Oman Arab Bank SAOC

INTERIM CONDENSED FINANCIAL STATEMENTS

30 JUNE 2018 (UNAUDITED)

CONTENTS

Oman Arab Bank SAOC

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 (UNAUDITED)

	Notes	**Unaudited 30 June 2018**	Unaudited / Unreviewed 30 June 2017	Audited 31 December 2017
		RO 000	RO 000	RO 000
Assets				
Cash and balances with Central Bank of Oman	3	**164,834**	142,011	161,987
Due from banks and other money market placements (net)	4	**40,490**	60,866	108,868
Loans, advances and financing activities for customers (net)	5	**1,824,018**	1,702,486	1,654,013
Investments in securities	6	**141,003**	115,506	138,421
Other assets	7	**52,061**	48,245	46,280
Property and equipment	8	**29,244**	27,664	29,430
Total assets		**2,251,650**	2,096,778	2,138,999
Liabilities				
Due to banks and other money market deposits	9	**75,958**	12,475	4,011
Customers' deposits and unrestricted investment accounts	10	**1,767,977**	1,715,545	1,746,856
Other liabilities	11	**85,889**	53,776	57,693
Subordinated debt	12	**20,000**	20,000	20,000
Taxation		**2,895**	2,396	4,891
Total liabilities		**1,952,719**	1,804,192	1,833,451
Equity				
Share capital	13	**134,620**	134,620	134,620
Legal reserve	14	**38,476**	35,821	38,476
General reserve	15	**25,560**	25,560	25,560
Other non-distributable reserves	16	**11,226**	56,354	10,760
Retained earnings		**61,025**	11,582	67,977
Cumulative changes in fair value		**(1,976)**	(1,351)	(1,845)
Total shareholders' equity attributable to the equity holders of the Bank		**268,931**	262,586	275,548
Tier 1 perpetual bond	17	**30,000**	30,000	30,000
Total equity		**298,931**	292,586	305,548
Total equity and liabilities		**2,251,650**	2,096,778	2,138,999
Contingent liabilities and commitments	23	**749,931**	819,063	897,448

These interim condensed financial statements were approved by the board of directors on 23 October 2018 and were signed on their behalf by:

Rashad Muhammad Al Zubair
Chairman

Rashad Al-Musafir
Chief Executive Officer

The notes 1 to 28 form part of these interim condensed financial statements

Oman Arab Bank SAOC

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

		Unaudited six months ended		***Unaudited / Unreviewed three months ended***	
	Notes	***30 June 2018 RO'000***	*30 June 2017 RO'000*	***30 June 2018 RO'000***	*30 June 2017 RO'000*
Interest income	*18*	**48,095**	42,303	**24,815**	21,526
Interest expense	*19*	**(15,671)**	(16,151)	**(7,949)**	(8,019)
Net interest income		**32,424**	26,152	**16,866**	13,507
Income from Islamic financing and investment activities		**2,814**	1,914	**1,522**	972
Share of profit		**(1,457)**	(1,154)	**(715)**	(602)
Net Income from Islamic financing and Investment activities		**1,358**	760	**807**	370
Net interest income and net income from Islamic financing and Investment activities		**33,782**	26,912	**17,673**	13,877
Other operating income	20	**10,495**	10,180	**5,392**	4,361
Operating income		**44,277**	37,092	**23,065**	18,238
Staff costs		**(14,065)**	(13,547)	**(6,846)**	(6,813)
Other operating expenses		**(7,583)**	(6,992)	**(3,728)**	(3,581)
Depreciation		**(2,053)**	(1,804)	**(1,026)**	(902)
Operating expenses		**(23,701)**	(22,343)	**(11,600)**	(11,296)
Profit from operations before impairment losses and tax		**20,576**	14,749	**11,465**	6,942
Credit loss expense – customer loans	*5*	**(7,859)**	(3,531)	**(4,859)**	(1,336)
Recoveries and releases from provision for credit losses		**2,996**	3,617	**1,774**	1,771
Others		**85**	(664)	**(65)**	(120)
Total impairment losses (net)		**(4,778)**	(578)	**(3,150)**	315
Profit before tax		**15,798**	14,171	**8,315**	7,257
Taxation		**(2,538)**	(2,207)	**(1,306)**	(1,150)
Net profit for the period		**13,260**	11,964	**7,009**	6,107
Other comprehensive expense					
Items that will not be reclassified to profit or loss in the subsequent periods (net of tax):					
Revaluation loss on equity instruments at fair value through other comprehensive income		**(598)**	-	**(909)**	**-**
Items that may be reclassified to profit or loss in subsequent periods (net of tax):					
Net movement on AFS investments		**-**	(1,279)	**-**	(858)
Other comprehensive expense for the period		**(598)**	(1,279)	**(909)**	(858)
Total comprehensive income for the period		**12,662**	10,685	**6,100**	5,249
Earnings per share:					
		RO	RO	**RO**	RO
Basic and diluted, profit for the period attributable to equity holders	*24*	**0.009**	0.008	**0.005**	0.005

