Oman Arab Bank SAOC

INTERIM CONDENSED FINANCIAL STATEMENTS

31 MARCH 2019 (UNAUDITED)

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AS AT 31 MARCH 2019 (UNAUDITED)

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Oman Arab Bank SAOC

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019 (UNAUDITED)

	Note	31-Mar-19 RO 000	31-Mar-18 RO 000	Audited 31-Dec-18 RO 000
Assets				
Cash and balances with Central Bank of Oman	3	**165,006**	129,444	194,801
Due from banks	4	**79,930**	50,877	91,272
Loans, advances and financing activities for customers	5	**1,920,882**	1,748,833	1,832,817
Investments in securities	6	**138,886**	169,994	131,176
Other assets	7	**48,294**	52,213	48,507
Property and equipment	8	**40,691**	28,892	30,245
Total assets		**2,393,689**	2,180,253	2,328,818
Liabilities				
Due to banks	9	**63,993**	10,374	15,207
Customers' deposits	10	**1,887,420**	1,773,137	1,870,558
Other liabilities	11	**71,239**	75,547	60,241
Subordinated debt	12	**20,000**	20,000	20,000
Taxation		**2,027**	1,640	5,936
Total liabilities		**2,044,679**	1,880,698	1,971,942
Equity				
Share capital	13	**134,620**	134,620	134,620
Legal reserve	14	**41,490**	38,476	41,490
General reserve		**25,560**	25,560	25,560
Other non-distributable reserves	15	**15,915**	13,575	15,915
Retained earnings		**60,633**	58,858	68,797
Cumulative changes in fair value of investments		**(1,761)**	(1,534)	(2,059)
Total equity attributable to the equity holders of the Bank		**276,457**	269,555	284,323
Tier 1 perpetual bond	16	**72,553**	30,000	72,553
Total equity		**349,010**	299,555	356,876
Total liabilities and shareholders' funds		**2,393,689**	2,180,253	2,328,818
Contingent liabilities	22	**804,902**	831,457	785,370

The financial statements were approved by the board of directors 23 April 2019 and were signed on their behalf by:

Daren Warner
Chief Financial Officer

The notes 1 to 25 form part of these interim condensed financial statements

Oman Arab Bank SAOC

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

	Notes	Three months ended 31-Mar 2019 RO'000	31-Mar 2018 RO'000
Interest income	17	26,829	23,280
Interest expense	18	(9,646)	(7,722)
Net interest income		**17,183**	15,558
Income from Islamic financing and Investment activities		**805**	550
Net Income from Islamic financing and Investment activities		**805**	550
Net interest income and net income from Islamic financing and Investment activities		**17,988**	16,108
Other operating income	19	**5,182**	5,104
Operating income		**23,170**	21,212
Staff costs		**(7,701)**	(7,219)
Other operating expenses		**(3,386)**	(3,855)
Depreciation		**(1,539)**	(1,027)
Operating expenses		**(12,626)**	(12,101)
Profit from operations before impairment losses and tax		**10,544**	9,111
Credit loss expense – customer loans	5	**(4,789)**	(3,000)
Recoveries and releases from provision for credit losses		**2,692**	1,222
Others		**176**	150
Total impairment losses (net)		**(1,921)**	(1,628)
Profit before tax		**8,623**	7,483
Taxation		**(1,378)**	(1,232)
Net profit for the period		**7,245**	6,251
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		**298**	311
Other comprehensive expense for the period		**298**	311
Total comprehensive income for the period		**7,543**	6,562
Earnings per share:		**RO**	RO
Basic and diluted, profit for the period attributable to equity holders	23	**0.022**	0.019

The notes 1 to 25 form part of these interim condensed financial statements

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
AS AT 31 MARCH 2019 (UNAUDITED)

