Oman Arab Bank (SAOC)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2018

Oman Arab Bank SAOC

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2018

Contents

Oman Arab Bank SAOC

SUMMARY OF INTERIM CONDENSED CONSOLIDATED RESULTS AT 31 MARCH 2018

Particulars	31-Mar-18 RO 000	31-Mar-17 RO 000
Net Loans and advances	1,748,833	1,635,144
Customers' Deposits	1,773,137	1,709,145
Other assets	52,213	48,325
Net worth	269,555	257,944
Net interest income	15,558	12,645
Net profit for the period	6,251	5,857
Basic earnings per share for the period	OMR 0.019	OMR 0.019
Capital Adequacy Ratio	14.88%	16.38%

Oman Arab Bank SAOC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	Note	31-Mar-18 RO 000	31-Mar-17 RO 000
Assets			
Cash and balances with Central Bank of Oman	3	**129,444**	183,805
Due from banks	4	**50,877**	62,038
Loans and advances	5	**1,748,833**	1,635,144
Investments in securities	6	**169,994**	176,051
Property and equipment	7	**28,892**	27,803
Other assets	8	**52,213**	48,325
Total assets		**2,180,253**	**2,133,166**
Liabilities			
Due to banks	9	**10,374**	4,984
Deposits from customers	10	**1,773,137**	1,709,145
Other liabilities	11	**75,547**	59,746
Subordinated debt	12	**20,000**	70,000
Taxation	13	**1,640**	1,347
Total liabilities		**1,880,698**	**1,845,222**
Shareholders' funds			
Share capital	14	**134,620**	127,000
Legal reserve	15	**38,476**	35,821
General reserve		**25,560**	25,560
Special reserve	16	**3,181**	2,400
Impairment reserve	17	**2,394**	-
Cumulative changes in fair value		**(1,534)**	(493)
Retained earnings		**58,858**	13,656
Subordinated debt reserve		**8,000**	54,000
Total equity attributable to the equity holders of the Bank		**269,555**	**257,944**
Perpetual Tier 1 Capital Bonds	18	**30,000**	30,000
Total equity		**299,555**	**287,944**
Total equity and liabilities		**2,180,253**	**2,133,166**
Contingent liabilities and commitments	24	**831,457**	**823,202**

The financial statements were approved by the board of directors on 23rd April, 2018 and were signed on their behalf by:

Rashad Al-Musafir
Acting Chief Executive Officer

Rashad Muhammad Al Zubair
Chairman

The notes 1 to 27 form part of these financial statements

Oman Arab Bank SAOC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Note	31-Mar-18	31-Mar-17
		RO 000	RO 000
Interest income	19	23,280	20,777
Interest expense	20	(7,722)	(8,132)
Net interest income		**15,558**	**12,645**
Investment Income	21	(4)	849
Other operating income	22	5,658	5,360
Total income		**21,212**	**18,854**
Staff expenses		(7,219)	(6,734)
Other operating expenses		(3,855)	(3,411)
Depreciation	7	(1,027)	(902)
Operating expenses		**(12,101)**	**(11,047)**
Operating profit		**9,111**	**7,807**
Allowance for loan impairment	5	(3,000)	(2,195)
Recoveries/release from allowance for loan impairment		1,222	1,846
Release from impairment on due from banks	4	150	-
Impairment Provisions available-for-sale		-	(544)
Profit before tax		**7,483**	**6,914**
Taxation	13	(1,232)	(1,057)
Net profit for the period		**6,251**	**5,857**
Other comprehensive income			
Changes in fair value of investments		**311**	(421)
Total Comprehensive Income for the period		**6,562**	**5,436**
Basic Earnings per share (annualised)	25	**OMR 0.019**	**OMR 0.019**