The notes 1 to 28 form part of these interim condensed financial statements

Oman Arab Bank SAOC

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2018 (UNAUDITED)

	Share capital	Legal reserve*	General reserve	Other non-distributable reserves	Retained earnings	Cumulative changes in fair value	Tier 1 perpertual bond	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2017	127,000	35,821	25,560	56,400	8,390	(72)	30,000	283,099
Profit for the period	-	-	-		11,964	-	-	11,964
Other comprehensive expense	-	-	-	-	-	(1,279)	-	(1,279)
Other movements	-	-	-	(46)	-	-	-	(46)
Stock dividends	7,620	-	-	-	(7,620)	-	-	-
Interest distribution of Perpetual Tier 1 capital bonds (note 24)	-	-	-	-	(1,152)	-	-	(1,152)
Balance at 30 June 2017 (unaudited and unreviewed)	134,620	35,821	25,560	56,354	11,582	(1,351)	30,000	292,586
Balance at 1 January 2018	**134,620**	**38,476**	**25,560**	**10,760**	**67,977**	**(1,845)**	**30,000**	**305,548**
Impact of adopting IFRS 9 (note 5(c)	**-**	**-**	**-**	**-**	**(3,574)**	**467**	**-**	**(3,107)**
Restated opening balance under IFRS 9	**134,620**	**38,476**	**25,560**	**10,760**	**64,403**	**(1,378)**	**30,000**	**302,441**
Profit for the period	**-**	**-**	**-**	**-**	**13,260**	**-**	**-**	**13,260**
Other comprehensive expense	**-**	**-**	**-**	**-**	**-**	**(598)**	**-**	**(598)**
Dividends paid	**-**	**-**	**-**	**-**	**(14,808)**	**-**	**-**	**(14,808)**
Transfer to special reserve	**-**	**-**	**-**	**466**	**(466)**	**-**	**-**	**-**
Realised loss on FVOCI	**-**	**-**	**-**	**-**	**(180)**	**-**	**-**	**(180)**
Interest distribution of Perpetual Tier 1 capital bonds (note 24)	**-**	**-**	**-**	**-**	**(1,144)**	**-**	**-**	**(1,144)**
Perpetual Tier 1 issuance cost	-	-	-	-	**(40)**	-	-	**(40)**
Balance at 30 June 2018 (unaudited)	**134,620**	**38,476**	**25,560**	**11,226**	**61,025**	**(1,976)**	**30,000**	**298,931**

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

The notes 1 to 28 form part of these interim condensed financial statements

Oman Arab Bank SAOC

INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

	Notes	***Unaudited six months ended 30 June 2018 RO'000***	*Unaudited / Unreveiwed Six months ended 30 June 2017 RO'000*
Profit before tax		**15,798**	14,172
Adjustments for:			
Depreciation	7	**2,053**	1,804
Allowance for loan impairment		**7,859**	3,531
Recoveries / release from allowance for loan impairment		**(2,996)**	(3,617)
Interest on subordinated debt		**545**	1,532
Difference of foreign exchange-Visa		**302**	-
Impairment on investments		**9**	664
Net impairment on due from banks		**(94)**	-
Dividend Income		**(331)**	(577)
Investments income at amortized cost / held-to-maturity		**(2,194)**	(829)
Changes in fair value of investments at fair value through profit or loss		**62**	1
Operating profit before changes in operating assets and liabilities		**21,013**	16,681
Loans, advances and other financing activities for customers		**(178,498)**	(107,647)
Financial assets at fair value through profit or loss		**38**	9
Due from banks		**(12,000)**	-
Other assets		**(5,781)**	(3,264)
Customers' deposits and unrestricted investment accounts		**21,121**	78,392
Other liabilities		**28,196**	(6,457)
Cash used in operating activities		**(125,911)**	(22,286)
Tax paid		**(4,534)**	(3,973)
Net cash used in operating activities		**(130,445)**	(26,259)
Investing activities			
Purchase of Amortized cost / held-to-maturity investments		**(118,336)**	(243,888)
Purchase of investments FVOCI / available-for-sale		**(113)**	(14,575)
Proceeds from sale of investments		**3,255**	14,378
Sale or maturities of investments at Amortized cost / held-to-maturity		**112,000**	240,560
Purchase of property & equipment	7	**(1,867)**	(819)
Disposal of premises and equipment		**-**	1
Income from investments at Amortised cost / held-to-maturity		**2,194**	829
Dividend Income		**331**	577
Net cash used in investing activities		**(2,536)**	(2,937)
Financing activities			
Dividend paid		**(14,808)**	-
Interest on Tier 1 perpetual bond		**(1,144)**	-
Interest paid on subordinated bonds		**(545)**	(1,532)
Subordinated bonds paid		**-**	(50,000)
Net cash used in financing activities		**(16,497)**	(51,532)
Decrease in cash and cash equivalents		**(149,478)**	(80,728)
Cash and cash equivalents at beginning of period		**266,344**	270,630
Cash and cash equivalents at end of period		**116,866**	189,902
Representing:			
Cash and balances with Central Bank		**164,334**	141,511
Due from banks (maturing within 3 months)		**28,490**	60,866
Due to banks (maturing within 3 months)		**(75,958)**	(12,475)
		116,866	189,902