	Share capital	Legal reserve*	General reserve	Other non-distributable reserves	Retained earnings	Fair value reserve	Tier 1 Perpetual Bonds	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1-Jan-18	134,620	38,476	25,560	13,154	67,996	(1,378)	30,000	308,428
Dividends paid	-	-	-	-	(14,808)	-	-	(14,808)
Net profit	-	-	-	-	6,251	-	-	6,251
Unrealised loss on FVOCI	-	-	-	-	-	(156)	-	(156)
Provision for restructure loans	-	-	-	421	(421)	-	-	-
Realised gain/loss on FVOCI	-	-	-	-	(179)	-	-	(179)
Interest distribution of Perpetual Tier 1 capital bonds	-	-	-	-	19	-	-	19
Balance at 31-Mar-2018	134,620	38,476	25,560	13,575	58,858	(1,534)	30,000	299,555
Balance at 1-Jan-2019	**134,620**	**41,490**	**25,560**	**15,915**	**68,797**	**(2,059)**	**72,553**	**356,876**
Dividends paid	**-**	**-**	**-**	**-**	**(14,808)**	**-**	**-**	**(14,808)**
Profit for the period	**-**	**-**	**-**	**-**	**7,245**	**-**	**-**	**7,245**
Unrealised loss on FVOCI	**-**	**-**	**-**	**-**	**-**	**298**	**-**	**298**
Realised gain/loss on FVOCI	**-**	**-**	**-**	**-**	**(601)**	**-**	**-**	**(601)**
Balance at 31-Mar-2019	**134,620**	**41,490**	**25,560**	**15,915**	**60,633**	**(1,761)**	**72,553**	**349,010**

*Transfers to legal reserve and subordinated debt reserve (included under ''other non-distributable reserve'') are made on an annual basis.

The notes 1 to 25 form part of these interim condensed financial statements

Oman Arab Bank SAOC

INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

	Notes	***Three months ended 31 March***	
		2019	*2018*
		RO'000	*RO'000*
Profit before tax		**8,623**	7,483
Adjustments for:			
Depreciation		**1,539**	1,027
Allowance for loan impairment		**4,789**	3,000
Recoveries / release from allowance for loan impairment		**(2,692)**	(1,222)
Interest on subordinated debt		**271**	271
Difference of foreign exchange-Visa		**244**	194
Impairment on investments		**20**	-
Loss on sale of fixed assets		**25**	-
Investments income at Amortized cost		**(1,453)**	(956)
Changes in fair value of investments at fair value through profit or loss		**108**	77
Operating profit before changes in operating assets and liabilities		**11,474**	9,874
Net changes in:			
Loans, advances and other financing activities for customers		**(90,152)**	(96,542)
Due from banks		**628**	(20,000)
Other assets		**210**	(5,930)
Customers' deposits and unrestricted investment accounts		**16,863**	26,280
Other liabilities		**(310)**	20,214
Cash (used in)/from operating activities		**(61,287)**	(66,104)
Tax paid		**(5,286)**	(4,483)
Net cash (used in)/from operating activities		**(66,573)**	(70,587)
Investing activities			
Purchase of Amortized cost		**(9,563)**	(97,195)
Proceeds from sale of investments		**899**	3,204
Sale or maturities of investments at Amortized cost		**-**	62,000
Purchase of property & equipment	*8*	**(964)**	(467)
Disposal of premises and equipment		**261**	-
Income from investments at Amortized cost		**1,453**	956
Net cash (used in) investing activities		**(7,914)**	(31,502)
Financing activities			
Payment of dividend		**(14,808)**	(14,808)
Net cash used in financing activities		**(14,808)**	(14,808)
Decrease in cash and cash equivalents		**(89,295)**	(116,897)
Cash and cash equivalents at beginning of period		**256,367**	266,344
Cash and cash equivalents at end of period		**167,072**	149,447
Representing:			
Cash and balances with Central Bank		**164,507**	128,944
Due from banks (maturing within 3 months)		**56,930**	30,131
Due to banks (maturing within 3 months)		**(54,365)**	(9,628)
Cash and cash equivalents at end of period		**167,072**	149,447

The notes 1 to 25 form part of these interim condensed 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 address of the bank is North Al Ghoubra, P. O. Box 2240, Al-Udhayabah, Postal Code 130, Muscat, and Sultanate of Oman.

The bank employed 1,199 staff as at 31 March 2019 (31 March 2018: 1,165, 31 December 2018: 1,191)

2 Principal Accounting Policies

The interim condensed financial statements of the Bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. In addition, results of the three months period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of bank's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards.

The condensed interim financial statements are prepared in Rial Omani, rounded to the nearest thousands, except as indicated. The functional currency of the Bank is Rial Omani.

The interim condensed financial statements are prepared under the historical cost convention, modified to include measurement of derivative financial instruments, equities either through profit and loss account or through other comprehensive Income, at fair value.

The Bank presents its interim condensed financial statement of financial position in descending order of liquidity, as this presentation is more appropriate to the Bank's operations.

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.

2 Principal Accounting Policies (continued)

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories: 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.

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.

There were no changes to the classification and measurement of financial liabilities.

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.