The notes 1 to 27 form part of these financial statement

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Share capital	Legal reserve	General reserve	Subordinated Debt reserve	Special reserve	Impairment reserve	Retained earnings	Cumulative changes in fair value	Perpetual Tier 1 Capital Bonds	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1-Jan-17	**127,000**	**35,821**	**25,560**	**54,000**	**2,400**	**-**	**8,390**	**(72)**	**30,000**	**283,099**
Change in fair value of investment available for sale (refer to note 6)	-	-	-	-	-	-	-	(421)	-	(421)
Net profit	-	-	-	-		-	5,857	-	-	5,857
Additional Tier 1 coupon	-	-	-	-	-	-	(592)	-	-	(592)
Perpetual Tier 1 issuance cost	-	-	-	-	-	-	1	-	-	1
Balance at 31-Mar-2017	**127,000**	**35,821**	**25,560**	**54,000**	**2,400**	**-**	**13,656**	**(493)**	**30,000**	**287,944**
Balance at 31-Dec-2017	**134,620**	**38,476**	**25,560**	**8,000**	**2,760**	**-**	**67,977**	**(1,845)**	**30,000**	**305,548**
Impact of Adopting IFRS 9	**-**	**-**	**-**	**-**	**-**	**2,394**	**19**	**467**	**-**	**2,880**
Balance at 1-Jan-18	**134,620**	**38,476**	**25,560**	**8,000**	**2,760**	**2,394**	**67,996**	**(1,378)**	**30,000**	**308,428**
Dividends paid	-	-	-	-	-	-	(14,808)	-	-	**(14,808)**
Change in fair value of investment available for sale	-	-	-	-	-	-	-	(156)	-	(156)
Net profit	-	-	-	-	-	-	6,251	-	-	6,251
Provision for restructure loans	-	-	-	-	421	-	(421)	-	-	-
Realised gain/loss on FVOCI	-	-	-	-	-	-	(179)	-	-	(179)
Interest expenses of Perpetual Tier 1 capital bonds	-	-	-	-	-	-	19	-	-	19
Balance at 31-Mar-2018	**134,620**	**38,476**	**25,560**	**8,000**	**3,181**	**2,394**	**58,858**	**(1,534)**	**30,000**	**299,555**

The notes 1 to 27 form part of these financial statements

Oman Arab Bank SAOC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2018

	31-Mar-18	31-Mar-17
Operating activities	**RO 000**	RO 000
Profit before tax	**7,483**	6,914
Adjustments:		
Depreciation	1,027	902
Allowance for loan impairment	3,000	2,197
Recoveries /release from allowance for loan impairment	(1,222)	(1,846)
Intrest on subordinated debt	271	-
Diffrence of foreign exchange-Visa	194	-
Allowance for impairment in AFS investment	-	544
Income from investments at Amortised cost / held-to-maturity	(956)	(361)
Changes in fair value of investments at fair value through profit or loss	77	(2)
Cash flows from Operating profit before changes in operating assets & liabilities	**9,874**	8,348
Net changes in:		
Loans and advances	(96,542)	(40,696)
Financial assets at fair value through profit or loss	-	9
Other assets	(5,930)	(2,921)
Customers' deposits	26,280	71,993
Other liabilities	20,214	(347)
Cash from (used in) operating activities	**(46,104)**	36,386
Tax paid	(4,483)	(3,884)
Net cash from (used in) operating activities	**(50,587)**	32,502
Investing activities		
Purchase of property & equipment	(467)	(54)
Purchase of held-to-maturity investments	(97,195)	(150,154)
Purchase of investments FVOCI/available-for-sale	-	(8,724)
Proceeds from sale of investments FVOCI/available-for-sale	3,204	13,229
Purchase of investments FVPL	-	(440)
Proceeds from sale of FVPL	-	449
Sale or maturities of investments at Amortised cost / held-to-maturity	62,000	82,560
Income from investments at Amortised cost / held-to-maturity	956	361
Net cash (used in) investing activities	**(31,502)**	(62,773)
Financing activities		
Dividends paid	(14,808)	-
Net cash (used in) financing activities	**(14,808)**	-
Net increase/(decrease) in cash and cash equivalents	**(96,897)**	(30,271)
Cash and cash equivalents at beginning of period	**266,344**	270,630
Cash and cash equivalents at end of period	**169,447**	240,359
Cash and cash equivalents comprise:		
Cash and balances with Central Bank of Oman	129,444	183,805
Less restricted deposits	(500)	(500)
Net Cash and balances with Central Bank of Oman	**128,944**	183,305
Deposits with Banks	50,131	61,375
Less: Due to banks	(9,628)	(4,321)
Cash and cash equivalents at end of period	**169,447**	240,359

The notes 1 to 27 form part of these financial statements

1 Legal status and principal activities

Oman Arab Bank SAOC (the Bank) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. It is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The registered head office of the Bank is at North Al Ghobra, Bousher Muscat, PO Box 2010, Ruwi, Postal Code 112, Sultanate of Oman.

The Bank has a management agreement with Arab Bank Plc Jordan, which owns 49% of the Bank's share capital. In accordance with the terms of the management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff. The bank employed 1,165 staff as at 31 March 2018 (31 March 2017: 1,190)

2 Principal Accounting Policies

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements of the Central Bank of Oman.

The Interim Condensed Consolidated Financial Statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the three months period ended 31 March 2018 are not necessarily indicative of the results that may be expected for the financial year 2018.

The Interim Condensed Consolidated Financial Statements do not include all information and disclosures required in the annual financial statements and should be read together with the annual financial statements for the year ended 31 December 2017.