The notes 1 to 28 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 head office of the Bank is at North Al Ghoubra, Bousher Muscat, PO Box 2010, Ruwi, Postal Code 112, Sultanate of Oman.

The bank employed 1,158 staff as at 30 June 2018 (31 December 2017: 1,172, 30 June 2017: 1,181)

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 six month period ended 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

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 2017, except for the adoption of new standards effective as of 1 January 2018. 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 interim condensed 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 the Bank's 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.

Policy applicable from 1 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.

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

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.

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;
- Expected credit loss (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

Policies applicable from 1 January 2018

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

Policies applicable from 1 January 2018

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

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

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

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

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 12 month ECLs 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.

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• 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. The Bank has applied a LGD of 0% on Government Development Bonds (GDB) & Tresury Bills (T-Bills) issued by Government of Oman which are classified as investments under amortised cost.

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

<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.

(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.

3 Cash and balances with Central Bank of Oman

	Unaudited 30 June 2018 RO'000	*Unaudited / Unreviewed 30 June 2017 RO'000*	*Audited 31 December 2017 RO'000*
Cash in hand	**42,291**	44,977	39,299
Clearing account with Central Bank of Oman	**74,098**	77,284	112,563
Other balances with Central Bank of Oman	**47,965**	19,250	9,625
Capital deposit with Central Bank of Oman*	**500**	500	500
Cash and balances with Central Banks	**164,834**	142,011	161,987

* The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The Capital deposit earns an annual interest at 1% (2017 - 1%).

4 Due from banks and other money market placements

	Unaudited 30 June 2018 RO'000	*Unaudited / Unreviewed 30 June 2017 RO'000*	*Audited 31 December 2017 RO'000*
Placements with banks	**21,065**	47,853	93,747
Current accounts	**19,823**	13,013	15,121
Due from banks and other money market placements	**40,888**	60,866	108,868
Less: allowance for the credit losses	**(398)**	-	-
Net due from banks and other money market placements	**40,490**	60,866	108,868

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

	Unaudited 30 June 2018 RO 000
Impact of adopting IFRS 9 (note 5 (c))	**492**
Released during the period	**(94)**
Balance at the end of the period	**398**

5 Loans and advances and financing activities for customers

	Unaudited 30 June 2018 RO'000	*Unaudited / Unreviewed 30 June 2017 RO'000*	*Audited 31 December 2017 RO'000*
Commercial loans	**929,296**	842,270	785,402
Overdrafts	**153,812**	152,439	147,224
Personal loans	**697,981**	680,238	680,641
Other loans	**101,294**	79,028	91,205
Gross loans, advances and financing activities for customers	**1,882,383**	1,753,975	1,704,472
Less: allowance for credit losses and reserved interest	**(58,365)**	(51,489)	(50,459)
Net loans and advances	**1,824,018**	1,702,486	1,654,013

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

(a) *Allowance for the credit lsoses and reserved interest*

The movements in the allowance for the credit losses and reserved interest were as follows:

	30 June 2018 (unaudited)		
	Allowance for credit losses RO 000	**Contractual interest not recognised RO 000**	**Total RO 000**
Balance at 31 December 2017	**43,147**	**7,312**	**50,459**
Impact of adopting IFRS 9	**2,612**	**-**	**2,612**
Balance at 1 January 2018	**45,759**	**7,312**	**53,071**
Provided during the period	**7,859**	**1,674**	**9,533**
Amounts written off during the period	**(997)**	**(246)**	**(1,243)**
Amounts released / recovered during the period	**(2,343)**	**(653)**	**(2,996)**
Balance at end of period	**50,278**	**8,087**	**58,365**

	30 June 2017 (unaudited / not reviewed)		
	Allowance for credit losses RO 000	Contractual interest not recognised RO 000	Total RO 000
Balance at 1 January 2017	43,788	6,275	50,063
Provided during the period	3,531	1,687	5,218
Amounts written off during the period	(156)	(19)	(175)
Amounts released/ recovered during the period	(2,971)	(646)	(3,617)
Balance at end of period	44,192	7,297	51,489

