Bank Muscat SAOG

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

بنك مسقط
bank muscat

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

Contents

bank muscat

Chairman's Report – First Half 2019

Dear Shareholders,

On the auspicious occasion of the 49th anniversary of Oman's Renaissance, we are delighted to join the nation in extending our best wishes to His Majesty Sultan Qaboos Bin Said to lead Oman to greater prosperity, progress and development.

I am glad to share with you the results achieved by the bank during the first half ending 30 June 2019, which are in line with innovative customer-centric strategies that have been put in place to sustain the growth momentum.

Financial Overview

The bank posted a net profit of RO 93.65 million for the period compared to RO 89.70 million reported during the same period in 2018, an increase of 4.4 per cent.

Net Interest Income from Conventional Banking and Income from Islamic Financing stood at RO 159.02 million for the six months period ended 30 June 2019 compared to RO 144.94 million for the same period in 2018, an increase of 9.7 per cent.

Non-interest income was RO 75.05 million for the six months period ended 30 June 2019 as compared to RO 71.98 million for the same period in 2018, an increase of 4.3 per cent. Operating expenses for the six months period ended 30 June 2019 was RO 97.11 million as compared to RO 93.47 million for the same period in 2018, an increase of 3.9 per cent. Net Impairment for credit and other losses for the six months period in 2019 was RO 24.99 million as against RO 16.64 million for the same period in 2018. Net

Loans and advances including Islamic financing receivables increased by 6.3 per cent to RO 9,078 million as against RO 8,542 million as at 30 June 2018. Customer deposits including Islamic Customer deposits increased by 3.7 per cent to RO 7,978 million as against RO 7,693 million as at 30 June 2018.

Strategic Initiatives & Key Developments

The second series of Meethaq Sukuk received an overwhelming response from both individual and institutional investors. The public offer, which was open to all Omani and non-Omani individuals as well as institutional investors from 29 April 2019 to 15 May 2019, closed on a high note with the Bank exercising its greenshoe option to increase the offer size of Meethaq Sukuk Second Series from RO 25,000,000 to RO 45,596,700, which was the total amount of the subscriptions received from all investors.

Bank Muscat and Meethaq have signed a finance agreement with Al Mouj Muscat for a syndicated term loan worth RO 115 million. Bank Muscat has also redoubled its efforts to support the Government's vision on economic diversification by organising najahi awareness campaign about specialised facilities and customised financing solutions which help Micro, Small and Medium Enterprises (MSMEs) to focus on growing their businesses. The Bank is the only one to offer collateral-free financing solutions customised to suit the business needs of the MSME segment.

In line with the Sultanate's ambitious e-payment initiative, Bank Muscat and Meethaq have launched contactless 'Just Tap' cards that can be used for contactless low value transactions by the cardholders. Bank Muscat is also currently in the process of

ص.ب: ١٣٤ - الرمز البريدي: ١١٢ روي - سلطنة عمان - هاتف ٢٤٧٩٥٥٥٥ (٩٦٨) فاكس ٢٤٧٦٧٢٤٢ (٩٦٨). س.ت. ١/١٤٥٧٣/٨
P.O. Box 134, Ruwi, Postal Code 112, Sultanate of Oman, C.R No.1/14573/8, Tel.: (968) 24795555 Fax: (968) 24767242,
www.bankmuscat.com

upgrading the Bank's PoS devices across the sultanate to facilitate contactless payments using cards issued by Bank Muscat or any other bank in Oman.

CSR & Sustainability

Committed to partnership in strengthening the role of MSMEs and creating job opportunities for Omani youth, the bank in partnership with Riyada, organised a Ramadan Souq at the Bank's head office attracting thousands of visitors over a three-day period. The Bank also joined hands with the Zubair Small Enterprises Centre to organise a four-day exhibition in Nizwa to benefit small businesses from Nizwa and the surrounding wilayat as part of its commitment to the MSME sector.

The 15 finalists of the 2019 edition of Green Sports, one of the longest running CSR programmes of the Bank, were announced in the past quarter and this year's programme is all set for kick-off later this month. Also, the Misfat Al Abriyeen tourism project, which was launched by Bank Muscat in partnership with the Ministry of Tourism is progressing well and is expected to be completed by the last quarter of the year. The landmark tourism development project in the wilayat of Al Hamra was initiated by the Bank in line with its commitment to partnership in sustainable development and is part of the bank's Imprints CSR programme.