IFRS 9 Financial Instruments

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt IFRS 9 in any previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have been applied only to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

2 Principal Accounting Policies (Continued)

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, 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.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
  - For hedging relationships under IAS 39, determination of whether these qualify for hedge accounting in accordance with the criteria of IFRS 9, after taking into account any rebalancing of the hedging relationship on transition, shall be regarded as continuing hedging relationships.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Interest revenue and expense recognition

Policy applicable from 01 January 2018

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or a financial liability is the amount at which the financial asset or the financial liability is measured on initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance or impairment allowance.
The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

2 Principal Accounting Policies (Continued)

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Financial assets and liabilities

Classification

From 1 January 2018, the bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

2 Principal Accounting Policies (Continued)

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, 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.

Derecognition

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

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, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

Impairment

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 the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime 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. [*This statement is added for illustration purposes although we understand that the Bank does not have any existing lease receivables.]*

2 Principal Accounting Policies (Continued)

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.

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 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.

Use of estimates and judgements

The preparation of the Interim Condensed Financial Information in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgements, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In preparing this Interim Condensed Financial Information, the significant judgments made by management in applying the Bank's accounting policies were the same as those applied to the Financial Statements as at and for the year ended 31 December 2017, except for the following:

(i) Critical accounting judgements in applying the Bank's accounting policies

(A) Financial asset and liability classification

<u>*Policy applicable from 1 January 2018*</u>
Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Refer to note 3.3.2 classification of financial assets for more information.

(B) Impairment of investments in equity and debt securities

<u>*Policy applicable from 1 January 2018*</u>
Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. Refer to *note 24.2.1 (iii) for Inputs, assumptions and techniques used for estimating impairment* for more information.

2 Principal Accounting Policies (Continued)

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.

Presentation of allowance 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.

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment securities, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts.

2 Principal Accounting Policies (Continued)

Financial assets

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial securities held for trading which are acquired principally for the purpose of selling in the short-term and instruments so designated by management upon inception. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Unrealised gains or losses arising from changes in fair value are included in the income statement in the period in which they arise. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised when cash is advanced to customers and are carried at amortised cost using the effective interest method.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market bid price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counter-parties.

Derecognition

Financial assets are derecognised when the right to receive cash from the financial asset has expired or when the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the liability is extinguished.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only 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.

Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2 Principal Accounting Policies (Continued)

Property and equipment

Property and equipment are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down to their recoverable amount. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work in progress, using the straight-line basis over the estimated useful lives, as follows:

Freehold property	25 years
Equipment, furniture and fixtures	5 years
Motor vehicles	5 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Borrowings

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

Employee Terminal Benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the balance sheet date, having regard to the requirements of the Oman Labour Law 2003. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the balance sheet date. These accruals are included in liabilities.

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

Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.
A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2 Principal Accounting Policies (Continued)

Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2 Principal Accounting Policies (Continued)

Cash and cash equivalents

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Financial guarantees contracts

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

Financial guarantees are initially recognized 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 amortization calculated to recognize in the income statement 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 balance sheet 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 income statement.

Segment reporting

The bank's segmental reporting is based on the following operating segments: Retail banking, corporate banking, Investment banking, and Banks functions. The segment information is set out in note 25.

Risk management policies

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank manages its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

For details of the composition of the loans and advances portfolio refer Note 5.

2 Principal Accounting Policies (Continued)

Risk management policies (continued)

Credit risk (continued)

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the balance sheet.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Bank is exposed to interest/mark-up rate risk as a result of mismatches or gaps in the amount of interest/mark-up based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest/mark-up rate risk as its assets and liabilities are re-priced frequently. The Assets and Liabilities Committee (ALCO) of the Bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

Currency risk

Currency risk arises where the value of financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Bank enters into ready, spot and forward transactions in the inter bank market.

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and foreign currencies assets and liabilities. The net open position is managed within the acceptable limits by buying and selling foreign currencies at spot rates when considered appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis.

Fair value of financial assets and liabilities

The estimate of fair values of the financial instruments is based on information available to management as at reporting date. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

Certificate of Deposit and current account balances due to and from banks

The carrying amount of certificate of deposit and current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short-term nature.

2 Principal Accounting Policies (Continued)

Loans and advances

The estimated fair value of loans whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contracted cash follows using market interest rates currently charged to similar loans. The fair value of non-performing loans approximates to the book value adjusted for provision for loan impairment. For the remainder, the fair value has been taken at book value as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

Investments

Quoted market prices, when available are used as the measure for fair value. However, when the quoted market prices do not exist, fair values presented are estimates derived using the net present value or other valuation techniques.

Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which equals the carrying value of those liabilities. The estimated fair values of fixed rates deposits are determined by discounting the contractual cash flows using the market interest rates currently offered for similar deposits.

Directors' remuneration

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

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

Comparative figures

Certain previous year figures have been adjusted to conform to changes in presentation in the current year except for changes relating to adoption of IFRS 9.