	31 December 2017 (Audited)		
	Allowance for loan impairment RO 000	Contractual interest not recognised RO 000	Total RO 000
Balance at 1 January 2017	43,788	6,275	50,063
Provided during the year	8,276	2,399	11,575
Amounts written off during the year	(2,342)	(705)	(3,047)
Amounts released/ recovered during the year	(6,575)	(1,557)	(8,132)
Balance at end of year	43,147	7,312	50,459

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

Total allowance for the potential loss on the performing loans as at 30 June 2018 is RO 22,506,676 (31 December 2017: 21,216,990, 30 June 2017: RO 22,126,890). 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 54,254,434 (31 December 2017: 50,272,537, 30 June 2017: RO 50,536,903).

5 (b) Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Asset Classification as per CBO guidelines	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO guidelines	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO guidelines*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO guideliness
		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)-(9)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	1,143,089	15,958	8,468	7,490	1,127,132	1,134,621	-	-
	Stage 2	484,396	4,809	8,157	(3,348)	479,587	476,239	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**1,627,485**	**20,766**	**16,625**	**4,142**	**1,606,719**	**1,610,861**	-	-
								-	
Special Mention	Stage 1	**88**	**1**	**1**	(0)	**87**	**87**	-	-
	Stage 2	204,995	2,789	13,381	(10,592)	201,706	191,614	-	501
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**205,083**	**2,789**	**13,382**	**(10,592)**	**201,793**	**191,701**	-	501
								-	
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,775	1,152	1,459	(307)	3,544	3,316	-	78
Subtotal		**4,775**	**1,152**	**1,459**	**(307)**	**3,544**	**3,316**	-	78
Doubtful	**Stage** 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,214	1,865	1,300	564	3,189	3,913	-	160
Subtotal		**5,214**	**1,865**	**1,300**	**564**	3,189	3,913	-	160
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	44,267	18,919	15,380	3,539	18,033	28,886	-	7,348
Subtotal		**44,267**	**18,919**	**15,380**	**3,539**	**18,033**	**28,886**	-	**7,348**
Other items not covered under CBO circular BM 977 and related instructions	**Stage 1**	1,254,321	-	2,111	(2,111)	1,254,321	1,252,210	-	-
	Stage 2	271,809	-	431	(431)	**271,809**	**271,379**	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**1,526,130**	-	**2,542**	**(2,542)**	**1,526,130**	**1,523,588**	-	-
Total	**Stage 1**	**2,397,498**	**15,958**	**10,580**	**5,379**	**2,381,540**	**2,386,918**	-	-
	Stage 2	**961,200**	**7,597**	**21,968**	**(14,371)**	**953,102**	**939,232**	-	**501**
	Stage 3	**54,255**	**21,936**	**18,139**	**3,796**	**24,767**	**36,116**	-	**7,586**
	Total	**3,412,953**	**45,491**	**50,687**	**(5,196)**	**3,359,408**	**3,362,266**	-	**8,087**

5 (c) 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	(2,612)	-	1,651,401
Investment securities – debt	HTM	Amortised cost	123,847	(3)	900	124,744
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						
Accrued interest receivable	Loans and receivables	Amortised cost	12,379	-	-	12,379
Derivatives with positive fair value	FVTPL	FVTPL	321	-	-	321
Others	Loans and receivables	Amortised cost	63,010	-	-	63,010
			2,138,999	**(3,107)**	**-**	**2,135,892**
Financial liabilities						
Due to banks	Amortised cost	Amortised cost	4,011	-	-	4,011
Customer deposits	Amortised cost	Amortised cost	1,746,856	-	-	1,746,856
Subordinated debt	Amortised cost	Amortised cost	20,000	-	-	20,000
Other liabilities						
Derivatives with negative fair value	FVTPL	FVTPL	290	-	-	290
Accrued interest payable	Amortised cost	Amortised cost	17,901	-	-	17,901
Acceptances	Amortised cost	Amortised cost	25,021	-	-	25,021
Others	Amortised cost	Amortised cost	19,372	-	-	19,372
			1,833,451	**-**	**-**	**1,833,451**

5 (c) 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

RO 000

Asset classification as per CBO guidelines	Asset classification as per IFRS 9	Gross carrying Amount	Provision required as per CBO guidelines	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net carrying amount as per CBO guidelines *	Net carrying amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO guidelines
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	8,996	523	594	(71)	8,473	8,401	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**8,996**	**523**	**594**	**(71)**	**8,473**	**8,401**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,981	1,184	1,055	129	1,638	1,926	-	159
Sub total		**2,981**	**1,184**	**1,055**	**129**	**1,638**	**1,926**	**-**	**159**
Total	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**8,996**	**523**	**594**	**(71)**	**8,473**	**8,401**	**-**	**-**
	Stage 3	**2,981**	**1,184**	**1,055**	**129**	**1,638**	**1,926**	**-**	**159**
	Total	**11,976**	**1,707**	**1,649**	**58**	**10,110**	**10,327**	**-**	**159**