Meethaq has finalised training a further 10,500 students in the current academic year under the Little Investor financial literacy programme. The programme has been conducted in partnership with the National Centre for Vocational Guidance at the Ministry of Education and Injaz Oman and will help preparatory school students who are

ص.ب: ١٣٤ - الرمز البريدي: ١١٢ روي - سلطنة عمان - هاتف ٢٤٧٩٥٥٥٥ (٩٦٨) فاكس ٢٤٧٦٧٢٤٢ (٩٦٨). س.ت. ١/١٤٥٧٣/٨
P.O. Box 134, Ruwi, Postal Code 112, Sultanate of Oman, C.R No.1/14573/8, Tel.: (968) 24795555 Fax: (968) 24767242,
www.bankmuscat.com

the future of the country to develop a healthy savings habit and entrepreneurial skills from an early age.

Awards and Accolades

In recognition of banking service excellence and contributions to sustainable development, the Bank continued to win prestigious local, regional and international awards. The Bank was recognised as the Best Private Bank in Oman by Global Finance magazine for the exceptional breadth and depth of wealth management solutions offered to Ultra High Net-worth Individuals (UHNIs). Bank Muscat also topped the Oman Economic Review – Gulf Baader Capital Markets (OER-GBCM) Best Banks in Oman survey in the large-sized banks category. Bank Muscat won the Best Industry Call Centre (Banking) at the prestigious Middle East Call Centre Awards 2019 held in the UAE. The Bank's Oryx Fund has once again won the prestigious Lipper Fund award for the 'Best MENA Equity Fund'. The Oryx Fund won the 2019 Lipper award in the 5 year category and was rated the best performing fund in the MENA region among 13 funds following a similar investment strategy. The Bank also won Muscat Securities Market's Quality of Disclosure Award for 2019 in recognition of the emphasis that the bank places on its disclosures to the market regulator, the stock exchange and the general public.

In Conclusion

On behalf of the Board of Directors, I take this opportunity to thank our stakeholders for the confidence reposed in the bank. Following 37 years of successful growth, the Sultanate's flagship financial institution is poised to further consolidate its leading position.

ص.ب: ١٣٤ - الرمز البريدي: ١١٢ روي - سلطنة عمان - هاتف ٢٤٧٩٥٥٥٥ (٩٦٨) فاكس ٢٤٧٦٧٢٤٢ (٩٦٨). س.ت. ١/١٤٥٧٣/٨
P.O. Box 134, Ruwi, Postal Code 112, Sultanate of Oman, C.R No.1/14573/8, Tel.: (968) 24795555 Fax: (968) 24767242,
www.bankmuscat.com

بنك مسقط
bank muscat

The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Market Authority to strengthen the financial market in the Sultanate.

As Oman celebrates five decades of glorious Renaissance in all fields, we express our deepest gratitude and appreciation to His Majesty Sultan Qaboos Bin Said for his extraordinary vision and for guiding the country on its path of peace, success, growth and prosperity for all.