3 Cash and balances with Central Bank of Oman

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Cash	**40,877**	41,704
Balances with Central Bank of Oman		
-Clearing account and other balances	**76,517**	141,601
-Placement with Central Bank	**11,550**	-
-Statutory capital deposit	**500**	500
	129,444	183,805

The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. Balances with Central Bank of Oman are non-interest bearing.

4 Due from banks

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Money market placements	**33,731**	47,663
Current accounts	**17,488**	14,375
	51,219	62,038
Less: Allowance for impairment on due from banks	**(342)**	0
	50,877	62,038

The movements in the provision for impairment on due from banks were as follows

	31-Mar-18	
	Allowance for impairment on due from banks RO 000	**Total RO 000**
Balance at beginning of period	**492**	**492**
Amounts released due to re-measurement during the period	(150)	(150)
Balance at end of period	**342**	**342**

5 Loans and advances

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Commercial loans	**863,005**	781,500
Overdrafts	**160,891**	146,044
Personal loans	**681,124**	682,207
Credit cards	**4,021**	4,435
Al-Yusr Financing activities	**89,503**	71,987
	1,798,544	1,686,173
Less: Allowance for loan impairment and reserved interest	**(49,711)**	(51,029)
	1,748,833	1,635,144

(a) *Allowance for loan impairment and reserved interest*

The movements in the provision for loan impairment and reserved interest were as follows:

	31-Mar-18		
	Allowance for loan impairment	**Contractual interest not recognised**	**Total**
	RO 000	**RO 000**	**RO 000**
Balance at beginning of period	**39,772**	**7,312**	**47,084**
Provided during the period	3,000	855	3,855
Amounts written off during the period	(6)	-	(6)
Amounts released/ recovered during the period	(1,012)	(210)	(1,222)
Balance at end of period	**41,754**	**7,957**	**49,711**

	31-Mar-17		
	Allowance for loan impairment	**Contractual interest not recognised**	**Total**
	RO 000	**RO 000**	**RO 000**
Balance at beginning of period	43,788	6,275	50,063
Provided during the period	2,195	717	2,912
Amounts written off during the period	(82)	(18)	(100)
Amounts released/ recovered during the period	(1,612)	(234)	(1,846)
Balance at end of period	**44,289**	**6,740**	**51,029**

Total allowance for the potential loss on the performing loans as at 31 March 2018 is RO 20,741,657 (31 March 2017: RO 22,867,623). The Central Bank of Oman regulations require that the allowance for impaired loan account should be the higher of the provision determined in accordance with IAS 39 and Central Bank of Oman guidelines. Loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 51,559,593 (31 March 2017: RO 49,696,000).

5.a Comparison of provision held as per IFRS 9 and required as per CBO norms

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(9)	(8) = (3)-(5)	(9)	(9)
Standard	Stage 1	1,554,256	19,862	14,738	5,124	1,534,394	1,539,518	-	-
	Stage 2	30,453	333	1,339	(1,006)	30,120	29,114	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**1,584,709**	**20,194**	**16,077**	**4,117**	**1,564,515**	**1,568,632**	-	**-**
Special Mention	Stage 1	-	-	1	(1)	-	(1)	-	-
	Stage 2	170,929	1,620	4,946	(3,326)	169,309	165,983	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**170,929**	**1,620**	**4,948**	**(3,327)**	**169,309**	**165,981**	-	**-**
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,339	901	1,972	(1,071)	2,378	1,367	-	60
Subtotal		**3,339**	**901**	**1,972**	**(1,071)**	**2,378**	**1,367**	**-**	**60**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,343	1,878	2,534	(656)	2,275	1,809	-	190
Subtotal		**4,343**	**1,878**	**2,534**	**(656)**	**2,275**	**1,809**	**-**	**190**
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	43,877	18,898	15,859	3,039	17,272	28,018	-	7,707
Subtotal		**43,877**	**18,898**	**15,859**	**3,039**	**17,272**	**28,018**	**-**	**7,707**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	604,783	-	475	(475)	604,783	604,308	-	-
	Stage 2	293,726	-	231	(231)	293,726	293,495	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**898,509**	**-**	**706**	**(706)**	**898,509**	**897,803**	**-**	**-**
Total	**Stage 1**	**2,159,039**	**19,862**	**15,214**	**4,648**	**2,139,177**	**2,143,825**	**-**	**-**
	Stage 2	**495,108**	**1,953**	**6,516**	**(4,563)**	**493,155**	**488,592**	**-**	**-**
	Stage 3	**51,560**	**21,678**	**20,365**	**1,312**	**21,925**	**31,194**	**-**	**7,957**
	Total	**2,705,707**	**43,493**	**42,096**	**1,397**	**2,654,257**	**2,663,611**	**-**	**7,957**

5.b Classification and Measurement of Financial Instruments

The Bank performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 1 January 2018.

