



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

**INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

Registered office and principal place of business:

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

Chairman's Report for the six months ended 30 June 2019

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

Financial Performance

The Bank's net profit for the six months ended 30 June 2019 amounted to OMR 18.584 million compared to OMR 13.982 million during the same period in 2018, a growth of 32.91%.

The Bank's total operating income increased by 16.58% from OMR 42.503 million in the first six months of 2018 to OMR 49.552 million for the same period in 2019. Operating profit increased by 21.24% from OMR 22.195 million in the first six months of 2018 to OMR 26.910 million for the same period in 2019. During the first six months of 2019, operating expenses increased by 11.49% to OMR 22.642 million compared to OMR 20.308 million in the first six months of 2018, reflecting our continued investment in people and core infrastructure. The Bank continues to focus on delivering sustainable growth in line with its strategic objectives.

The Bank's gross loans and advances increased by 10.86% from OMR 2.264 billion as at 30 June 2018 to OMR 2.510 billion as at 30 June 2019. Total assets grew by 7.05% from OMR 3.009 billion as at 30 June 2018 to OMR 3.221 billion as at 30 June 2019. Customer deposits increased by 14.09% to OMR 1.947 billion as at 30 June 2019 compared to OMR 1.706 billion as at 30 June 2018.

Milestones

Marking a significant milestone for the bank, Sohar International celebrated 12 years of successful operations within the Sultanate in April 2019. Coinciding with the anniversary, the bank's new brand "Sohar International" had been conferred with the prestigious 'Excellence in New Brand Identity Award' at the Oman Banking & Finance Awards 2019. The Bank has also been adjudged as a frontrunner under the Innovative Custom Components category at the fifth edition of the Infosys Finacle Client Innovation Awards.

Sohar International's solid foundation and financial position enabled the Bank to have been rated in parity by renowned rating agency Moody's. Of particular note, and despite a challenging operating environment, the Bank was highly successful in raising funds through perpetual bonds worth OMR 100 million within a mere one month time frame, an enviable achievement within the Banking sector.

The last quarter witnessed the Bank launch its dedicated Corporate Campaign - '#Hello_Winning'. The campaign recognizes winning as a calling to achieve more and confidently step forward towards a brighter future, further cementing the Bank's strong commitment to its various stakeholders.

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Customer Focus

Staying true to its identity and harnessing its core principles of delivering more value, more vision, and more velocity to customers, Sohar International launched a fully revamped proposition under Sohar | Wealth Management with a primary focus on providing fiduciary advice enabling customers to win in their own respective manner, as well as continue to build an ecosystem of services that fulfil such customer's life style requirements.

Furthermore, and with the objective of delivering value to retail and corporate clients, the Bank continued to expand its acquisition business having unveiled its new point of sale services (POS) with a state-of-the-art device, enabling merchants to make the best of what the service has to offer, empowering corporate customers as well as expand its merchant base for e-Floos – a unique digital payment method that seeks to provide convenience and security to the user and retailers alike.

Continuing to engage with customers, Sohar International played host to its Corporate and Government clients during the holy month of Ramadhan to further connect with them and stay tuned to their requirements whether financial or non-financial.

Adhering to its corporate philosophy and the purpose of helping people 'win' by delivering responsive solutions for their dynamic needs, the Bank continues to sign various MoU's to build an ecosystem of services tailored towards the local market enabling offerings such as providing preferential and competitive housing solutions for prospective buyers allowing Omanis to become home owners and embark on their journey of life.

Sohar Rewards

Staying attuned to the local lifestyle, Sohar International launched a unique summer campaign for its Card holders offering great rewards and prizes. Moreover the Bank conducted and announced winners of various draws under its Sohar | Prize Scheme 2019 including its first quarterly draw with winners receiving a total of OMR 200,000. The bank has successfully conducted monthly draws, along with weekly draws; furthering customer engagement through events in various branches and Wilayats touching base with customers across the Sultanate.

Commitment to local communities

Depicting its sharp, human and unstoppable personality - Sohar International was the main sponsor of Nadhira Al Harthy – a true winner and the first Omani woman to scale the top of Mount Everest. Sohar International continued to reflect its commitment to the unstoppable Formula 4 Champion Shehab Al Habsi having hosted him at the Bank's new headquarters to congratulate him on his countless achievements.

Strengthening its role as a facilitator of socioeconomic development through the promotion of knowledge sharing platforms, Sohar International served as main sponsor

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for the International Conference on Clinical Nutrition organized by the Al Nahda Hospital, the Ministry of Health.

Underlining its support to events that promote innovative thinking and entrepreneurship in the nation, with a special focus on youth, the Bank partnered with the Higher College of Technology as Chief Sponsors of the 2nd Inter-Collegiate Forum for Innovation and Entrepreneurship – ‘Ideathon’ 2019.

Sohar International continued to expand on its community and staff engagement initiatives during the holy month of Ramadan. The Bank launched a unique social media campaign that touched hundreds of thousands of Omanis under the title #WinningTogether, with the aim of highlighting the act of giving, depicting that even the smallest contributions, can have far-reaching social impact. In line with the spirit of #WinningTogether, Sohar International extended a helping hand to those in need by providing essential food items to low-income families around the Sultanate throughout the holy month.

Contributing to Oman’s Economic Diversification Agenda

Following the national agenda and playing an active role, Sohar International continues to seek and promote in country values (ICV), identifying key projects that will contribute in the short and long run towards the local economy while creating opportunities for individuals and corporates alike such as those financed and supported in Sohar Port & Free Zone that have created thousands of jobs for Omanis.

Employees are Core

With a key focus on staff and providing an environment that would contribute towards their efficiency and effectiveness, Sohar International shifted headquarters to the “Water Front” building situated in Shatti Al Qurum in Muscat, providing cutting edge technology and open spaces for interactions building more synergy and cohesiveness for staff and customers alike. The new working environment goes hand in hand with all other planned bank initiatives that contribute towards the staff’s wellbeing such as the annual internal Ramadan Football Tournament, as well as various other initiatives including Staff Iftar, Qaranqasho, and many more.

Looking Ahead

We see a continued credit growth and government focus on economic diversification as well as investments in projects of national importance. Sohar International is well positioned to further build on its market excellence, capitalize on upcoming opportunities, play an active and positive role in enhancing the national economy, and continue to create value for Oman.

