	**715,038**	**947,353**

31 December 2018 (Audited)	Carrying amount	Gross nominal outflow	Within 3 months	3 - 12 months	Over 1 year
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

31 March 2018 (Unaudited)	Carrying amount	Gross nominal outflow	Within 3 months	3 - 12 months	Over 1 year
Non – derivative liabilities					
Due to banks and other money market borrowings	761,044	819,398	182,075	193,062	444,261
Customers' deposits	1,655,847	1,828,105	826,194	533,078	468,833
Other liabilities	60,471	60,471	60,471	-	-
Subordinated loans	35,645	48,402	853	1,597	45,952
Compulsorily convertible bonds	2,429	2,437	2,437	-	-
Certificate of deposits	18,684	19,307	359	18,389	559
Total	2,534,120	2,778,120	1,072,389	746,126	959,605

(RO'000)

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:

	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
CET 1 capital			
Ordinary share capital	**198,265**	198,265	196,311
Share premium	**18,037**	18,037	17,607
Legal reserve	**24,375**	24,375	21,438
General reserve	**988**	988	988
Subordinated loan reserve	**7,000**	7,000	-
Retained earnings	**32,368**	38,883	47,873
Dividends declared	**-**	(11,896)	-
Fair value losses	**(2,643)**	(2,133)	(2,481)
Total CET 1 capital	**278,390**	273,519	281,736
Additional Tier 1 capital			
Perpetual Tier 1 Capital Securities	**200,000**	100,000	100,000
Total Tier 1 capital	**478,390**	373,519	381,736
Tier 2 capital			
Impairment allowance on portfolio basis	**24,662**	25,062	9,603
Fair value gains	**4**	4	3
Subordinated loan	**28,000**	28,000	35,000
Compulsorily convertible bonds	**-**	-	2,383
Total Tier 2 capital	**52,666**	53,066	46,989
Total regulatory capital	**531,056**	426,585	428,725
Risk weighted assets			
Credit and market risks	**2,684,736**	2,679,306	2,810,064
Operational risk	**157,920**	157,920	140,106
Total risk weighted assets	**2,842,656**	2,837,226	2,950,170
Capital adequacy ratio			
Total regulatory capital expressed as a percentage of total risk weighted assets	**18.68%**	15.04%	14.53%
Total tier I capital expressed as a percentage of total risk weighted assets	**16.83%**	13.16%	12.94%
Total CET 1 capital expressed as a percentage of total risk weighted assets	**9.79%**	9.64%	9.55%

E Segmental information

For management purposes the Bank is organised into the following 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, derivative 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.

(RO'000)

E1 Segmental information (continued)

31 March 2019 (Unaudited)	*Retail banking*	*Wholesale banking*	*Head Office*	*Islamic banking*	*Total*
Income Statement					
Interest income	9,645	25,440	-	-	35,085
Interest expense	(4,640)	(14,833)	-	-	(19,473)
Net interest income	5,006	10,606	-	-	15,612
Net income from Islamic financing and investing activities	-	-	-	1,289	1289
Other operating income	1,130	7,294	4	120	8,548
Total Operating income	6,136	17,900	4	1,409	25,449
Total Operating expenses	(5,953)	(4,798)	(54)	(854)	(11,659)
Net Operating Income	183	13,102	(50)	555	13,790
Impairment on available for sale investments	-	(353)	-	-	(353)
Loan impairment charges and other credit risk provisions, net	2,172	(4,360)	-	4	(2,184)
Segment profit / (loss)	2,355	8,389	(50)	559	11,253
Income tax expense	(220)	(804)	7	(84)	(1,101)
Profit / (loss) for the period	2,135	7,585	(43)	475	10,152
Balance sheet					
Assets					
Cash and balances with Central Bank	-	81,794	-	17,770	99,564
Due from banks and other money market placements	-	21,909	-	21,636	43,545
Loans, advances and financing, net	695,679	1,449,800	-	191,403	2,336,882
Investments	-	519,353	-	21,007	540,360
Property, equipment and fixtures	-	-	26,801	1,067	27,868
Investment properties	-	-	2,900	-	2,900
Other assets	-	-	35,197	1,262	36,459
TOTAL ASSETS	695,679	2,072,856	64,898	254,145	3,087,578
Liabilities					
Due to banks and other money market borrowings	-	629,669	-	50,204	679,873
Customers' deposits	398,302	1,246,539	-	173,306	1,818,147
Other liabilities	-	-	69,966	4,308	74,274
Subordinated loans	-	-	35,645	-	35,645
Certificate of deposits	-	503	-	-	503
TOTAL LIABILITIES	398,302	1,876,711	105,611	227,818	2,608,442
TOTAL EQUITY	-	-	451,179	27,957	479,136
	398,302	1,876,711	556,790	255,775	3,087,578

(RO'000)

E1 Segmental information (continued)

31 March 2018 (Unaudited)	*Retail banking*	*Wholesale banking*	*Head Office*	*Islamic banking*	*Total*
Income Statement					
Interest income	8,763	21,662	-	-	30,425
Interest expense	(4,432)	(12,555)	-	-	(16,987)
Net interest income	4,331	9,107	-	-	13,438
Net income from Islamic financing and investing activities	-	-	-	1,098	1,098
Other operating income	1,332	5,731	-	209	7,272
Total Operating income	5,663	14,838	-	1,307	21,808
Total Operating expenses	(5,200)	(3,293)	-	(911)	(9,404)
Net Operating Income	463	11,545	-	396	12,404
Impairment on available for sale investments	-	(140)	-	(10)	(150)
Loan impairment charges and other credit risk provisions, net	(969)	(971)	-	(46)	(1,986)
Segment profit / (loss)	(506)	10,434	-	340	10,268
Income tax expense	76	(1,389)	-	(51)	(1,364)
Profit / (loss) for the period	(430)	9,045	-	289	8,904
Balance sheet					
Assets					
Cash and balances with Central Bank	-	47,563	-	7,028	54,591
Due from banks and other money market placements	-	76,923	-	9,070	85,993
Loans, advances and financing, net	619,602	1,400,124	-	153,745	2,173,471
Investments	-	527,374	-	18,953	546,327
Property, equipment and fixtures	-	-	16,307	1,122	17,429
Investment properties	-	-	2,900	-	2,900
Other assets	-	-	43,274	97	43,371
TOTAL ASSETS	619,602	2,051,984	62,481	190,015	2,924,082
Liabilities					
Due to banks and other money market borrowings	-	757,193	-	3,851	761,044
Customers' deposits	384,838	1,110,365	-	160,644	1,655,847
Other liabilities	-	-	58,626	1,845	60,471
Subordinated loans	-	-	35,645	-	35,645
Compulsorily convertible bonds	-	-	2,429	-	2,429
Certificate of deposits	-	18,684	-	-	18,684
TOTAL LIABILITIES	384,838	1,886,242	96,700	166,340	2,534,120
TOTAL EQUITY	-	-	365,376	24,586	389,962
	384,838	1,886,242	462,076	190,926	2,924,082

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.