					Impact of IFRS 9	
	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount**	**Re-measure-ment**	**Re-classifica-tion**	**New carrying amount**
			RO'000	**RO'000**	**RO'000**	**RO'000**
Financial assets						
Cash and balances with central banks	Loans and receivables	Amortised cost	161,987	-	-	161,987
Due from banks	Loans and receivables	Amortised cost	108,868	(492)	-	108,376
Loans and advances to customers	Loans and receivables	Amortised cost	1,654,013	3,375	-	1,657,388
Investment securities – debt	HTM	Amortised cost	123,847	(3)	900	124,744
Investment securities – debt	Available-for-sale	Amortised cost	-	-	-	-
Investment securities – debt	Held-for-trading	Amortised cost	-	-	-	-
Investment securities – equity	FVTPL	FVTPL	562	-	3,753	4,315
Investment securities – equity	Available-for-sale	FVOCI	13,958	-	(4,599)	9,359
Investment securities – equity	Held-for-trading	FVOCI	54	-	(54)	-
Other assets			46,280			46,280
Accrued interest receivable	Loans and receivables	Amortised cost		-	-	-
Derivatives with positive fair value	FVTPL	FVTPL		-	-	-
Others	Loans and receivables	Amortised cost	29,430	-	-	29,430
			2,138,999	**2,880**	**-**	**2,141,879**
Financial liabilities						
Due to banks	Amortised cost	Amortised cost	4,011	-	-	4,011
Certificate of deposits and commercial papers	Amortised cost	Amortised cost	-	-	-	-
Customer deposits	Amortised cost	Amortised cost	1,746,856	-	-	1,746,856
Other borrowings	Amortised cost	Amortised cost	-	-	-	-
Debt securities issued	Amortised cost	Amortised cost	-	-	-	-
Subordinated debt	Amortised cost	Amortised cost	20,000	-	-	20,000
Other liabilities			4,891	-		4,891
Accounts payable	Amortised cost	Amortised cost	-	-	-	-
Derivatives with negative fair value	FVTPL	FVTPL	-	-	-	-
Accrued interest payable	Amortised cost	Amortised cost	-	-	-	-
Acceptances	Amortised cost	Amortised cost	-	-	-	-
Others	Amortised cost	Amortised cost	57,693	-	-	57,693
			1,833,451	**-**	**-**	**1,833,451**

5.b Classification and Measurement of Financial Instruments (continued)

Stage Classification at origination and Staging Guidelines

At origination, all loans shall be classified in stage 1 as IFRS 9 stipulates a deterioration in credit quality since inception as criteria for stage 2 classification.

The exposures subsequent to the classification at origination shall be classified into three categories– Stage 1, Stage 2 and Stage 3 for the purposes of provisioning for credit risk losses.

The expected credit loss computation is different based on the staging of the exposure.
Upon significant deterioration in the credit quality since inception of an exposure the asset is classified as Stage 2. Finally, when a default results the asset is classified as Stage 3. The classification of an exposure in Stage 2 and 3 are based on changes in the credit quality or default.

Stage 2 classification of assets, the significant deterioration in credit quality is based on the staging criteria articulated in the table in the next paragraph.

Stage 3 classification is for exposures in default. For this purpose, the default definitions used are when the past dues are for 90 days or more.

Restructured loans

									(Amounts in RO'000)
Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Carrying Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Carrying Amount as per CBO norms***	**Net Carrying Amount as per IFRS 9**	**Interest recognised in P&L as per IFRS 9**	**Reserve interest as per CBO norms**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	525	-	-	-	525	525	-	-
	Stage 2	9,816	523	463	60	9,293	9,353	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**10,341**	**523**	**463**	**60**	**9,818**	**9,878**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,701	1,159	1,159	-	1,413	1,542	-	129
Sub total		**2,701**	**1,159**	**1,159**	**-**	**1,413**	**1,542**	**-**	**129**
Total	**Stage 1**	**525**	**-**	**-**	**-**	**525**	**525**	**-**	**-**
	Stage 2	**9,816**	**523**	**463**	**60**	**9,293**	**9,353**	**-**	**-**
	Stage 3	**2,701**	**1,159**	**1,159**	**-**	**1,413**	**1,542**	**-**	**129**
	Total	**13,042**	**1,682**	**1,622**	**60**	**11,231**	**11,420**	**-**	**129**