5 (d) 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	437,974	689,391	41,709	**1,169,073**
- Investment Securities (Debt)	2,400	-	-	**2,400**
- Loan Commitments and Financial Guarantees	801,906	260,617	543	**1,063,066**
- Due from Banks, Central Banks and Other Financial Assets	461,776	-	-	**461,776**
	1,704,056	**950,008**	**42,252**	**2,696,316**
Opening Balance (Day 1 impact) - as at 1 January 2018				
- Loans and Advances to Customers	8,073	17,706	17,417	**43,196**
- Investment Securities (Debt)	3	-	-	**3**
- Loan Commitments and Financial Guarantees	2,061	502	-	**2,563**
- Due from Banks, Central Banks and Other Financial Assets	492	-	-	**492**
	10,629	**18,208**	**17,417**	**46,254**
Net transfer between stages				
- Loans and Advances to Customers	575	(919)	343	**-**
- Loan Commitments and Financial Guarantees	1	(1)	-	**-**
	576	**(920)**	**343**	**-**
Charge for the period (net)				
- Loans and Advances to Customers	(181)	4,753	379	**4,951**
- Investment Securities (Debt)	9	-	-	**9**
- Loan Commitments and Financial Guarantees	(359)	(73)	-	**(432)**
- Due from Banks, Central Banks and Other Financial Assets	(94)	-	-	**(94)**
	(625)	**4,679**	**379**	**4,433**
Closing Balance - as at 30 June 2018				
- Loans and Advances to Customers	8,468	21,540	18,139	**48,147**
- Investment Securities (Debt)	12	-	-	**12**
- Loan Commitments and Financial Guarantees	1,702	428	-	**2,130**
- Due from Banks, Central Banks and Other Financial Assets	398	-	-	**398**
	10,580	**21,968**	**18,139**	**50,687**

Transition Impact **RO'000**

	31 December 2017	Re-measurement	1 January 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	49	43,196
Due from banks	-	492	492
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	-	3	3
Loan commitments and financial guarantees	-	2,563	2,563
	43,147	**3,107**	**46,254**

5 (e) Impairment charge and provisions held

RO 000

	As per CBO guidelines	**As per IFRS 9**	**Difference**
Impairment loss charged to profit and loss account	**(4,778)**	**(4,778)**	**-**
Provisions required as per CBO guidelines/held as per IFRS 9	**45,491**	**50,687**	**5,196**
Gross NPL ratio	**2.88%**	**2.88%**	**-**
Net NPL ratio	**1.32%**	**1.52%**	**0.2%**

6 Investment securities

	Carrying value Unaudited 30 June 18 RO'000	Carrying value Unaudited 30 June 17 RO'000	Carrying value Audited 31 December 17 RO'000
Fair value through profit and loss(FVTPL)			
Quoted investments- Oman			
Banking and investment sector	**4,054**	430	431
	4,054	430	431
Quoted investments- Foreign			
Banking and investment sector	**160**	-	-
	160	-	-
Unquoted investments			
Banking and investment sector	**-**	131	131
	-	131	131
Total Fair value through profit and loss	**4,214**	561	562
Held for trading			
Quoted investments- Oman			
Banking and investment sector	**-**	57	54
Total held for trading	**-**	57	54
Investment measured at FVOCI			
Quoted investments- Oman			
Manufacturing sector	**1,090**	-	-
Service sector	**2,072**	-	-
	3,162	-	-
Quoted investments- Foreign			
Banking and investment sector	**1,309**	-	-
	1,309	-	-
Unquoted investments			
Banking and investment sector	**674**	-	-
Service sector	**345**	-	-
	1,019		
Total FVOCI	**5,490**	-	-
Available for sale			
Quoted investments- Oman			
Banking and investment sector	**-**	5,008	4,625
Manufacturing sector	**-**	1,312	1,175
Service sector	**-**	4,019	3,166
	-	10,339	8,966
Quoted investments- Foreign			
Banking and investment sector	**-**	2,812	2,589
Service sector	**-**	1,639	1,545
	-	4,451	4,134
Unquoted investments			
Banking and investment sector	**-**	673	858
Service sector	**-**	175	-
	-	848	858
Total available for sale	**-**	15,638	13,958