Sohar International Bank SAOG

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

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

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



Mohammed Mahfoudh Saad Al-Ardhi
Chairman

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

(RO'000)

	Note	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
ASSETS				
Cash and balances with Central Bank	B1	85,870	72,456	64,296
Due from banks and other money market placements	B2	68,698	121,403	122,223
Loans, advances and financing, net	B3	2,412,078	2,251,930	2,198,162
Investment securities	B4	571,920	532,769	548,916
Property, equipment and fixtures		35,006	19,676	16,838
Investment properties		2,900	2,900	2,900
Other assets	B5	45,015	45,269	56,096
TOTAL ASSETS		3,221,487	3,046,403	3,009,431
LIABILITIES				
Due to banks and other money market borrowings	B6	688,737	722,061	774,630
Customers' deposits	B7	1,946,535	1,818,353	1,706,109
Other liabilities	B8	62,991	84,664	91,101
Subordinated loans		35,385	35,392	35,385
Certificates of deposits		509	509	18,511
TOTAL LIABILITIES		2,734,157	2,660,979	2,625,736
SHAREHOLDERS' EQUITY				
Share capital	B9	198,265	198,265	198,265
Share premium	B9	18,037	18,037	18,037
Legal reserve		24,375	24,375	21,438
General reserve		988	988	988
Impairment reserve		-	-	3,702
Fair value reserve		(2,155)	(2,124)	(2,975)
Subordinated loans reserve		7,000	7,000	-
Retained earnings		40,820	38,883	44,240
TOTAL SHAREHOLDERS' EQUITY		287,330	285,424	283,695
Perpetual Tier 1 capital securities	B10	200,000	100,000	100,000
TOTAL EQUITY		487,330	385,424	383,695
TOTAL LIABILITIES AND EQUITY		3,221,487	3,046,403	3,009,431
CONTINGENT LIABILITIES	B11.a	415,224	485,142	533,166
COMMITMENTS	B11.b	389,589	439,344	312,632
Net assets per share		Baizas 144.92	Baizas 143.96	Baizas 143.09

The interim condensed financial statements were approved and authorised for issue by the Board of Directors on 29 July 2019 and signed on their behalf by:

Chairman

Board member

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Unaudited)

(RO'000)

	Note	For the six months ended		For the three months ended	
		30 June 2019	30 June 2018	30 June 2019	30 June 2018
Interest income	C1	70,778	62,936	35,693	32,511
Interest expense	C2	(39,811)	(35,269)	(20,338)	(18,282)
Net interest income		30,967	27,667	15,355	14,229
Net income from Islamic financing and investing activities	C3.b	2,691	2,258	1,402	1,160
Other operating income	C4	15,894	12,578	7,346	5,306
TOTAL OPERATING INCOME		49,552	42,503	24,103	20,695
Staff costs		(14,467)	(11,823)	(7,011)	(5,942)
Other operating expenses	C5	(6,984)	(7,351)	(3,372)	(4,391)
Depreciation		(1,191)	(1,134)	(600)	(571)
TOTAL OPERATING EXPENSES		(22,642)	(20,308)	(10,983)	(10,904)
NET OPERATING INCOME BEFORE IMPAIRMENT PROVISIONS		26,910	22,195	13,120	9,791
Loan impairment charges and other credit risk provisions (net)	C6	(5,709)	(5,919)	(3,172)	(3,783)
PROFIT BEFORE TAX		21,201	16,276	9,948	6,008
Income tax expense		(2,617)	(2,294)	(1,516)	(930)
PROFIT FOR THE PERIOD		18,584	13,982	8,432	5,078
Profit for the period					
Conventional banking		17,541	14,139	7,864	5,524
Islamic banking		1,043	(157)	568	(446)
		18,584	13,982	8,432	5,078
		<i>Baizas</i>	<i>Baizas</i>	<i>Baizas</i>	<i>Baizas</i>
Basic earnings per share for the period	C7	7.321	5.089	4.235	2.557
Basic earnings per share for the period (annualized)	C7	14.763	10.263	16.988	10.255

STATEMENT OF COMPREHENSIVE INCOME (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Unaudited)

(RO'000)

	For the six months ended		For three months ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Profit for the period	18,584	13,982	8,432	5,078
<i>Other comprehensive income that will not be reclassified to the income statement</i>				
Revaluation (losses) / gains on equity instruments held at fair value through other comprehensive income (FVOCI)	(690)	(697)	(179)	(612)
Total other comprehensive income / (loss) that will not be reclassified to the income statement	(690)	(697)	(179)	(612)
<i>Other comprehensive income that will be reclassified to the income statement</i>				
Debt instruments at FVOCI:				
Net changes in allowance for expected credit losses	-	25	-	-
Total other comprehensive income that will be reclassified to the income statement	-	25	-	-
Total other comprehensive income / (loss) for the period, net of income tax	(690)	(672)	(179)	(612)
Total comprehensive income for the period, net of income tax	17,894	13,310	8,253	4,466

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

	Share Capital	Share Premium	Legal Reserve	General Reserve	Impairment Reserve	Fair Value Reserve	Subordinated Loans Reserve	Retained Earnings	Total Shareholder's Equity	Perpetual Tier 1 Capital Securities	Total Equity
Balance as at 1 January 2019	198,265	18,037	24,375	988	-	(2,124)	7,000	38,883	285,424	100,000	385,424
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	-	18,584	18,584	-	18,584
Other comprehensive income / (loss) for the period	-	-	-	-	-	(690)	-	-	(690)	-	(690)
Total comprehensive income for the period	-	-	-	-	-	(690)	-	18,584	17,894	-	17,894
Reclassification of net change in fair value of equity instruments upon de- recognition	-	-	-	-	-	682	-	(682)	-	-	-
Dividends paid for 2018	-	-	-	-	-	-	-	(11,896)	(11,896)	-	(11,896)
Issue of Perpetual Tier1 Capital Securities	-	-	-	-	-	-	-	-	-	100,000	100,000
Additional Tier 1 coupon paid during the period	-	-	-	-	-	-	-	(3,843)	(3,843)	-	(3,843)
Issue expenses - Additional Tier 1 capital	-	-	-	-	-	-	-	(226)	(226)	-	(226)
Reclassification of fair value of debt instruments to investment securities	-	-	-	-	-	(23)	-	-	(23)	-	(23)
Balance as at 30 June 2019	198,265	18,037	24,375	988	-	(2,155)	7,000	40,820	287,330	200,000	487,330

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Unaudited)

(RO'000)