5.c Movement in ECL

	Stage 1 RO' 000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Exposure subject to ECL				
- Loans and Advances to Customers	1,601,116	294,240	51,560	**1,946,916**
- Investment Securities (Debt)	900	-	-	**900**
- Loan Commitments and Financial Guarantees	65,017	293,726	20,041	**378,784**
- Due from Banks, Central Banks and Other Financial Assets	539,766	-	-	**539,766**
	2,206,798	**587,967**	**71,601**	**2,866,366**
Opening Balance (Day 1 impact) - as at 1 January 2018				
- Loans and Advances to Customers	12,687	6,733	19,733	**39,153**
- Investment Securities (Debt)	3	-	-	**3**
- Loan Commitments and Financial Guarantees	550	69	-	**619**
- Due from Banks, Central Banks and Other Financial Assets	492	-	-	**492**
	13,732	**6,802**	**19,733**	**40,267**
Net transfer between stages				
- Loans and Advances to Customers	888	(723)	(100)	**65**
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	(306)	241	-	**(65)**
- Due from Banks, Central Banks and Other Financial Assets	0	-	-	**0**
	583	**(482)**	**(100)**	**0**
Charge for the Period (net)				
- Loans and Advances to Customers	(0)	1,455	703	**2,158**
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	(96)	(79)	-	**(176)**
- Due from Banks, Central Banks and Other Financial Assets	(150)	-	-	**(150)**
	(247)	**1,376**	**703**	**1,832**
Closing Balance - as at 31 March 2018				
- Loans and Advances to Customers	13,575	7,465	20,336	**41,376**
- Investment Securities (Debt)	3	-	-	**3**
- Loan Commitments and Financial Guarantees	147	231	-	**378**
- Due from Banks, Central Banks and Other Financial Assets	342	-	-	**342**
	14,067	**7,696**	**20,336**	**42,099**

Transition Impact

RO'000

	31/Dec/2017	Re-measurement	1/Jan/2018
Loans and Advances to Customers Loans and receivables and held to maturity securities under IAS 39 / financial assets at amortised cost under IFRS 9	43,147	(3,414)	39,729
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	900	(3)	897
Available-for-sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	-	-	-
Loan Commitments and Financial Guarantees	-	537	537
	44,047	**(2,880)**	**41,163**

5.d Impairment charge and provisions held

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	(1,423)	(1,778)	(355)
Provisions required as per CBO norms/held as per IFRS 9	43,416	40,964	(2,452)
Gross NPL ratio	2.87%	2.87%	-
Net NPL ratio	1.73%	1.73%	-

6 Investment securities

	31-Mar-18 RO' 000	31-Mar-17 RO' 000
Available for sale		
- quoted	-	11,066
- unquoted	-	848
	-	11,914
Fair Value Through Other Comprehensive Income (FVOCI)		
- quoted	4,986	-
- unquoted	833	-
	5,819	-
Fair value through profit or loss (FVPL)		
- quoted	443	433
- unquoted	3,794	131
Total investments at fair value through profit or loss	4,237	564
Held for trading		
- quoted	-	57
- unquoted	-	-
	-	57
Held to maturity		
Oman Government Development Bonds	-	59,516
Treasury Bills	-	104,000
	-	163,516
Amortized Costs (AC)		
Oman Government Development Bonds	114,041	-
Treasury Bills	45,000	-
Muscat Finance Bonds	897	-
Total investments held to maturity	159,938	-
Total investments in securities	169,994	176,051

All the bonds are denominated in Rial Omani and are issued by the Government of Oman. They carry interest rates varying between 2.75 % and 5.50% (2017– 2.75% to 5.5%) per annum. The maturity profile of the bonds, based on the remaining maturity from the reporting date, is as follows:

	31-Mar-18 RO 000	31-Mar-17 RO 000
Within One year	4,000	20,135
1 to 5 years	110,041	39,381
	114,041	59,516

7 Property and equipment

	Land and buildings RO 000	Computer equipment RO 000	Furniture and fixture RO 000	Motor Vehicles RO 000	Capital WIP RO 000	Total RO 000
Cost						
At 1 January 2018	21,571	21,505	14,368	668	1,004	59,116
Additions	-	270	208	-	-	478
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 March 2018	21,571	21,775	14,576	668	1,004	59,594
Depreciation						
At 1 January 2018	2,753	16,756	9,687	479	-	29,675
Charge for the period	147	453	409	18	-	1,027
Disposals	-	-	-	-	-	-
At 31 March 2018	2,900	17,209	10,096	497	-	30,702
Net book value						
At 31 March 2018	**18,671**	**4,566**	**4,480**	**171**	**1,004**	**28,892**
At 31 March 2017	**19,261**	**4,413**	**2,555**	**234**	**1,340**	**27,803**

8 Other assets

	31-Mar-18 RO 000	31-Mar-17 RO 000
Acceptances	**24,436**	21,675
Interest and commission receivable	**15,159**	14,062
Prepayments	**2,865**	3,005
Credit card settelment	**2,605**	2,336
Positive fair value change - Forward contracts	**234**	138
Others	**6,914**	7,109
	52,213	48,325