Hedge accounting

IFRS 9 introduced a new hedge accounting model to simplify hedge accounting outcomes and provide a better linkage between an entity’s risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Some of the key improvements in the standard impacting the Bank include:

1. Hedge effectiveness – IFRS 9 standard requires that the hedge effectiveness assessment be forward-looking and does not prescribe defined effectiveness parameters. Under IAS 39, an entity had to test effectiveness both retrospectively and prospectively subject to 80 to 125 percent effectiveness requirement.
2. Hedge discontinuation. IFRS 9 standard provides that discontinuation of hedge accounting will only happen under specified circumstances. Under IAS 39, the Bank may revoke the hedging relationship if it seems fit.

These changes have not had a material impact on the Interim condensed statement of comprehensive income of the Bank.

2 Principal Accounting Policies (continued)

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 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.

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.

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.

2 Principal Accounting Policies (continued)

Financial assets and liabilities

Classification

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.

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.

2 Principal Accounting Policies (continued)

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 ('SPPI')
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.

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.

(a) Loans and advances and financing activities for customers

'Loans and advances and financing activities for customers' captions in the interim condensed statement of financial position include:

- loans and advances and financing activities for customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances and financing activities for customers mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;
- the Bank has not designated its loans and advances at FVTPL.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

2 Principal Accounting Policies (continued)

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.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

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.

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.

De-recognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchased or originated credit impaired (“POCI”).

2 Principal Accounting Policies (continued)

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

De-recognition other than for substantial modification

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 financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates

- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients

- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if 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.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which 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.

2 Principal Accounting Policies (continued)

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 the Bank could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Modifications of financial assets and financial liabilities

If the cash flows of the modified asset carried at amortised cost 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 profit or loss. 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.

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 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.

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.

2 Principal Accounting Policies (continued)

Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing 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 financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. 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 (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 (12 month ECL).

The 12 month ECL 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 financing exposure into Stage 1, Stage 2, and Stage 3, 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.

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).

2 Principal Accounting Policies (continued)

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective interest rate (EIR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

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 profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit 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, if any. It is usually expressed as a percentage of the EAD.

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.

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.

2 Principal Accounting Policies (continued)

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.

Presentation of allowance for ECL in the interim condensed 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;

Write-off

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.

Use of estimates and judgements

The preparation of the interim condensed financial statements 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 statements, 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

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.

(B) Impairment of investments in equity and debt securities

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

2 Principal Accounting Policies (continued)

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The Bank adopted the new standard on the required effective date using the modified retrospective approach. The Bank performed an impact assessment and concluded that the impact is not material as in majority of the Bank's facility agreements with customers generally expected to be the only performance obligation and accordingly, adoption of IFRS 15 did not result in any material impact on the Bank's income and profit or loss.

Fees or components of fees that are linked to performance of certain act are recognized after the completion of the act i.e. fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement /syndication of loans, the purchase or sale of businesses, sale of insurance products are recognized on completion of the underlying transaction.

Accordingly following income are amortised:

a. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

b. Loan syndication fees, where the Bank is not the lead or arranging bank and participates in the syndication by funding a part of it, are amortised.

c. Commission income on Letters of Credit (LC) and Letters of Guarantee (LG) are recognized over the tenor of the LC or LG.

IFRS 16 – Leases

<u>Policies applicable from 1 January 2019</u>

In accordance with IFRS 16 (para 47), the lessee is provided with an option to include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned (e.g., under property, plant and equipment) and disclose which line items in the statement of financial position include those right-of-use assets. Accordingly, the Bank has included in the in the value of right-of-use assest corresponding to respective underlying assest. Similarly, the related lease liabilities were presented in the line item under 'Other Liabilities'.

Also, in line with IFRS 16 (para 50), the Bank classifies cash payments for the principal portion of the lease liability within financing activities in the statement of cash flows. Cash payments for the interest portion of the lease liability applying the requirements in IAS 7 for interest paid (i.e., IAS 7.31-33); and short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

The interest expense on the lease liabilities is treated as finance costs, which IFRS 16 requires to be presented separately in the statement of profit or loss. Consistent with this requirement, the Bank presented interest expense on lease liabilities under 'Other operating expenses' and and the depreciation charge on the right-of-use assets was included in the 'Depreciation'.

3 Cash and balances with Central Bank of Oman

	31-Mar-19	*31-Mar-18*	*Audited 31-Dec-18*
	RO'000	*RO'000*	*RO'000*
Cash in hand	**39,949**	40,877	40,308
Clearing account with Central Bank of Oman	**68,732**	76,517	85,384
Other balances with Central Bank of Oman	**55,825**	11,550	68,609
Capital deposit with Central Bank of Oman*	**500**	500	500
	165,006	129,444	194,801

* The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The Capital deposit earns an annual interest at 1.5% as at 31 March 2019 (31 March 2018: 1.5%, 31 December 2018: 1.5%).