	Share capital	Share premium	Legal reserve	General reserve	Special reserve	Impairment reserve	Fair value reserve	Retained earnings	Total Shareholders' Equity	Perpetual Tier 1 Capital Securities	Total Equity
Balance as at 1 January 2018	178,465	17,607	21,438	988	3,103	-	(656)	72,651	293,596	100,000	393,596
Impact of adopting IFRS 9 (Note 4)	-	-	-	-	(3,103)	1,303	(2,035)	(8,945)	(12,780)	-	(12,780)
Restated opening balance under IFRS 9	178,465	17,607	21,438	988	-	1,303	(2,691)	63,706	280,816	100,000	380,816
Total comprehensive income for the period											
Net profit for the period	-	-	-	-	-	-	-	13,982	13,982	-	13,982
Other comprehensive income / (loss) for the period	-	-	-	-	-	-	(672)	-	(672)	-	(672)
Total comprehensive income for the period	-	-	-	-	-	-	(672)	13,982	13,310	-	13,310
Reclassification of net change in Fair value of equity instruments upon de- recognition	-	-	-	-	-	-	388	(388)	-	-	-
Issue of bonus shares for 2017	17,846	-	-	-	-	-	-	(17,846)	-	-	-
Conversion of CCB to share capital	1,954	430	-	-	-	-	-	-	2,384	-	2,384
Dividends paid for 2017	-	-	-	-	-	-	-	(8,923)	(8,923)	-	(8,923)
Additional Tier 1 coupon paid during the period	-	-	-	-	-	-	-	(3,843)	(3,843)	-	(3,843)
Issue expenses - Additional Tier 1 capital	-	-	-	-	-	-	-	(49)	(49)	-	(49)
Provision on credit impairment (BM 1149)	-	-	-	-	-	2,399	-	(2,399)	-	-	-
Balance as at 30 June 2018	198,265	18,037	21,438	988	-	3,702	(2,975)	44,240	283,695	100,000	383,695

INTERIM CONDENSED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Unaudited)

(RO'000)

	30 June 2019	30 June 2018
OPERATING ACTIVITIES		
Profit before tax	21,201	16,276
Adjustments for:		
Depreciation	1,191	1,134
Loan impairment charges and other credit risk provisions, net	5,709	5,919
Net losses on fair value through profit or loss (FVTPL) investments	376	1,127
Profit on sale of fixed assets	(2)	-
Income from Islamic investment activities	(613)	(421)
Interest on investments	(8,310)	(6,370)
Interest accrued on subordinated loans and compulsorily convertible bonds	1,215	1,249
Cash from operating activities before changes in operating assets and liabilities	20,767	18,914
Due from banks and other money market placements	2,288	4,848
Loans, advances and financing	(165,295)	(103,941)
Investment in held for trading securities	(22,389)	(7,435)
Other assets	(510)	(32,714)
Due to banks and other money market borrowings	(394,752)	242,825
Customers' deposits	128,179	63,264
Certificate of deposits	-	(2)
Other liabilities	(22,241)	61,531
Cash from operating activities	(453,953)	247,290
Income tax paid	(1,296)	(4,118)
Net cash from / (used in) operating activities, net of tax	(455,249)	243,172
INVESTING ACTIVITIES		
Purchase of investments	(19,285)	(35,253)
Proceeds from sale/redemption of investments	605	541
Acquisition of property, equipment and fixtures	(16,518)	(863)
Income from Islamic investment activities	856	210
Interest received on investments	8,310	6,370
Net cash used in investing activities	(26,032)	(28,995)
FINANCING ACTIVITIES		
Dividends paid	(11,896)	(8,923)
Interest paid on subordinated loans and compulsorily convertible bonds	(1,223)	(1,275)
Issue of perpetual Tier 1 capital securities	100,000	-
Interest paid on perpetual Tier 1 capital securities	(3,843)	(3,843)
Issue expenses of perpetual Tier 1 capital securities	(226)	(49)
Net cash (used in) / from financing activities	82,812	(14,090)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(398,469)	200,087
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	344,710	13,516
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	(53,759)	213,603
REPRESENTING:		
Cash and balances with Central Bank (other than capital deposit) (note B1)	85,369	63,796
Due from banks and other money market placements with OM of 90 days (note B2)	62,740	102,596
Investments securities with original maturity (OM) of 90 days (note B4.b)	274,090	293,900
Due to banks and other money market borrowings with OM of 90 days (note B8)	(475,958)	(246,689)
	(53,759)	213,603

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

AS AT 30 JUNE 2019
(RO'000)

A1 Legal status and principal activities

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

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

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

The Bank employed 854 employees as of 30 June 2019 (31 December 2018:804, 30 June 2018: 775).

A2 Basis of preparation

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

A2.1 Statement of compliance

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

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

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

A2.2 Basis of measurement

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

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

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

A2.3 Functional and presentation currency

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

AS AT 30 JUNE 2019
(RO'000)

A2 Basis of preparation (continued)

A2.4 Use of estimates and judgements (continued)

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

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A3 Changes in accounting policies and disclosures

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

For the period ended 30 June 2019, the Bank has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2019.

A3.1.a IFRS 16 Leases

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

Impact on Lessee Accounting:

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

- 1) Recognized right-to-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments measured at the incremental borrowing rate.
- 2) Recognized depreciation of right-to-use assets and interest on lease liabilities in the consolidated statement of comprehensive income. Both these expenses are included within other operating expenses in the statement of comprehensive income.
- 3) As a practical expedient approach is selected, the Bank assumed based on past history that the operating leases with respect to branch network, offsite ATMs and head offices will continue for the next 5 years and hence lease term of 5 years is considered for all existing operating leases except a few which will be vacated within less than 12 months.
- 4) For leases which will not be renewed, the Bank has opted to recognize a lease expense on a straight-line-basis as permitted by IFRS 16. This expense is presented within other operating expenses in the statement of comprehensive income.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

AS AT 30 JUNE 2019
(RO'000)

B1 Cash and balances with Central Bank

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Cash	24,049	24,374	24,200
Capital deposit with CBO	501	505	503
Balance with CBO	61,320	47,577	39,593
	85,870	72,456	64,296

- (i) The capital deposit with CBO cannot be withdrawn without its approval.
- (ii) During the period, average minimum balance to be kept with CBO as statutory reserves is RO 69.89 million (31 December 2018: RO 72.42 million, 30 June 2018: RO 64.29 million).