Khalid bin Mustahail Al Mashani

bank muscat

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	Unaudited 30 June 2019 RO' 000	Audited 31 Dec 2018 RO' 000	Unaudited 30 June 2018 RO' 000
ASSETS				
Cash and balances with Central Banks		**680,741**	1,306,756	591,194
Due from banks		**632,770**	476,043	903,583
Loans and advances	3	**7,919,238**	7,828,485	7,480,340
Islamic financing receivables	3	**1,159,152**	1,110,430	1,061,629
Investments securities	4	**1,290,662**	1,269,582	1,182,740
Other assets		**244,335**	227,242	249,658
Property and equipment and software		**77,902**	69,501	66,593
		12,004,800	12,288,039	11,535,737
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from banks		**1,085,482**	951,878	959,335
Customers' deposits	5	**7,039,318**	7,504,219	6,695,978
Islamic customers' deposits	5	**938,920**	958,466	996,713
Sukuk		**90,205**	44,608	44,608
Euro medium term notes		**385,000**	385,000	385,000
Other liabilities		**492,395**	433,349	463,189
Taxation		**30,926**	43,507	25,991
Subordinated liabilities		**32,725**	39,270	114,815
		10,094,971	10,360,297	9,685,629
EQUITY				
Equity attributable to equity holders of parent:				
Share capital	6	**309,478**	294,741	294,741
Share premium		**531,535**	531,535	531,535
General reserve		**370,988**	370,988	288,898
Legal reserve		**98,247**	98,247	90,312
Revaluation reserve		**5,770**	5,770	5,770
Subordinated loan reserve		**13,090**	13,090	82,090
Cash flow hedge reserve		**57**	437	668
Cumulative changes in fair value		**(8,170)**	(5,023)	1,196
Foreign currency translation reserve		**(2,440)**	(2,068)	(1,387)
Impairment reserve / Reserve for restructured accounts	22	**4,173**	4,623	7,715
Retained profit		**457,101**	485,402	418,570
Total equity attributable to the equity holders		**1,779,829**	1,797,742	1,720,108
Perpetual Tier I capital	7	**130,000**	130,000	130,000
TOTAL EQUITY		**1,909,829**	1,927,742	1,850,108
TOTAL LIABILITIES AND EQUITY		**12,004,800**	12,288,039	11,535,737
Net assets per share (in RO)		**0.575**	0.610	0.584
Contingent liabilities and commitments	8	**2,432,788**	2,676,435	2,848,637

The interim condensed consolidated financial statements were approved by the Board of Directors on 22 July 2019.
The attached notes 1 to 23 form part of these interim condensed consolidated financial statements.

bank muscat بنك مسقط

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	Unaudited -for six months ended- 30 June 2019 RO' 000	Unaudited -for six months ended- 30 June 2018 RO' 000	Unaudited -for three months ended- 30 June 2019 RO' 000	Unaudited -for three months ended- 30 June 2018 RO' 000
Interest income	9	**225,605**	199,670	**114,214**	101,134
Interest expense	10	**(79,790)**	(68,574)	**(40,381)**	(35,444)
Net interest income		**145,815**	131,096	**73,833**	65,690
Income from Islamic financing / investment	9	**32,196**	27,604	**16,280**	14,389
Distribution to depositors	10	**(18,988)**	(13,759)	**(9,848)**	(6,975)
Net income from Islamic financing		**13,208**	13,845	**6,432**	7,414
Net interest income and income from Islamic financing		**159,023**	144,941	**80,265**	73,104
Commission and fee income (net)	11	**47,953**	46,450	**25,155**	22,181
Other operating income	12	**27,092**	25,534	**12,327**	14,445
OPERATING INCOME		**234,068**	216,925	**117,747**	109,730
OPERATING EXPENSES					
Other operating expenses		**(90,318)**	(86,825)	**(45,121)**	(42,446)
Depreciation		**(6,790)**	(6,644)	**(3,405)**	(3,255)
		(97,108)	(93,469)	**(48,526)**	(45,701)
Net impairment losses on financial assets	13	**(24,987)**	(16,637)	**(11,531)**	(10,551)
		(122,095)	(110,106)	**(60,057)**	(56,252)
PROFIT BEFORE TAXATION		**111,973**	106,819	**57,690**	53,478
Tax expense		**(18,328)**	(17,119)	**(9,849)**	(8,585)
PROFIT FOR THE PERIOD		**93,645**	89,700	**47,841**	44,893
OTHER COMPREHENSIVE (EXPENSE) INCOME					
Net other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods, net of tax					
Translation of net investments in foreign operations		**(372)**	(64)	**(309)**	(265)
Net change in fair value FVOCI - debt instruments		**2,882**	140	**891**	148
Change in fair value of cash flow hedge		**(380)**	854	**(273)**	31
		2,130	930	**309**	(86)
Other comprehensive income (expense) not to be reclassified to profit or loss in subsequent periods					
Realised gain / (loss) on FVOCI - equity instruments		**(935)**	(70)	**(603)**	(28)
Net change in fair value FVOCI - equity instruments		**(6,029)**	(4,570)	**(83)**	(2,537)
		(6,964)	(4,640)	**(686)**	(2,565)
OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD		**(4,834)**	(3,710)	**(377)**	(2,651)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**88,811**	85,990	**47,464**	42,242
Total comprehensive income for the period attributable to					
Equity holders of Parent Company		**88,811**	85,990	**47,464**	42,242
Profit attributable to					
Equity holders of Parent Company		**93,645**	89,700	**47,841**	44,893
Earnings per share (in RO)					
- Basic and diluted	14	**0.030**	0.029		