6 Investment securities (continued)

	Carrying value Unaudited 30 June 18 RO'000	*Carrying value Unaudited 30 June 17 RO'000*	*Carrying value Audited 31 December 17 RO'000*
Investment measured at amortised cost			
Quoted investments- Oman			
Government Development Bonds (GDBs)	**118,274**	-	-
Treasury Bills (T-Bills)	**10,000**	-	-
Government Sukuk	**636**	-	-
Banking and investment sector	**2,389**	-	-
Total amortised cost	**131,299**	-	-
Held to maturity			
Quoted investments- Oman			
Government Development Bonds	-	73,614	85,211
Treasury Bills	-	25,000	38,000
Government Sukuk	-	636	636
Total Held to maturity	-	99,250	123,847
Total financial investments	**141,003**	115,506	138,421

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***
30 June 2018 (unaudited)		
Government Development Bonds	**84%**	**118,274**
30 June 2017 (unaudited)		
Government Development Bonds	**64%**	**73,614**
Treasury Bills	**22%**	**25,000**
31 December 2017 (audited)		
Government Development Bonds	**62%**	**85,211**
Treasury Bills	**27%**	**38,000**

7 Other assets

	Unaudited 30 June 2018 RO'000	*Unaudited/ Unreviewed 30 June 2017 RO'000*	*Audited 31 December 2017 RO'000*
Acceptances	**25,492**	23,736	25,021
Interest receivable	**17,596**	15,687	12,379
Credit card settelment	**3,678**	2,444	3,102
Prepayments	**2,600**	2,844	1,849
Positive fair value of derivatives	**417**	202	321
Others	**2,278**	3,332	3,608
	52,061	48,245	46,280

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***	***Total RO 000***
Cost:						
At 1 January 2018	21,571	21,506	14,369	669	992	59,105
Additions	-	1,024	653	-	190	1,867
At 30 June 2018 (unaudited)	21,571	22,530	15,022	668	1,181	60,972
Depreciation:						
At 1 January 2018	2,753	16,646	9,798	478	-	29,675
Charge for the period	295	925	798	35	-	2,053
At 30 June 2018 (unaudited)	3,048	17,571	10,596	513	-	31,728
Net book value						
At 30 June 2018 (unaudited)	**18,523**	**4,959**	**4,426**	**155**	**1,181**	**29,244**
At 31 December 2017 (audited)	18,818	4,750	4,682	188	992	29,430
At 30 June 2017 (unaudited and unreviewed)	19,113	4,604	2,392	215	1,340	27,664

9 Due to banks and other money market deposits

	Unaudited 30 June 2018 RO'000	*Unaudited 30 June 2017 RO'000*	*Audited 31 December 2017 RO'000*
Current accounts	**29,508**	12,475	4,011
Money market acceptances	**46,450**	-	-
	75,958	12,475	4,011

10 Customers' deposits and unrestricted investment accounts

	Unaudited	*Unaudited/ Unreviewed*	*Audited*
	30 June 2018	*30 June 2017*	*31 December 2017*
	RO'000	*RO'000*	*RO'000*
Demand and call accounts	**777,377**	673,134	736,032
Term deposits	**716,684**	779,595	738,813
Savings accounts	**273,916**	262,816	272,011
	1,767,977	1,715,545	1,746,856

11 Other liabilities

	Unaudited	*Unaudited / Unreviewed*	*Audited*
	30 June 2018	*30 June 2017*	*31 December 2017*
	RO'000	*RO'000*	*RO'000*
Certified cheques and unpaid cheques *	**32,937**	2,310	3,364
Liabilities under acceptances	**25,492**	23,736	25,021
Interest payable	**13,996**	18,401	17,901
Accrued expenses and other payables	**10,212**	6,393	7,732
Credit card settlement	**1,364**	338	878
Staff related provisions	**795**	1,278	1,158
Interest and commission received in advance	**760**	1,136	1,349
Negative fair value of derivatives	**333**	184	290
	85,889	53,776	57,693

* Certified cheques as at 30 June 2018 includes an amount of RO 29.8 million being paid to another local bank which were subsequently settled.

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.

	Unaudited	*Unaudited/ Unreviewed*	*Audited*
	30 June 2018	*30 June 2017*	*31 December 2017*
	RO'000	*RO'000*	*RO'000*
Opening and closing balance	**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 14 million has been assigned as capital for the Islamic Banking services of the Bank:

		Unaudited 30 June 18		*Audited 31 December 17*		*Unaudited 30 June 17*	
	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 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 General reserve

The Bank has established a policy to set aside a portion of the profit each year to a ‘General reserve’ in order to meet any unforeseen contingencies. No transfers were made from / to general reserve during the period (30 June 2017 and 31 December 2017: Nil).