B2 Due from banks and other money market placements

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
<i>Local currency:</i>			
Money market placements	-	5,000	40,007
	-	5,000	40,007
<i>Foreign currency:</i>			
Money market placements	44,318	94,367	23,229
Lending to banks	6,355	8,666	9,267
Demand balances	18,432	13,812	50,119
	69,105	116,845	82,615
	69,105	121,845	122,622
Expected credit loss allowance	(407)	(442)	(399)
	68,698	121,403	122,223

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

	30 June 2019 (Unaudited)				31 December 2018 (Audited)	30 June 2018 (Unaudited)
	Stage 1	Stage 2	Stage 3	Total	Total	Total
As at 1 January	232	210	-	442	1,039	1,039
Impact of adopting IFRS 9	-	-	-	-	281	281
Loan written off against ECL allowance	-	-	-	-	(966)	(966)
Net (release)/charge for the period (C6)	(20)	(15)	-	(35)	88	45
	212	195	-	407	442	399

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B3 Loans, advances and financing, net

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Corporate	1,680,351	1,578,223	1,549,802
Retail	829,778	762,437	714,462
Gross loans, advances and financing	2,510,129	2,340,660	2,264,264
Expected credit loss allowance	(85,985)	(79,349)	(58,457)
Contractual interest not recognised	(12,066)	(9,381)	(7,645)
	(98,051)	(88,730)	(66,102)
Net loans, advances and financing	2,412,078	2,251,930	2,198,162

Gross loans, advances and financing include RO 198.064 million (31 December 2018: RO 183.21 million, 30 June 2018:165.80 million) under Islamic mode of financing through Sohar Islamic financing activities.

Loans, advances and financing comprise:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Loans	2,228,941	2,051,105	1,961,224
Overdrafts	122,608	127,920	136,414
Loans against trust receipts	106,650	107,727	112,932
Bills discounted	51,930	53,908	53,694
Gross loans, advances and financing	2,510,129	2,340,660	2,264,264
Expected credit loss allowance	(85,985)	(79,349)	(58,457)
Contractual interest not recognised	(12,066)	(9,381)	(7,645)
	(98,051)	(88,730)	(66,102)
Net loans, advances and financing	2,412,078	2,251,930	2,198,162

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

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B3 Loans, advances and financing, net (continued)

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

Gross carrying amount	30 June 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	1,825,751	437,926	76,983	2,340,660
New assets originated or purchased	555,538	115,668	10,401	681,607
Assets derecognised or repaid	(397,404)	(102,584)	(12,150)	(512,138)
Transfers to Stage 1	101,154	(100,770)	(384)	-
Transfers to Stage 2	(124,063)	125,618	(1,555)	-
Transfers to Stage 3	(617)	(4,001)	4,618	-
As at 30 June 2019	1,960,359	471,857	77,913	2,510,129

	30 June 2019 (Unaudited)				31 December 2018 (Audited) Total	30 June 2018 (Unaudited) Total
	Stage 1	Stage 2	Stage 3	Total		
ECL allowance as at 1 January 2019	12,695	33,629	33,025	79,349	42,946	42,946
Impact of adopting IFRS 9	-	-	-	-	18,948	8,311
Expected credit losses recognised	1,620	16,052	2,420	20,092	-	-
Recoveries from expected credit losses	(6,723)	(3,562)	(3,171)	(13,456)	-	-
Transfers to Stage 1	4,234	(3,990)	(244)	-	-	-
Transfers to Stage 2	(1,173)	1,910	(737)	-	-	-
Transfers to Stage 3	(57)	(979)	1,036	-	-	-
Net charge for the period (C6)	-	-	-	-	17,455	7,200
	10,596	43,060	32,329	85,985	79,349	58,457

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Contractual interest not recognised			
Balance at beginning of year	9,381	6,537	6,537
Not recognised during the period	4,454	3,792	1,622
Written back due to recovery	(1,769)	(948)	(514)
Balance at end of the period	12,066	9,381	7,645

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained to comply with rules; regulations and guidelines issued by CBO on loans, advances and financing that are impaired. As of 30 June 2019, loans and advances on which interest was not being accrued or where interest was reserved amounted to RO 77.913 million. (31 December 2018: RO 76.986 million, 30 June 2018: 78.779 million)

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B3 Loans, advances and financing, net (continued)

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

30 June 2019

(Unaudited)

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	7,065	5,709	(1,356)
Provisions required as per CBO norms / held as per IFRS 9	92,806	103,674	10,868
Gross NPL ratio (percentage)*	3.14	3.10	(0.04)
Net NPL ratio (percentage)*	0.96	1.39	0.43

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

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

Classification:		Gross carrying amount (1)	CBO Provision (2)	IFRS 9 Provisions (3)	Difference between CBO and IFRS 9 (4)=(2)-(3)	Net carrying amount (5)=(1)-(3)	IFRS 9 Reserve interest	CBO Reserve interest
CBO	IFRS 9							
Standard	Stage 1	1,959,244	23,721	10,586	13,135	1,948,658	-	-
	Stage 2	232,506	2,787	18,294	(15,507)	214,212	-	-
	Stage 3	328	4	98	(94)	230	-	-
Sub Total		2,192,078	26,512	28,978	(2,466)	2,163,100	-	-
Special mention	Stage 1	16	-	-	-	16	-	-
	Stage 2	239,116	10,584	24,728	(14,144)	214,388	-	-
	Stage 3	58	1	14	(13)	44	-	-
Sub Total		239,190	10,585	24,742	(14,157)	214,448	-	-
Substandard	Stage 1	53	-	-	-	53	-	-
	Stage 2	86	-	26	(26)	60	-	-
	Stage 3	3,463	909	1,427	(518)	2,036	62	62
Sub Total		3,602	909	1,453	(544)	2,149	62	62
Doubtful	Stage 1	290	-	3	(3)	287	-	-
	Stage 2	59	-	2	(2)	57	-	-
	Stage 3	13,803	4,861	3,347	1,514	10,456	212	212
Sub Total		14,152	4,861	3,352	1,509	10,800	212	212
Loss	Stage 1	756	-	7	(7)	749	-	-
	Stage 2	90	-	10	(10)	80	-	-
	Stage 3	60,261	37,842	39,509	(1,667)	20,752	11,792	11,792
Sub Total		61,107	37,842	39,526	1,684	21,581	11,792	11,792
Gross loans, advances and financing								
	Stage 1	1,960,359	23,721	10,596	13,125	1,949,763	-	-
	Stage 2	471,857	13,371	43,060	(29,689)	428,797	-	-
	Stage 3	77,913	43,617	44,395	(778)	33,518	12,066	12,066
Sub Total		2,510,129	80,709	98,051	(17,342)	2,412,078	12,066	12,066
*On:	Stage 1	862,330	31	2,175	(2,144)	860,155	-	-
Due from banks	Stage 2	192,754	-	3,427	(3,427)	189,327	-	-
Investment securities	Stage 3	1,093	-	21	(21)	1,072	-	-
Loan commitments & financial guarantees	Total	1,056,177	31	5,623	(5,592)	1,050,554	-	-
Total	Stage 1	2,822,689	23,752	12,771	10,981	2,809,918	-	-
	Stage 2	664,611	13,371	46,487	(33,116)	618,124	-	-
	Stage 3	79,006	43,617	44,416	(799)	34,590	12,066	12,066
	Total	3,566,306	80,740	103,674	(22,934)	3,462,632	12,066	12,066