4 Due from banks

	31-Mar-19	*31-Mar-18*	*Audited 31-Dec-18*
	RO'000	*RO'000*	*RO'000*
Placements	**54,473**	33,731	84,516
Current accounts	**25,819**	17,488	7,294
	80,292	51,219	91,810
Less: allowance for the credit losses	**(362)**	(342)	(538)
	79,930	50,877	91,272

The movements in the allowance for credit losses on due from banks were as follows:

	31-Mar-19
	RO'000
Opening balance of the period	**538**
Released during the period	**(176)**
Balance at the end of the period	**362**

5 Loans, advances and financing activities for customers

	31-Mar-19	*31-Mar-18*	*Audited 31-Dec-18*
	RO'000	*RO'000*	*RO'000*
Commercial loans	**1,068,381**	918,219	984,479
Overdrafts	**134,736**	160,891	136,148
Personal loans	**768,108**	715,413	763,594
Other loans	**7,902**	4,021	3,815
	1,979,127	1,798,544	1,888,036
Less: allowance for credit losses	**(58,245)**	(49,711)	(55,219)
	1,920,882	1,748,833	1,832,817

5 Loans, advances and financing activities for customers (continued)

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

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

			31-Mar-19
	Allowance for loan impairment RO 000	**Contractual interest not recognised RO 000**	**Total RO 000**
Balance at beginning of period	**47,596**	**7,623**	**55,219**
Provided during the period	**4,789**	**937**	**5,726**
Amounts written off during the period	**(7)**	**(1)**	**(8)**
Amounts released / recovered during the period	**(2,454)**	**(238)**	**(2,692)**
Balance at end of period	**49,924**	**8,321**	**58,245**

			31-Mar-18
	Allowance for loan impairment RO 000	Contractual interest not recognised RO 000	Total 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 recovered during the period	(1,012)	(210)	(1,222)
Balance at end of period	41,754	7,957	49,711

			Audited 31-Dec-18
	Allowance for loan impairment RO 000	Contractual interest not recognised RO 000	Total RO 000
Balance at 31 December 2017	43,147	7,312	50,459
Impact Adopting IFRS 9	2,612	-	2,612
Balance at 1 January 2018	45,759	7,312	53,071
Provided during the year	11,142	3,838	14,980
Amounts written off during the year	(4,424)	(2,139)	(6,563)
Amounts released/recovered during the year	(4,881)	(1,388)	(6,269)
Balance at end of year	47,596	7,623	55,219

Total allowance for the potential loss on the performing loans as at 31 March 2019 is RO 28,450,000 (31 March 2018: RO 20,741,657, 31 December 2018: 32,284,000). The Central Bank of Oman regulation requires that the allowance for loan impairment should be in accordance with IFRS 9 and if the provision requirement as per the Central Bank of Oman guidelines is higher than IFRS 9, the difference net of tax needs to be transferred to the "Impairment Reserve" as an appropriation from net profit after tax. Loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 63,175,000 (31 March 2018: RO 51,559,593; 31 December 2018: 51,509,684).

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
		RO 000	**RO 000**	**RO 000**	**RO 000**	**RO 000**	**RO 000**	**RO 000**	**RO 000**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	1,303,560	17,988	7,581	10,407	1,285,572	1,295,979	-	-
Standard	Stage 2	290,461	2,916	5,451	(2,535)	287,545	285,010	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,594,021	**20,904**	**13,032**	**7,872**	**1,573,117**	**1,580,989**	**-**	**-**
								-	
	Stage 1	123,425	1,234	220	1,014	122,190	123,204	-	-
Special Mention	Stage 2	206,454	3,404	15,198	(11,794)	201,684	191,256	-	1,366
	Stage 3	-	-	-	-	-	-	-	-
		329,879	**4,638**	**15,418**	**(10,780)**	**323,874**	**314,460**	**-**	**1,366**
								-	
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	13,273	3,219	4,625	(1,406)	9,963	8,649	-	91
		13,273	**3,219**	**4,625**	**(1,406)**	**9,963**	**8,649**	**-**	**91**
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,188	2,001	1,702	299	3,011	3,486	-	177
		5,188	**2,001**	**1,702**	**299**	**3,011**	**3,486**	**-**	**177**
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	44,713	18,973	14,548	4,425	19,053	30,165	-	6,688
		44,713	**18,973**	**14,548**	**4,425**	**19,053**	**30,165**	**-**	**6,688**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	957,144	-	561	(561)	957,144	956,583	-	-
	Stage 2	533,463	-	399	(399)	533,463	533,065	-	-
	Stage 3	-	-	-	-	-	-	-	-
		1,490,607	**-**	**960**	**(960)**	**1,490,607**	**1,489,648**	**-**	**-**
Total	**Stage 1**	**2,384,129**	**19,222**	**8,362**	**10,860**	**2,364,906**	**2,375,766**	**-**	**-**
	Stage 2	**1,030,378**	**6,320**	**21,048**	**(14,728)**	**1,022,692**	**1,009,331**	**-**	**1,366**
	Stage 3	**63,174**	**24,193**	**20,875**	**3,318**	**32,027**	**42,300**	**-**	**6,955**
	Total	**3,477,681**	**49,735**	**50,285**	**(550)**	**3,419,625**	**3,427,397**	**-**	**8,321**