16 Other non-distributable reserves

	Subordinated debt reserve RO'000	*Special reserve RO'000*	*Total RO'000*
At 1 January 2018	**8,000**	**2,760**	**8,760**
Transfer	**-**	**466**	**466**
At 30 June 2018 (unaudited)	**8,000**	**3,226**	**11,226**
At 30 June 2017 (unaudited/unreviewed)	54,000	2,354	56,354

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 RO 2.4 Million has been set aside as a special reserve, which requires prior approval of the Central Bank of Oman for any distribution. In addition, 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 826,596 as at 30 June 2018.

17 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.

18 Interest income

	6 months ended 30 June 2018	*6 months ended 30 June 2017*	***3 months ended 30 June 2018***	*3 months ended 30 June 2017*
		Unaudited		
	RO'000	*RO'000*	***RO'000***	*RO'000*
Loans and advances	**44,964**	40,846	**23,192**	20,656
Placements with banks	**612**	335	**235**	200
Interest from securities	**2,519**	1,122	**1,388**	670
	48,095	42,303	**24,815**	21,526

Interest bearing assets earned interest at an average rate of 4.94% for the six months ended 30 June 2018 (30 June 2018: 4.75%)

19 Interest expense

	6 months ended 30/06/2018	*6 months ended 30/06/2017*	***3 months ended 30/06/2018***	*3 months ended 30/06/2017*
		Unaudited		
	RO'000	*RO'000*	***RO'000***	*RO'000*
Time deposits	**11,382**	11,272	**5,763**	5,804
Subordinated bonds	**545**	1,532	**274**	583
Saving, call accounts & others	**3,744**	3,347	**1,912**	1,632
	15,671	16,151	**7,949**	8,019

For the six months ended 30 June 2018, the average cost of funds was 1.63% (30 June 2017: 1.83%)

20 Other operating income

	Unaudited 6 months ended		Unaudited 3 months ended	
	30 June 18	*30 June 17*	***30 June 18***	*30 June 17*
	RO'000	*RO'000*	***RO'000***	*RO'000*
Fees and commissions	**7,674**	7,757	**4,022**	3,241
Exchange income	**2,794**	2,379	**1,355**	1,109
Other income	**27**	44	**15**	11
	10,495	10,180	**5,392**	4,361

21 Asset liability mismatch

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

30 June 2018 (unaudited)

Maturities	***Assets*** **RO'000**	***Equity, subordinated funds and liabilities*** **RO'000**	***Mismatch*** **RO'000**
0 - 3 month	**935,002**	**769,567**	**165,435**
3 - 12 month	**254,016**	**627,181**	**(373,165)**
1 – 5 years	**529,809**	**674,967**	**(145,158)**
More than 5 years	**947,152**	**666,855**	**280,297**
Total	**2,665,979**	**2,738,570**	**(72,591)**

30 June 2017 (unaudited)

Maturities	*Assets* RO'000	*Equity, subordinated funds and liabilities* RO'000	*Mismatch* RO'000
0 - 3 month	890,193	506,254	383,939
3 - 12 month	238,654	663,202	(424,548)
1 – 5 years	471,498	763,951	(292,453)
More than 5 years	866,472	632,574	233,898
Total	2,466,817	2,565,981	(99,164)

31 December 2017 (audited)

Maturities	*Assets* RO'000	*Equity, subordinated funds and liabilities* RO'000	*Mismatch* RO'000
0 - 3 month	783,637	522,984	260,653
3 - 12 month	266,468	585,678	(319,210)
1 – 5 years	477,388	743,208	(265,820)
More than 5 years	916,329	662,716	253,613
Total	2,443,822	2,514,586	(70,764)

22 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 parties 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 June, balances with directors and other related parties were as follows:

Related party transactions	Unaudited 30 June 2018 RO 000 Major shareholders	Others	Unaudited/ Unreviewed 30 June 2017 RO 000 Major shareholders	Others
Loans and advances	**14,010**	**59,471**	15,001	56,482
Customers' deposits	**2,221**	**32,867**	7,034	22,720
Investments	**-**	**-**	-	449
Due from banks	**22,245**	**-**	28,439	-
Due to banks	**20,761**	**-**	4,412	-
Stand by line of credit	**48,125**	**-**	48,125	-
Letters of credit, guarantees and acceptances	**147,966**	**17,382**	172,262	3,782

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

	Unaudited 30 June 2018 RO 000 Major Shareholders	Others	Unaudited/ unreviewed 30 June 2017 RO 000 / Major Shareholders	Others
Interest and commission income	**422**	**1,190**	516	803
Interest and commission expense	**292**	**299**	189	10

	Unaudited three months ended 30 June 2018 *RO 000* *Major Shareholders*	*Others*	*Unaudited / Unreviewed three months ended* 30 June 2017 *RO 000* *Major Shareholders*	*Others*
Interest and commission income	**83**	**590**	241	401
Interest and commission expense	**87**	**213**	49	6