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

	IFRS 9	CBO
Gross loans advances and financing	85,985	80,709
Due from Banks	407	31
Investment securities	1,601	-
Loan commitment and financial guarantees	3,615	-
	91,608	80,740
Contractual interest not recognised	12,066	12,066
Total	103,674	92,806

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B3 Loans, advances and financing, net (continued)

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

CBO classification	IFRS 9 classification RO'000	Gross carrying amount RO'000	CBO Provision RO'000	IFRS 9 Provisions RO'000	Difference between CBO and IFRS 9 RO'000	Net carrying amount RO'000	IFRS 9 Reserve interest RO'000	CBO Reserve interest RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)	(9)
Classified as performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	84,891	7,867	14,232	(6,365)	70,659	-	-
	Stage 3	-	-	-	-	-	-	-
Total		84,891	7,867	14,232	(6,365)	70,659	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Total		-	-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-	-
	Stage 2	84,891	7,867	14,232	(6,365)	70,659	-	-
	Stage 3	-	-	-	-	-	-	-
	Total		84,891	7,867	14,232	(6,365)	70,659	-

B4 Investment securities

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Held at fair value through P&L (FVTPL)	120,609	98,592	116,984
Held at fair value through other comprehensive income (FVOCI)	291,853	293,026	314,834
Held at amortised cost	159,458	141,151	117,098
	571,920	532,769	548,916

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B4 Investment securities (continued)

B4.a Held at FVTPL

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Government development bonds – Oman	108,940	86,270	104,319
Sukuk trust certificates – secured	8,103	8,099	5,287
Unquoted securities	2,500	2,500	2,500
Others	1,066	1,723	4,878
	120,609	98,592	116,984

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

B4.b Held at FVOCI

	Carrying / fair value 30 June 2019	Cost 30 June 2019	Carrying / fair value 31 December 2018	Cost 31 December 2018	Carrying / fair value 30 June 2018	Cost 30 June 2018
Unquoted securities	-	34	-	34	-	34
Quoted securities	17,763	19,918	18,909	21,022	20,934	23,899
	17,763	19,952	18,909	21,056	20,934	23,933
Treasury bills	274,113	274,818	274,117	273,350	293,900	294,376
Expected credit loss allowance	(23)	-	-	-	-	-
	274,090	274,818	274,117	273,350	293,900	294,376
	291,853	294,770	293,026	294,406	314,834	318,309

B4.c Held at amortised cost

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Quoted	161,036	142,147	114,480
Unquoted	-	-	3,025
	161,036	142,147	117,505
Expected credit loss allowance	(1,578)	(996)	(407)
	159,458	141,151	117,098

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B4 Investment securities (continued)

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

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	118,100	24,047	-	142,147
New assets originated or purchased	10,707	8,182	-	18,889
Assets derecognised or matured (excluding write offs)	-	-	-	-
At 30 June 2019	128,807	32,229	-	161,036

	Stage 1	Stage 2	Stage 3	Total	31 December 2018	30 June 2018
ECL allowance as at 1 January 2019	319	677	-	996	-	-
Impact of adopting IFRS9	-	-	-	-	332	332
Net charge for the period (C6)	162	420	-	582	664	75
	481	1,097	-	1,578	996	407

B5 Other assets

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Acceptances	16,178	30,252	37,792
Prepayments	4,974	2,206	3,637
Receivables	-	1,478	1,955
Positive fair value of derivatives	3,857	1,883	3,749
Others	10,927	9,450	8,963
Right to use Assets	9,079	-	-
	45,015	45,269	56,096

B6 Due to banks and other money market borrowings

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
<i>Local currency:</i>			
Money market borrowings	-	10,001	-
Demand balances	4,037	4,934	68,322
	4,037	14,935	68,322
<i>Foreign currency:</i>			
Money market borrowings	471,860	397,824	397,682
Demand balances	61	118	134
Syndicated borrowings	212,779	309,184	308,492
	684,700	707,126	706,308
	688,737	722,061	774,630

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B7 Customers' deposits

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Term deposits	995,958	1,014,776	1,013,573
Demand deposits	647,887	508,610	392,267
Saving deposits	286,077	276,524	282,696
Margin deposits	16,613	18,443	17,573
	<u>1,946,535</u>	<u>1,818,353</u>	<u>1,706,109</u>

	30 June 2019 (Unaudited)			31 December 2018 (Audited)			30 June 2018 (Unaudited)		
	Conventional banking	Islamic banking	Total	Conventional banking	Islamic banking	Total	Conventional banking	Islamic banking	Total
Term deposits	889,803	106,155	995,958	893,856	120,920	1,014,776	901,606	111,967	1,013,573
Demand deposits	586,494	61,393	647,887	497,353	11,257	508,610	384,137	8,130	392,267
Saving deposits	250,122	35,955	286,077	235,787	40,737	276,524	242,121	40,575	282,696
Margin deposits	9,502	7,111	16,613	10,532	7,911	18,443	9,158	8,415	17,573
Total	<u>1,735,921</u>	<u>210,614</u>	<u>1,946,535</u>	<u>1,637,528</u>	<u>180,825</u>	<u>1,818,353</u>	<u>1,537,022</u>	<u>169,087</u>	<u>1,706,109</u>

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B8 Other liabilities

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Acceptances	16,178	30,252	37,792
Staff entitlements	3,605	3,691	2,209
Income tax payable	6,278	4,988	2,328
Negative fair value of derivatives (B14)	555	3,702	5,371
Deferred tax liabilities	515	483	372
Other accruals and provisions	23,087	36,936	40,307
Expected credit loss allowance on loan commitments and financial guarantees	3,615	4,612	2,722
Lease liability	9,158	-	-
	62,991	84,664	91,101