Items in other comprehensive income are disclosed net of tax.
The attached notes 1 to 23 form part of these interim condensed consolidated financial statements.

bank muscat

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2019

(Unaudited)	Share capital RO' 000	Share premium RO' 000	General reserve RO' 000	Legal reserve RO' 000	Revaluation reserve RO' 000	Subordinated loan reserve RO' 000	Cash flow hedge reserve RO' 000	Cumulative changes in fair value RO' 000	Foreign currency translation reserve RO' 000	Impairment/ Restructured loans reserve RO' 000	Retained profit RO' 000	Total RO' 000	AET I Capital RO' 000	Total RO' 000
Balance at 1 January 2019	**294,741**	**531,535**	**370,988**	**98,247**	**5,770**	**13,090**	**437**	**(5,023)**	**(2,068)**	**4,623**	**485,402**	**1,797,742**	**130,000**	**1,927,742**
Profit for the period	-	-	-	-	-	-	-	-	-	-	**93,645**	**93,645**	-	**93,645**
Transfer from restructured reserve to retained profits	-	-	-	-	-	-	-	-	-	**(450)**	**450**	-	-	-
Realised gain/(loss) on FVOCI equity investments	-	-	-	-	-	-	-	**935**	-	-	**(935)**	-	-	-
Other comprehensive (expense) income	-	-	-	-	-	-	**(380)**	**(4,082)**	**(372)**	-	-	**(4,834)**	-	**(4,834)**
Total comprehensive income	-	-	-	-	-	-	**(380)**	**(3,147)**	**(372)**	**(450)**	**93,160**	**88,811**	-	**88,811**
Dividends paid	-	-	-	-	-	-	-	-	-	-	**(103,159)**	**(103,159)**	-	**(103,159)**
Issue of bonus shares	**14,737**	-	-	-	-	-	-	-	-	-	**(14,737)**	-	-	-
Interest paid on perpetual Tier 1 capital	-	-	-	-	-	-	-	-	-	-	**(3,565)**	**(3,565)**		**(3,565)**
Balance as at 30 June 2019	**309,478**	**531,535**	**370,988**	**98,247**	**5,770**	**13,090**	**57**	**(8,170)**	**(2,440)**	**4,173**	**457,101**	**1,779,829**	**130,000**	**1,909,829**

(Unaudited)	Share capital RO' 000	Share premium RO' 000	General reserve RO' 000	Legal reserve RO' 000	Revaluation reserve RO' 000	Subordinated loan reserve RO' 000	Cash flow hedge reserve RO' 000	Cumulative changes in fair value RO' 000	Foreign currency translation reserve RO' 000	Impairment/ Restructured loans reserve RO' 000	Retained profit RO' 000	Total RO' 000	AET I Capital RO' 000	Total RO' 000
Balance at 1 January 2018	270,936	509,377	288,898	90,312	5,770	82,090	(186)	16,813	(1,323)	5,100	420,546	1,688,333	130,000	1,818,333
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	-	-	(11,187)	-	106	9,296	(1,785)	-	(1,785)
Restated balance at 1 January 2018	270,936	509,377	288,898	90,312	5,770	82,090	(186)	5,626	(1,323)	5,206	429,842	1,686,548	130,000	1,816,548
Profit for the period	-	-	-	-	-	-	-	-	-	-	89,700	89,700	-	89,700
Transfer from retained profits to restructured accounts reserve	-	-	-	-	-	-	-	-	-	2,509	(2,509)	-	-	-
Realised gain/(loss) on FVOCI equity investments	-	-	-	-	-	-	-	70	-	-	(70)	-	-	-
Other comprehensive income (expense)	-	-	-	-	-	-	854	(4,500)	(64)	-	-	(3,710)	-	(3,710)
Total comprehensive income (expense)	-	-	-	-	-	-	854	(4,430)	(64)	2,509	87,121	85,990	-	85,990
Dividends paid	-	-	-	-	-	-	-	-	-		(81,281)	(81,281)	-	(81,281)
Issue of bonus shares	13,547	-	-	-	-	-	-	-	-	-	(13,547)	-	-	-
Interest paid on perpetual Tier 1 capital	-	-	-	-	-	-	-	-	-	-	(3,565)	(3,565)	-	(3,565)
Conversion of mandatory convertible bonds	10,258	22,158	-	-	-	-	-	-	-	-	-	32,416	-	32,416
Balance as at 30 June 2018	294,741	531,535	288,898	90,312	5,770	82,090	668	1,196	(1,387)	7,715	418,570	1,720,108	130,000	1,850,108