5.b Classification and Measurement of Financial Instruments

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

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**
					(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Stage 1	673	5	11	(6)	667	662	-	-
Classified as performing	Stage 2	53,081	853	1,855	(1,002)	52,228	51,226	-	-
	Stage 3	-	-	-	-	-	-	-	-
		53,754	**858**	**1,866**	**(1,008)**	**52,896**	**51,888**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,248	1,406	1,012	393	2,597	3,236	-	245
		4,248	**1,406**	**1,012**	**393**	**2,597**	**3,236**	**-**	**245**
	Stage 1	**673**	**5**	**11**	**(6)**	**668**	**662**	**-**	**-**
	Stage 2	**53,081**	**853**	**1,855**	**(1,002)**	**52,228**	**51,226**	**-**	**-**
	Stage 3	**4,248**	**1,406**	**1,012**	**393**	**2,597**	**3,236**	**-**	**245**
Total	**Total**	**58,002**	**2,264**	**2,878**	**(615)**	**55,493**	**55,123**	**-**	**245**

5.c Movement in Expected credit losses (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	871,587	(249)	51,660	**922,998**
- Investment Securities (Debt)	6,635	-	-	**6,635**
- Loan Commitments and Financial Guarantees	477,758	497,164	378	**975,300**
- Due from Banks, Central Banks and Other Financial Assets	502,831	-	-	**502,831**
	1,858,811	**496,915**	**52,038**	**2,407,764**
Opening Balance (Day 1 impact) - as at 1 January 2019				
- Loans and Advances to Customers	7,177	24,060	15,847	**47,084**
- Investment Securities (Debt)	12	-	-	**12**
- Loan Commitments and Financial Guarantees	144	353	-	**497**
- Due from Banks, Central Banks and Other Financial Assets	538	-	-	**538**
	7,871	**24,413**	**15,847**	**48,131**
Net transfer between stages				
- Loans and Advances to Customers	472	(505)	34	**1**
- Investment Securities (Debt)	-	-	-	**-**
- Loan Commitments and Financial Guarantees	-	-	-	**-**
- Due from Banks, Central Banks and Other Financial Assets	-	-	-	**-**
	472	**(505)**	**34**	**1**
Charge for the Period (net)				
- Loans and Advances to Customers	153	(2,907)	4,995	**2,241**
- Investment Securities (Debt)	20	-	-	**20**
- Loan Commitments and Financial Guarantees	24	46	-	**70**
- Due from Banks, Central Banks and Other Financial Assets	(176)	-	-	**(176)**
	21	**(2,861)**	**4,995**	**2,155**
Closing Balance - as at 31 March 2019				
- Loans and Advances to Customers	7,802	20,649	20,875	**49,326**
- Investment Securities (Debt)	32	-	-	**32**
- Loan Commitments and Financial Guarantees	167	398	-	**565**
- Due from Banks, Central Banks and Other Financial Assets	362	-	-	**362**
	8,363	**21,047**	**20,875**	**50,285**

5.d Impairment charge and provisions held

			RO 000
	As per CBO Norms	**As per IFRS 9**	**Difference**
Impairment loss charged to profit and loss account	(2,097)	(2,097)	-
Provisions required as per CBO norms/held as per IFRS 9	49,735	50,284	549
Gross NPL ratio	3.19%	3.19%	
Net NPL ratio	1.79%	2.14%	