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

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2019	659,775	104,841	1,642	766,258
New exposures	233,747	32,615	(22)	266,340
Exposure derecognised or matured/ lapsed (excluding write offs)	(182,191)	(24,872)	(554)	(207,617)
Transfers to Stage 1	1,425	(1,407)	(18)	-
Transfers to Stage 2	(16,155)	16,155	-	-
Transfers to Stage 3	(44)	(25)	69	-
At 30 June 2019	696,557	127,307	1,117	824,981

ECL	Stage 1	Stage 2	Stage 3	Total	31 December 2018	30 June 2018
ECL allowance as at 1 January 2019	2,654	1,948	10	4,612	-	-
Impact of adopting IFRS 9	-	-	-	-	2,493	4,059
Expected Credit losses recognised	440	576	5	1,021	-	-
Recoveries from expected credit losses	(1,573)	(445)	-	(2,018)	-	-
Transfers to Stage 1	18	(18)	-	-	-	-
Transfers to stage 2	(40)	40	-	-	-	-
Transfers to stage 3	-	(5)	5	-	-	-
Net charge for the period (C6)	-	-	-	-	2,119	(1,337)
	1,499	2,096	20	3,615	4,612	2,722

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B9 Share capital and Share premium

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

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

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

B10 Perpetual Tier 1 Capital Securities

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

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

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

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

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B11 Contingent liabilities and commitments

B11.a Contingent liabilities

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Guarantees	339,466	379,037	407,468
Documentary letters of credit	75,758	106,105	125,698
	415,224	485,142	533,166

B11.b Commitments

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Capital commitments	1,524	1,658	1,663
Credit related commitments	388,065	437,686	310,969
	389,589	439,344	312,632

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B12 Related party transactions

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

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Key management personnel			
Loans, advances and financing at the end of period	11,408	2,330	3,620
Loans disbursed during the period	14,109	165	182
Loans repaid during the period	(5,188)	(304)	(763)
Deposits at the end of the period	1,524	985	1,284
Deposits received during the period	750	410	597
Deposits paid during the period	(572)	(134)	(151)
Interest income during the period	219	99	180
Interest expense during the period	6	-	-
Other related parties			
Loans, advances and financing at the end of period	60,552	84,058	47,418
Loans disbursed during the period	39,534	87,554	58,701
Loans repaid during the period	(5,035)	(4,462)	(1,305)
Deposits at the end of the period	6,618	7,963	3,267
Deposits received during the period	3,935	8,207	2,976
Deposits paid during the period	(486)	(3,621)	(7,471)
Interest income during the period	1,482	2,405	225
Interest expense during the period	15	48	16
Key management personnels' compensation			
Salaries and other short term benefits	2,416	4,147	3,687
Post-employment benefits	60	213	88
Directors' sitting fees and remuneration	171	184	163
Shari'a Supervisory Board members	18	50	24

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2018 (Unaudited)
Loans, advances and (balance at end of the period)	4,000	4,000	3,129
Loans disbursed during the period	4,000	4,000	893
Loans repaid during the period	-	-	(575)
Deposits (balance at end of period)	2,853	2,395	929
Deposits received during the period	458	2,009	449
Deposits paid during the period	-	(875)	(824)
Interest income during the period	82	42	75
Interest expense during the period	43	12	2

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

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B13 Fair value of financial instruments

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

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

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

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

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

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

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

At 30 June 2019 (Unaudited)	Amortised cost	FVOCI	FVTPL	Total carrying (including accrued interest)/fair value
Assets				
Cash and balances with Central Bank	85,870	-	-	85,870
Due from banks and other money market placements	68,698	-	-	68,698
Loans, advances and financing	2,412,078	-	-	2,412,078
Investments	159,458	291,853	120,609	571,920
Other assets (excluding prepayments)	40,041	-	-	40,041
Total	2,766,145	291,853	120,609	3,178,607
Liabilities				
Due to banks and other money market borrowings				688,737
Customers' deposits				1,946,535
Other liabilities (excluding other accruals & provisions)				39,904
Subordinated loans				35,385
Certificates of deposits				509
Total				2,711,070

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B13 Fair value of financial instruments (continued)

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

	Amortized cost RO'000	FVOCI RO'000	FVTPL RO'000	Total carrying (including accrued interest)/fair value RO'000
At 30 June 2018 (Unaudited)				
Assets				
Cash and balances with Central Bank	64,296	-	-	64,296
Due from banks and other money market placements	122,223	-	-	122,223
Loans, advances and financing	2,198,162	-	-	2,198,162
Investments	117,098	314,834	116,984	548,916
Other assets (excluding prepayments)	52,459	-	-	52,459
Total	2,554,238	314,834	116,984	2,986,056
Liabilities				
Due to banks and other money market borrowings				774,630
Customers' deposits				1,706,109
Other liabilities (excluding other accruals & provisions)				50,794
Subordinated loans				35,385
Compulsorily convertible bonds				
Certificates of deposits				18,511
Total				2,585,429

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B13 Fair value of financial instruments (continued)

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

30 June 2019 (Unaudited)	Investment securities	Positive fair value of derivatives	Negative fair value of derivatives	Total
Level 1	6,213	-	-	6,213
Level 2	403,749	3,857	(555)	407,051
Level 3	2,500	-	-	2,500
	<u>412,462</u>	<u>3,857</u>	<u>(555)</u>	<u>415,764</u>

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

30 June 2018 (Unaudited)	Investments	Positive fair value of derivatives	Negative fair value of derivatives	Total
Level 1	9,384	-	-	9,384
Level 2	419,934	3,749	(5,371)	418,312
Level 3	2,500	-	-	2,500
	<u>431,818</u>	<u>3,749</u>	<u>(5,371)</u>	<u>430,196</u>

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B14 Derivatives

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

As at 30 June 2019 (Unaudited)	Positive Fair Value	Negative Fair Value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	More than 1 year
Forward foreign exchange purchase contracts	29	527	263,461	73,629	99,591	90,241
Forward foreign exchange sales contracts	3,828	28	228,339	63,988	76,671	87,680

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

As at 30 June 2018 (Unaudited)	Positive Fair Value	Negative Fair Value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	More than 1 year
Forward foreign exchange purchase contracts	292	5,080	547,415	299,468	238,047	9,900
Forward foreign exchange sales contracts	3,457	291	546,341	299,437	237,279	9,625