22 Related party transactions (continued)

Senior management compensation

	Unaudited	*Unaudited/ Unreviewed*	**Unaudited**	*Unaudited / Unreviewed*
			three months ended	
	30 June 2018	*30 June 2017*	***30 June 2018***	*30 June 2017*
	RO'000	*RO'000*	***RO'000***	*RO'000*
Salaries and other short term benefits	**829**	719	**277**	271
End of service benefits	**107**	151	**-**	101

23 (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:

	Unaudited 30 June 2018	*Unaudited/ unreviewed 30 June 2017*	*Audited 31 December 2017*
	RO'000	*RO'000*	*RO'000*
Letters of credit	**152,998**	164,686	262,250
Guarantees	**596,933**	654,377	635,198
	749,931	819,063	897,448

Letters of credit and guarantees amounting to RO 424,053,601 (31 December 2017: RO 557,458,987, 30 June 2017: RO 492,807,022) were counter guaranteed by other banks.

(b) *Forward foreign exchange contracts*

At the reporting 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:

	Unaudited 30 June 2018 RO'000	*Unaudited 30 June 2017 RO'000*	*Audited 31 December 2017 RO'000*
Sales	**143,768**	23,088	33,516
Purchases	**(143,904)**	(23,107)	(33,548)
Net	**(136)**	(19)	(32)

(c) *Assets pledged as Security*

At the reporting date, the Bank has not pledged any of its assets as security. (30 June 2017: no assets pledged).

24 Basic Earnings per share

	6 months ended *30 June 2018*	6 months ended *30 June 2017*	3 months ended *30 June 2018*	3 months ended *30 June 2017*
		Unaudited		
Profit for the period (RO'000)	**13,260**	11,964	**7,009**	6,107
Less: Interest on tier 1 perpetual bond	**(1,144)**	(1,152)	**-**	-
Profit attributable to shareholders	**12,116**	10,812	**7,009**	6,107
Weighted average number of shares outstanding during the period	**1,346,200,000**	1,346,200,000	**1,346,200,000**	1,346,200,000
Earnings per share (RO)	**0.009**	0.008	**0.005**	0.005

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.

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

25 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 January 2019.

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

	Unaudited 30 June 2018 RO'000	*Unaudited/ unreviewed 30 June 2017 RO'000*	*Audited 31 December 2017 RO'000*
Capital			
Common Equity Tier 1 (CET 1)	**256,693**	252,761	260,267
Additional Tier 1	**30,000**	30,000	30,000
Total Tier 1	**286,693**	282,761	290,267
Tier II	**22,580**	38,867	32,756
Total capital base	**309,273**	321,627	323,023
Risk Weighted Assets			
Credit risk	**2,064,053**	1,888,776	1,885,048
Market risk	**7,725**	8,438	30,713
Operation risk	**143,438**	141,500	143,438
Total risk weighted assets	**2,215,216**	2,038,714	2,059,199
BIS Capital Adequacy Ratio	**13.96%**	15.78%	15.69%
Tier 1 Capital Adequacy Ratio	**12.94%**	13.87%	14.10%
Common Equity Tier 1 Ratio	**11.59%**	12.40%	12.64%

26 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	**Retail**	**Unallocated and support functions**	**Al-Yusr**	**Total**
	RO 000	**RO 000**	**RO 000**	**RO 000**	**RO 000**
At 30 June 2018 (unaudited)					
Net operating income	**25,644**	**20,024**	**(2,749)**	**1,358**	**44,277**
Segmental assets	**1,043,375**	**684,385**	**404,147**	**119,743**	**2,251,650**
At 30 June 2017 (unaudited/unreviewed)					
Net operating income	21,101	20,199	(4,968)	760	37,092
Segmental assets	963,152	665,735	368,632	99,259	2,096,778

27 Fair value of financial instruments

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

Based on the valuation methodology outlined below, the fair values of all financial instruments at 30 June 2018 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value 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 for a similar instrument at the reporting date.

Current account balances due to and due from banks

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

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

27 Fair value of financial instruments (continued)

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

28 Events after reporting period

On 22 May 2018, the Bank has written to Alizz Islamic Bank S.A.O.G. to explore the possibility for a strategic collaboration that may lead to an eventual merger of the two entities. The proposed collaboration is subject to both institutions agreeing on the terms of the transaction and subsequent approvals from the respective Board of Directors, Shareholders and the Regulators. After obtaining the in-principal approval from the regulatory bodies the Bank has signed a Memorandum of Understanding (MOU) with Alizz Islamic Bank SAOG on 4 October 2018. There is no effect on the interim condensed financial statements of the Bank as at 30 June 2018 as a result of this event.