6 Investment securities

	Carrying value 31-Mar-19	*Carrying value 31-Mar-18*	*Audited Carrying value 31-Dec-18*
Fair value through profit and loss(FVTPL)			
Quoted investments- Oman			
Banking and investment sector	**3,783**	4,079	3,875
	3,783	4,079	3,875
Quoted investments- Foreign			
Banking and investment sector	**160**	158	156
	160	158	156
Total Fair value through profit and loss	**3,943**	4,237	4,031
Investment measured at FVOCI			
Quoted investments- Oman			
Manufacturing sector	**943**	1,141	1,074
Service sector	**945**	2,365	1,957
	1,888	3,506	3,031
Quoted investments- Foreign			
Banking and investment sector	**706**	877	-
Service sector	**181**	418	926
	887	1,295	926
Unquoted investments			
Banking and investment sector	**624**	673	635
Manufacturing sector	**113**	185	131
Service sector	**169**	160	160
	906	1,018	926
Total FVOCI	**3,681**	5,819	4,883
Investment measured at amortised cost			
Quoted investments- Oman			
Government Development Bonds	**124,022**	113,405	119,238
Government Sukuk	**636**	636	636
Corporate Bonds	**6,604**	897	2,388
Treasury Bills	**-**	45,000	-
Total amortised cost	**131,262**	159,938	122,262
Total financial investments	**138,886**	169,994	131,176

6 Investment securities (continued)

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment are as follows:

	Bank's portfolio %	***Carrying value RO'000***
31 March 2019		
Government Development Bonds	89%	124,022
31 March 2018		
Government Development Bonds	67%	113,405
Treasury Bills	26%	45,000
31 December 2018 (audited)		
Government Development Bonds	91%	119,238

7 Other assets

	31-Mar-19 RO'000	*31-Mar-18 RO'000*	*Audited 31-Dec-18 RO'000*
Interest and commission receivable	**20,457**	15,159	20,271
Acceptances	**19,928**	24,436	21,691
Prepayments	**2,846**	2,865	2,176
Credit card settlement	**1,849**	2,605	-
Positive Fair Value change - Forward contracts	**613**	234	249
Others	**2,601**	6,914	4,120
	48,294	52,213	48,507

8 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**	**Right of use RO 000**	**Total RO 000**
Cost							
At 1 January 2019	21,571	22,308	14,069	647	1,442	11,309	71,346
Additions	-	501	246	-	217	-	964
Disposals	-	(261)	(21)	(310)	(1)	-	(593)
At 31 March 2019	21,571	22,548	14,294	337	1,658	11,309	71,717
Depreciation							
At 1 January 2019	3,343	16,350	9,577	523	-	-	29,793
Charge for the period	147	530	363	12	-	487	1,539
Disposals	-	(8)	(13)	(285)	-	-	(306)
At 31 March 2019	3,490	16,872	9,927	250	-	487	31,026
Net book value							
At 31 March 2019	**18,081**	**5,676**	**4,367**	**87**	**1,658**	**10,822**	**40,691**
At 31 March 2018	18,671	4,566	4,480	171	1,004	-	28,892
At 31 December 2018 (audited)	18,228	5,850	4,604	122	1,441	-	30,245

9 Due to banks

	31-Mar-19	*31-Mar-18*	*Audited 31-Dec-18*
	RO'000	*RO'000*	*RO'000*
Current accounts	**33,400**	3,880	6,207
Money at call and short term deposits	**30,593**	6,494	9,000
	63,993	10,374	15,207

10 Customers' deposits

	31-Mar-19	*31-Mar-18*	*Audited 31-Dec-18*
	RO'000	*RO'000*	*RO'000*
Demand and call accounts	**681,332**	780,672	708,266
Term deposits	**902,613**	718,300	871,785
Savings accounts	**303,475**	274,165	290,507
	1,887,420	1,773,137	1,870,558

11 Other liabilities

	31-Mar-19	*31-Mar-18*	*Audited 31-Dec-18*
	RO'000	*RO'000*	*RO'000*
Interest Payable	**24,893**	20,336	20,687
Liabilities under acceptances	**19,928**	24,436	21,691
Accrued expenses and others	**9,437**	7,643	10,053
Acceptances and certified cheques	**2,521**	5,515	5,329
Interest and commission received in advance	**1,614**	1,086	1,497
Staff related provisions	**891**	1,124	830
Credit card settlement	**834**	409	-
Negative Fair Value change - Forward contracts	**299**	190	154
Lease Liabilities	**10,822**	-	-
Dividend payable	**-**	14,808	-
	71,239	75,547	60,241

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 loans.