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C1 Interest income

	For the six months ended		For the three months ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Loans and advances to customers	61,240	54,156	30,906	27,926
Due from banks and other money market placements	1,228	2,410	481	1,194
Investments	8,310	6,370	4,306	3,391
	<u>70,778</u>	<u>62,936</u>	<u>35,693</u>	<u>32,511</u>

C2 Interest expense

	For the six months ended		For the three months ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Customers' deposits	24,226	20,426	12,749	10,514
Subordinated loans	1,215	1,215	611	611
Due to banks and other money market borrowings	14,370	13,594	6,978	7,149
Compulsorily convertible bonds	-	34	-	8
	<u>39,811</u>	<u>35,269</u>	<u>20,338</u>	<u>18,282</u>

C3 Net income earned from Islamic financing and investing activities

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

	For the six months ended		For the three months ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Financing to customers	4,979	3,939	2,591	2,027
Due from banks and other money market placements	244	112	140	66
Investment securities	613	421	307	216
	<u>5,836</u>	<u>4,472</u>	<u>3,038</u>	<u>2,309</u>

C3.b Profit paid to depositors / money market borrowings

	For the six months ended		For the three months ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Profit paid to depositors	2,821	2,115	1,481	1,092
Profit paid to banks and other money market borrowings	324	99	155	57
	<u>3,145</u>	<u>2,214</u>	<u>1,636</u>	<u>1,149</u>
Net income from Islamic financing and investing activities	<u>2,691</u>	<u>2,258</u>	<u>1,402</u>	<u>1,160</u>

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C4 Other operating income

	For the six months ended		For the three months ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Fees and commission	11,281	8,004	5,196	3,388
Net gains from foreign exchange dealings	4,112	5,233	2,194	2,362
Bad debt recovery	-	88	-	44
Profit on sale of fixed assets	2	-	-	-
Dividend income	875	380	155	111
Losses from FVTPL investments	(376)	(1,127)	(199)	(599)
	<u>15,894</u>	<u>12,578</u>	<u>7,346</u>	<u>5,306</u>

C5 Other operating expenses

	For the six months ended		For the three months ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Operating and administration costs	5,254	4,774	2,543	2,481
Capital work in progress written off	-	1,100	-	1,100
Occupancy cost	1,541	1,290	802	653
Directors remuneration	146	130	-	130
Directors sitting fees	25	33	13	15
Shari'a supervisory board remuneration and sitting fees	18	24	14	12
	<u>6,984</u>	<u>7,351</u>	<u>3,372</u>	<u>4,391</u>

C6 Loan impairment charges and other credit risk provisions, net

	For the six months ended		For the three months ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Impairment charges provided/(released) on:				
Loans, advance and financing (B3)	6,636	7,200	4,847	5,502
Loan commitments and financial guarantees (B8)	(997)	(1,337)	(1,833)	(1,771)
Due from banks and other money market placements(B2)	(35)	45	224	109
Debt securities at amortised cost (B4)	582	75	230	(63)
Debt securities at FVOCI	-	9	1	2
Recovery of loans written off earlier	(477)	(73)	(297)	4
Loan impairment charges and other credit risk provisions under IFRS 9, net	<u>5,709</u>	<u>5,919</u>	<u>3,172</u>	<u>3,783</u>

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

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

	Stage 1	Stage 2	Stage 3	Total
(Unaudited)				
As at 1 January 2019	15,923	36,464	33,035	85,422
Expected credit losses recognised	2,222	17,048	2,425	21,695
Recoveries from expected credit losses	(8,316)	(4,022)	(3,171)	(15,509)
Transfers to Stage 1	4,252	(4,008)	(244)	-
Transfers to Stage 2	(1,213)	1,950	(737)	-
Transfers to Stage 3	(57)	(984)	1,041	-
At 30 June 2019	12,811	46,448	32,349	91,608

C7 Basic and diluted earnings per share

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

	For the six months ended		For the three months ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
Profit for the period	18,584	13,982	8,432	5,078
Less: Additional Tier 1 Coupon	(3,843)	(3,843)	-	-
Less: issue expenses – Additional Tier 1 capital	(226)	(49)	(35)	(9)
Profit for the period attributable to equity holders of the Bank after coupon and issuance cost on Additional Tier 1 capital securities	14,515	10,090	8,397	5,069
Weighted average number of shares outstanding during the period (in thousands)	1,982,646	1,982,646	1,982,646	1,982,646
Basic earnings per share for the period (baizas)	7.321	5.089	4.235	2.557
Basic earnings per share annualized (baizas)	14.763	10.263	16.988	10.255

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D Financial risk management

D1 Exposure to Liquidity risk

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

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

	Carrying amount	Gross nominal outflow	Within 3 months	3 - 12 months	Over 1 year
30 June 2019					
(Unaudited)					
Non – derivative liabilities					
Due to banks and other money market borrowings	688,737	770,774	235,926	13,860	520,988
Customers' deposits	1,946,535	2,089,737	1,003,767	648,328	437,642
Other liabilities	62,991	62,991	53,833	-	9,158
Subordinated loans	35,385	45,077	351	2,105	42,621
Certificate of deposits	509	554	6	18	530
Total	2,734,157	2,969,133	1,293,883	664,311	1,010,939

	Carrying amount	Gross nominal outflow	Within 3 months	3 - 12 months	Over 1 year
31 December 2018					
(Audited)					
Non – derivative liabilities					
Due to banks and other money market borrowings	722,061	731,335	111,094	218,595	401,646
Customers' deposits	1,818,353	1,970,967	1,032,784	494,711	443,472
Other liabilities	84,664	84,664	84,664	-	-
Subordinated loans	35,392	46,318	366	2,084	43,868
Certificate of deposits	509	509	-	-	509
Total	2,660,979	2,833,793	1,228,908	715,390	889,495

	Carrying amount	Gross nominal outflow	Within 3 months	3 - 12 months	Over 1 year
30 June 2018					
(Unaudited)					
Non – derivative liabilities					
Due to banks and other money market borrowings	774,630	837,838	191,794	228,011	418,033
Customers' deposits	1,706,109	1,928,497	858,062	587,930	482,505
Other liabilities	91,101	91,101	91,101	-	-
Subordinated loans	35,385	47,549	369	2,081	45,099
Certificate of deposits	18,511	19,307	371	18,377	559
Total	2,625,736	2,924,292	1,141,697	836,399	946,196

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D Financial risk management (continued)