9 Due to banks

	31-Mar-18 RO 000	31-Mar-17 RO 000
Current accounts	**3,880**	4,984
Money market acceptances	**6,494**	0
	10,374	4,984

10 Deposits from customers

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Demand and call accounts	780,672	683,659
Term deposits	718,300	732,831
Savings accounts	274,165	292,655
	1,773,137	1,709,145

The concentration of customers' deposits by government and private sector is as follows:

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Private	1,423,247	1,321,511
Government	349,890	387,634
	1,773,137	1,709,145

11 Other liabilities

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Interest Payable	20,336	23,958
Acceptances	24,436	21,675
Accrued expenses and other payables	7,643	7,098
Dividend payable	14,808	-
Certified cheques and unpaid cheques	5,515	3,711
Interest and commission received in advance	1,086	1,509
Staff related provisions	1,124	1,385
Credit Card settlement	409	285
Negative fair value change - Forward contracts	190	125
	75,547	59,746

12 Subordinated debt

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

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Subordinated bonds (i)	0	50,000
Subordinated loans (ii)	20,000	20,000
	20,000	70,000

i) Subordinated bonds

The Bank issued non-convertible unsecured subordinated bonds of RO 50 Million (50,000,000 units of RO 1 each) for a tenor of five years and one month in April 2012 through private placement. The bonds matured in May 2017.

ii) Subordinated loans

The Bank obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity.

13 Taxation

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 15%. The Corporate tax rate in Oman is expected to increase to 15% in accordance with expected amendments to the Income Tax Law of the Sultanate of Oman.

Status of tax assessments

The assessments for the years up to 2013 are complete. The assessments for 2014 to 2016 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the Bank on completion of the pending tax assessments as compared to the existing provision established.

14 Share capital

The authorized capital is RO 200,000,000 and the issued share capital comprises 1,346,200,000 fully paid shares of RO 0.100 each. RO 14 million has been assigned as capital for the Islamic Banking services of the Bank:

		31-Mar-18		31-Mar-17	
	Country of in corporation	**Share holding %**	**RO 000**	Share holding %	RO 000
Oman International Development & Investment Company	Oman	**50.99**	**68,643**	50.99	64,757
Arab Bank Plc	Jordan	**49**	**65,964**	49	62,230
Oman Investment services	Oman	**0.01**	**13**	0.01	13
		100	**134,620**	100	127,000

15 Legal reserve

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

16 Special reserve

During 2015 the Bank sold its old head office premises at Ruwi since the head office operations have moved to the new premises at Al Ghubrah. The profit on sale of the premises of 2.4 Million has been set aside as a special reserve, which requires prior approval of the Central Bank of Oman for any distribution. The provision for restructured loans appropriated as per CBO circular BSD 2016 BKUP Banks & FLCs 467 dated 20 September 2017 included in special reserve is RO 780,930 as at 31 March 2018.

17 Impairment reserve

As at 31 March 2018 the impairment allowance computed as per CBO requirements is higher than the impairment allowance as per the International Financial Reporting Standard (IFRS 9). As required by the Central Bank of Oman (CBO) circular BM 1149 dated 13 April 2017 the difference, net of taxation, has been transferred to "Impairment Reserve" as an appropriation from net profit after tax. The Bank will assess the difference at the end of each quarter and make the necessary adjustment to this reserve.

18 Perpetual Tier 1 Capital Bonds

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

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

19 Interest income

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Loans and advances	**21,772**	20,190
Placements with banks	**377**	135
Interest from securities	**1,131**	452
	23,280	20,777

Interest bearing assets earned interest at an average rate of 4.81% for the three months ended 31 Mar 2018 (31 Mar 2017: 4.58%)

20 Interest expense

	3 months ended	
	31-Mar-18	31-Mar-17
	RO 000	RO 000
Time deposits	**5,619**	5,468
Subordinated bonds	**271**	949
Saving, Call accounts & Others	**1,832**	1,715
	7,722	8,132

For the three months ended 31 March 2018, the average cost of funds was 1.76% (31 March 2017: 1.83%)

21 Investment income

Income from investments at fair value through profit or loss	**31-Mar-18**	31-Mar-17
	RO 000	RO 000
Profit/Loss on sale of investments	**-**	346
Dividend income	**73**	501
Unrealized gain/(loss) for investments	**(77)**	2
Total investment income	**(4)**	849

22 Other operating income

	3 months ended	
	31-Mar-18	31-Mar-17
	RO 000	RO 000
Fees & Commissions	**4,038**	3,943
Exchange income	**1,450**	1,283
Other income	**170**	134
	5,658	5,360

23 Related party transactions

Oman Arab Bank has a management agreement with Arab Bank Plc Jordan, which owns 49% of the bank's share capital. In accordance with the terms of that management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff. The annual fee payable to Arab Bank is 0.3% of the Bank's net profit after tax.