	31-Mar-19	*31-Mar-18*	*Audited 31-Dec-18*
	RO'000	*RO'000*	*RO'000*
Opening and closing	**20,000**	20,000	20,000
	20,000	20,000	20,000

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 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 20 million has been assigned as capital for the Islamic Banking services of the Bank:

						Audited	
		31 March 19		31 March 18		31 December 18	
	Country of in corporation	**Share holding %**	**RO'000**	Share holding %	RO'000	Share holding %	RO'000
Oman International Development & Investment Co. SAOG	Oman	**50.99**	**68,643**	50.99	68,643	50.99	68,643
Arab Bank Plc	Jordan	**49**	**65,964**	49	65,964	49	65,964
Oman Real Estate Investment Services SAOC	Oman	**0.01**	**13**	0.01	13	0.01	13
		100	**134,620**	100	134,620	100	134,620

14 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.

15 Other non-distributable reserves

	Subordinated debt reserve RO'000	***Special reserve RO'000***	***Total RO'000***
At 1 January 2019	**12,000**	**3,915**	**15,915**
At 31 March 2019	**12,000**	**3,915**	**15,915**
At 31 March 2018	8,000	5,575	13,575
At 31 December 2018 (audited)	12,000	3,915	15,915

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 Ghoubra. 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. In addition, the provision for restructured loans appropriated as per CBO circular BSD 2017 BKUP Banks & FLCs 467 dated 20 June 2017 included in special reserve is RO 1,437,647 as at 31 March 2019.

As required by the Central Bank of Oman (CBO) circular BM 1149 dated 13 April 2017 the difference of the impairment allowance as at 1 January 2018 between the CBO requirement and the International Financial Reporting Standard (IFRS9) requirement, net of taxation, has been transferred to "Impairment Reserve" as an appropriation from net profit after tax. The impairment allowance as at 30 Septmeber 2018 computed as per CBO requirements is higher than the impairment allowance as per IFRS 9 (Refer note 5 a). The Bank will assess the difference at the end of each quarter and make the necessary adjustment to this reserve.

16 Tier 1 Perpetual 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.

Additionally, on 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% 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 are in pari-passu with earlier issue.

17 Interest income

		Three months ended
	31-Mar-19	*31-Mar-18*
	RO'000	*RO'000*
Loans and advances	**24,696**	21,772
Placements with banks	**400**	377
Interest from securities	**1,733**	1,131
	26,829	23,280

Interest bearing assets earned interest at an average rate of 5.16% for the three months ended 31 March 2019 (31 March 2018: 4.81%)

18 Interest expense

		Three months ended
	31-Mar-19	*31-Mar-18*
	RO'000	*RO'000*
Time deposits	**7,494**	5,619
Subordinated bonds	**271**	271
Saving, call accounts & others	**1,830**	1,832
Interest cost on lease liabilities	**51**	-
	9,646	7,722

For the three months ended 31 March 2019, the average cost of funds was 1.94% (31 March 2018: 1.76%)

19 Other operating income

	Three months ended	
	31-Mar-19	31-Mar-18
	RO'000	RO'000
Fees and commissions	**3,556**	3,652
Exchange income	**1,564**	1,439
Other income	**62**	13
	5,182	5,104

20 Asset liability mismatch

The asset liability mismatch is based on CBO circular BM 955 and given as follows:

31 March 2019 (unaudited)

Maturities	***Assets*** **RO'000**	***Equity, subordinated funds and liabilities*** **RO'000**	***Mismatch*** **RO'000**
0 - 3 month	**949,384**	**626,734**	**705,660**
3 - 12 month	**317,816**	**716,399**	**76,732**
1 – 5 years	**504,689**	**604,283**	**(470,228)**
More than 5 years	**990,413**	**811,494**	**3,392**
Total	**2,762,302**	**2,758,910**	**315,556**

31 March 2018 (unaudited)

Maturities	*Assets* RO'000	*Equity, subordinated funds and liabilities* RO'000	*Mismatch* RO'000
0 - 3 month	851,672	612,775	570,417
3 - 12 month	240,070	533,085	130,900
1 – 5 years	471,617	745,385	(712,886)
More than 5 years	919,022	663,948	(72,812)
Total	2,482,381	2,555,193	(84,381)

31 December 2018 (audited)

Maturities	*Assets* RO'000	*Equity, subordinated funds and liabilities* RO'000	*Mismatch* RO'000
0 - 3 month	987,763	506,413	980,175
3 - 12 month	226,728	728,205	363,002
1 – 5 years	488,293	613,124	(413,956)
More than 5 years	958,131	822,430	(9,257)
Total	2,660,915	2,670,172	919,964