D2 Capital management

D2.1 Regulatory capital

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

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

	30 June 2019 (Unaudited)	31 December 2018 (audited)	30 June 2018 (Unaudited)
CET 1 capital			
Ordinary share capital	198,265	198,265	198,265
Share premium	18,037	18,037	18,037
Legal reserve	24,375	24,375	21,438
General reserve	988	988	988
Subordinated loan reserve	7,000	7,000	-
Retained earnings	40,820	38,883	44,240
Dividends declared	-	(11,896)	-
Fair value losses	(2,164)	(2,133)	(2,984)
Total CET 1 capital	287,321	273,519	279,984
Additional Tier 1 capital			
Perpetual Tier 1 Capital Securities	200,000	100,000	100,000
Total Tier 1 capital	487,321	373,519	379,984
Tier 2 capital			
Impairment allowance on portfolio basis	24,646	25,062	8,999
Fair value gains	4	4	4
Subordinated loan	28,000	28,000	35,000
Total Tier 2 capital	52,650	53,066	44,003
Total regulatory capital	539,971	426,585	423,987
Risk weighted assets			
Credit and market risks	2,745,363	2,679,306	2,593,995
Operational risk	157,920	157,920	140,106
Total risk weighted assets	2,903,283	2,837,226	2,734,101
Capital adequacy ratio			
Total regulatory capital expressed as a percentage of total risk weighted assets	18.60%	15.04%	15.51 %
Total tier I capital expressed as a percentage of total risk weighted assets	16.79%	13.16%	13.90 %
Total CET 1 capital expressed as a percentage of total risk weighted assets	9.90%	9.64%	10.24%

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

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E Segmental information

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

Retail banking:

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

Wholesale banking:

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

Head office

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

Islamic banking

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

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

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

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

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E1 Segmental information (continued)

	<i>Retail banking RO'000</i>	<i>Wholesale banking RO'000</i>	<i>Head Office RO'000</i>	<i>Islamic banking RO'000</i>	<i>Total RO'000</i>
30 June 2019					
Income Statement					
Interest income	19,534	51,244	-	-	70,778
Interest expense	(10,312)	(29,499)	-	-	(39,811)
Net interest income	9,222	21,745	-	-	30,967
Net income from Islamic financing and investing activities	-	-	-	2,691	2,691
Other operating income	2,436	13,056	2	400	15,894
Total Operating income	11,658	34,801	2	3,091	49,552
Total Operating expenses	(11,636)	(9,047)	-	(1,959)	(22,642)
Net Operating Income	22	25,754	2	1,132	26,910
Impairment on investment securities	-	(582)	-	15	(567)
Loan impairment charges and other credit risk provisions, net	1,371	(6,593)	-	80	(5,142)
Segment profit / (loss)	1,393	18,579	2	1,227	21,201
Income tax expense	(170)	(2,263)	-	(184)	(2,617)
Profit / (loss) for the period	1,223	16,316	2	1,043	18,584
Balance sheet					
Assets					
Cash and balances with Central Bank	-	73,547	-	12,323	85,870
Due from banks and other money market placements	-	57,124	-	11,574	68,698
Loans, advances and financing, net	724,372	1,492,403	-	195,303	2,412,078
Investment securities	-	551,218	-	20,702	571,920
Property, equipment and fixtures	-	-	33,981	1,025	35,006
Investment properties	-	-	2,900	-	2,900
Other assets	-	-	42,244	2,771	45,015
TOTAL ASSETS	724,372	2,174,292	79,125	243,698	3,221,487
Liabilities					
Due to banks and other money market borrowings	-	688,737	-	-	688,737
Customers' deposits	393,437	1,342,484	-	210,614	1,946,535
Other liabilities	-	-	57,205	5,786	62,991
Subordinated loans	-	-	35,385	-	35,385
Certificate of deposits	-	509	-	-	509
TOTAL LIABILITIES	393,437	2,031,730	92,590	216,400	2,734,157
TOTAL EQUITY	-	-	458,805	28,525	487,330
TOTAL LIABILITIES AND EQUITY	393,437	2,031,730	551,395	244,925	3,221,487

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E1 Segmental information (continued)

	<i>Retail banking</i> RO'000	<i>Wholesale banking</i> RO'000	<i>Head Office</i> RO'000	<i>Islamic banking</i> RO'000	<i>Total</i> RO'000
<i>30 June 2018</i>					
<i>Income Statement</i>					
Interest income	17,890	45,046	-	-	62,936
Interest expense	(8,944)	(26,325)	-	-	(35,269)
Net interest income	8,946	18,721	-	-	27,667
Net income from Islamic financing and investing activities	-	-	-	2,258	2,258
Other operating income	2,109	10,183	-	286	12,578
Total Operating income	11,055	28,904	-	2,544	42,503
Total Operating expenses	(10,565)	(6,877)	(1,100)	(1,766)	(20,308)
Net Operating Income	490	22,027	(1,100)	778	22,195
Impairment on investment securities	-	(71)	-	(9)	(80)
Loan impairment charges and other credit risk provisions, net	(2,360)	(2,553)	-	(926)	(5,839)
Segment profit / (loss)	(1,870)	19,403	(1,100)	(157)	16,276
Income tax expense	280	(2,739)	165	-	(2,294)
Profit / (loss) for the period	(1,590)	16,664	(935)	(157)	13,982
<i>Balance sheet</i>					
<i>Assets</i>					
Cash and balances with Central Bank	-	55,307	-	8,989	64,296
Due from banks and other money market placements	-	119,474	-	2,749	122,223
Loans, advances and financing, net	640,012	1,393,773	-	164,377	2,198,162
Investment securities	-	527,795	-	21,121	548,916
Property, equipment and fixtures	-	-	15,730	1,108	16,838
Investment properties	-	-	2,900	-	2,900
Other assets	-	-	55,795	301	56,096
TOTAL ASSETS	640,012	2,096,349	74,425	198,645	3,009,431
<i>Liabilities</i>					
Due to banks and other money market borrowings	-	774,496	-	134	774,630
Customers' deposits	393,052	1,143,970	-	169,087	1,706,109
Other liabilities	-	-	89,091	2,010	91,101
Subordinated loans	-	-	35,385	-	35,385
Certificate of deposits	-	18,511	-	-	18,511
TOTAL LIABILITIES	393,052	1,936,977	124,476	171,231	2,625,736
TOTAL EQUITY	-	-	355,555	28,140	383,695
TOTAL LIABILITIES AND EQUITY	393,052	1,936,977	480,031	199,371	3,009,431

E2 Comparative figures

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