The Bank accepts deposits from its directors and other related concerns including its affiliate banks. Similarly, the Bank provides loans and advances, and other banking services to these parties. These transactions are entered into in the normal course of the Bank's business, on an arm's length basis at open market prices. All loans and advances to related parties are performing advances and are free of any provision for possible credit losses. At 31 March, balances with directors and other related parties were as follows:

<u>**Related party transactions**</u>	**Mar-18 RO' 000 Major Shareholders**	**Others**	Mar-17 RO' 000 Major Shareholders	Others
Loans and advances	**15,018**	**56,180**	16,000	72,990
Customers' deposits	**157**	**32,193**	11,779	29,159
Investments	**-**	**-**	-	449
Due from banks	**14,071**	**-**	25,674	-
Due to banks	**1,506**	**-**	1,885	-
Stand by line of credit	**48,125**	**-**	48,125	-
Letters of credit, guarantees and acceptances	**143,880**	**16,276**	188,718	2,867

The Income Statement includes the following amounts in relation to the transactions with related parties:

	Mar-18 RO' 000 Major Shareholders	**Others**	Mar-17 RO' 000 Major Shareholders	Others
Interest & commission income	**339**	**600**	275	402
Interest & commission expense	**205**	**86**	140	4

Key management compensation

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Salaries and other short term benefits	**552**	448
End of service benefits	**191**	50

24 (a) Commitments and Contingent Liabilities

The Bank is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount. In addition, some commitments to extend credit can be cancelled or revoked at any time at the banks option.

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for loans and advances. The outstanding contract value or the notional amounts of these instruments at 31 March were as follows:

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Letters of credit	**224,097**	202,884
Guarantees	**607,360**	620,318
	831,457	823,202

Letters of credit and guarantees amounting to RO 496,513,210 (31 March 2017: RO 499,941,620) were counter guaranteed by other banks.

(b) *Forward foreign exchange contracts*

At the balance sheet date, there were outstanding forward foreign exchange contracts, all maturing within one year, on behalf of customers for the sale and purchase of foreign currencies. The contract values are summarised below:

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Sales	**24,029**	24,561
Purchases	**(24,076)**	(24,574)
Net	**(47)**	(13)

(c) *Assets pledged as Security*

At the balance sheet date, the bank has not pledged any of its assets as security. (31 March 2018 no assets pledged).

25 Basic Earnings per share

	31-Mar-18	31-Mar-17
	RO 000	RO 000
Profit for the year	**6,251,282**	5,846,986
Weighted average number of shares outstanding during the year	**134,620,000**	127,000,000
Basic earnings per share (RO)	**0.018**	0.019

The par value of each share is 100 Baizas. The basic earnings per share is the profit for the period divided by the weighted average number of shares outstanding.

26 Capital adequacy

The principal objective of the Central Bank of Oman's (CBO) capital adequacy requirement is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a bank's balance sheet, in particular credit risk. CBO's risk based capital adequacy framework is consistent with the international standards of the Bank of International Settlement (BIS).

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

The ratio calculated in accordance with the CBO and BIS capital adequacy guidelines as per Basle II accord is as follows. :

	31-Mar-18	31-Mar-17
Capital	**RO 000**	RO 000
Tier I	**290,267**	282,836
Tier II	**26,034**	37,789
Total capital base	**316,301**	321,625
Risk Weighted Assets		
Credit risk	**1,954,147**	1,814,016
Market risk	**27,375**	8,350
Operation risk	**143,450**	141,500
Total risk weighted assets	**2,124,972**	1,963,866
BIS Capital Adequacy Ratio	**14.88%**	16.38%
Tier 1 Capital Adequacy Ratio	**13.66%**	14.40%

27 Segmental information

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2016. The Bank sold its investment banking activities to a newly formed company, Ubhar Capital in December 2016.

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

Retail banking	Individual personal loan, overdraft, credit card and funds transfer facilities.
Corporate banking	Loans and other credit facilities for corporate and institutional customers.
Support and unallocated functions	Treasury and other central functions.
Islamic Banking "Al-Yusr"	Sharia' compliant Islamic banking products and services including Ijarah, Murabaha, Mudarbah and Diminishing Musharakah.

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

	Corporate RO 000	Retail RO 000	Unallocated and support functions RO 000	Al-Yusr RO 000	Sub total RO 000	Total RO 000
At 31 Mar 2018						
Net operating income	**12,253**	**9,886**	**(1,477)**	**550**	**21,212**	**21,212**
Segmental assets	**992,661**	**667,789**	**406,082**	**113,871**	**2,180,403**	**2,180,403**
At 31 Mar 2017						
Net operating income	10,739	10,201	(2,476)	390	18,854	18,854
Segmental assets	897,865	666,346	479,830	89,125	2,133,166	2,133,166