21 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 30 September, balances with directors and other related parties were as follows:

Related party transactions	***31-Mar-19*** ***RO'000*** **Major Shareholders**	**Others**	*31-Mar-18* *RO'000* Major Shareholders	Others
Loans and advances	**1**	**67,968**	15,018	56,180
Customers' deposits	**7,435**	**32,651**	157	32,193
Due from banks	**15,905**	**-**	14,071	-
Due to banks	**12,723**	**-**	1,506	-
Stand by line of credit	**48,125**	**-**	48,125	-
Letters of credit, guarantees and acceptances	**136,053**	**1,476**	143,880	16,276

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

			Three months ended	
	31-Mar-19 ***RO'000*** **Major Shareholders**	**Others**	*31-Mar-18* *RO'000* Major Shareholders	Others
Interest & commission income	**64**	**733**	339	600
Interest & commission expense	**116**	**179**	205	86

Senior management compensation

		Three months ended
	31-Mar-19 ***RO'000***	*31-Mar-18* *RO'000*
Salaries and other short term benefits	**765**	552
End of service benefits	**21**	191

22 (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 30 June were as follows:

			Audited
	31-Mar-19	*31-Mar-18*	*31-Dec-18*
	RO'000	*RO'000*	*RO'000*
Letters of credit	**199,312**	224,097	210,776
Guarantees	**605,590**	607,360	574,594
	804,902	831,457	785,370

Letters of credit and guarantees amounting to RO 436,894,907 (31 March 2018: RO 496,513,210; 31 December 2018: RO 464,392,178) 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:

			Audited
	31-Mar-19	*31-Mar-18*	*31-Dec-18*
	RO'000	*RO'000*	*RO'000*
sales	**166,721**	24,029	78,468
purchases	**(167,035)**	(24,076)	(78,572)
	(314)	(47)	(104)

(c) *Assets pledged as Security*

At the balance sheet date, the bank has not pledged any of its assets as security (31 March 2018: Nil; 31 December 2018: Nil).

23 Basic Earnings per share

	Three months ended	
	31-Mar-19	*31-Mar-18*
Profit for the period (RO'000)	**7,245**	6,251
Profit attributable to shareholders	**7,245**	6,251
Weighted average number of shares outstanding during the year	**1,346,200,000**	1,346,200,000
Earnings per share (RO)	**0.022**	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.

24 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 registered banks in the Sultanate of Oman to maintain minimum capital adequacy of 11% based on letter BSD/2018/1 dated 20 March 2018. Additionally, it requires to maintain a capital conservation buffer (CCB) of 0.625% annually (from 1 January 2014 to 31 December 2018) in addition to 1% of prompt corrective action.

The ratio calculated in accordance with the CBO and BIS capital adequacy guidelines is as follows:

	31 March 19 RO'000	*31 March 2018 RO'000*	*Audited 31 December 18 RO'000*
Capital			
Common Equity Tier 1 (CET 1)	**267,942**	260,267	267,942
Additional Tier 1	**72,553**	30,000	72,553
Total Tier 1	**340,495**	290,267	340,495
Tier II	**28,756**	26,034	28,756
Total capital base	**369,251**	316,301	369,251
Risk Weighted Assets			
Credit risk	**2,225,309**	1,954,147	2,058,470
Market risk	**18,325**	27,375	25,775
Operation risk	**148,375**	143,450	148,375
Total risk weighted assets	**2,392,009**	2,124,972	2,232,620
BIS Capital Adequacy Ratio	**15.44%**	14.88%	16.54%
Tier 1 Capital Adequacy Ratio	**14.23%**	13.66%	15.25%
Common Equity Tier 1 Ratio	**11.20%**	12.25%	12.00%

25 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.

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:

Corporate banking	Loans and other credit facilities for corporate and institutional customers.
Retail banking	Individual personal loan, overdraft, credit card and funds transfer facilities.
Treasury	Bonds, placements, bank borrowings, foreign exchange.
Head office and support	Other central functions and Head office.
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**	**Treasury RO 000**	**Head office and support RO 000**	**Al-Yusr RO 000**	**Total RO 000**
At 31 March 2019						
Net operating income	**14,934**	**9,916**	**2,648**	**(5,133)**	**805**	**23,170**
Segmental assets	**1,064,104**	**728,506**	**351,188**	**94,538**	**155,353**	**2,393,689**
At 31 March 2018						
Net operating income	12,253	9,886	2,105	(3,582)	550	21,212
Segmental assets	992,661	667,789	315,983	89,949	113,871	2,180,253