Appropriations to legal reserve and sub-ordinated loan reserve are made on an annual basis.

The attached notes 1 to 23 form part of these interim condensed consolidated financial statements.

bank muscat

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Unaudited 30 June 2019 RO' 000	Unaudited 30 June 2018 RO' 000
CASH FLOWS FROM OPERATING ACTIVTIES		
Profit for the period before taxation	**111,973**	106,819
Adjustments for :		
Depreciation	**6,790**	6,644
Impairment for credit losses on financial assets	**24,987**	16,637
Profit on sale of investments	**(3,163)**	(73)
Dividend income	**(4,700)**	(5,050)
Operating profit before working capital changes	**135,887**	124,977
Due from banks	**(218,994)**	(137,616)
Loans and advances	**(114,066)**	(109,759)
Islamic financing receivables	**(50,774)**	(85,713)
Other assets	**(17,481)**	(55,345)
Deposits from banks	**424,133**	(28,653)
Customers' deposits	**(465,111)**	236,366
Islamic customer deposits	**(19,546)**	36,811
Other liabilities	**47,007**	56,118
Cash from / (used in) operating activities	**(278,945)**	37,186
Income taxes paid	**(30,909)**	(34,042)
Net cash from / (used in) operating activities	**(309,854)**	3,144
CASH FLOWS FROM INVESTING ACTIVTIES		
Dividends received	**4,700**	5,050
Net movement in investments	**(1,657)**	(73,511)
Net movement in property and equipment	**(2,735)**	(1,118)
Net cash from / (used in) investing activities	**308**	(69,579)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(103,159)**	(81,281)
Interest on Perpetual Tier I capital paid	**(3,565)**	(3,565)
Subordinated loan paid	**(6,545)**	(6,545)
Sukuk issuance	**45,597**	-
Net cash from / (used in) financing activities	**(67,672)**	(91,391)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(377,218)**	(157,826)
Cash and cash equivalents at 1 January	**1,426,843**	1,168,560
CASH AND CASH EQUIVALENTS AT 30 JUNE	**1,049,625**	1,010,734
Cash and cash equivalent comprises of the following:		
Cash and balances with Central Banks	**680,241**	590,694
Treasury bills	**515,885**	461,133
Due from banks	**201,861**	562,929
Deposits from banks	**(348,362)**	(604,022)
	1,049,625	1,010,734

The attached notes 1 to 23 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Muscat SAOG (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of 169 branches (30 June 2018 : 167 branches) within the Sultanate of Oman and one branch each in Riyadh, Kingdom of Saudi Arabia and Kuwait. The Bank has representative offices in Dubai, United Arab Emirates, Singapore and Tehran, Iran. The Bank has a subsidiary in Riyadh, Kingdom of Saudi Arabia. The Bank operates in Oman under a banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank has its primary listing on the Muscat Securities Market.

The Bank employed 3,778 employees as of 30 June 2019 (30 June 2018: 3,743 employees).

During 2013, the Parent Company inaugurated "Meethaq Islamic banking window" ("Meethaq") in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations. Meethaq operates under an Islamic banking license granted by the CBO on 13 January 2013. Meethaq's Shari'a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari'a rules and principles in its transactions and activities. The principal activities of Meethaq include: accepting customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes; undertaking Shari'a compliant investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. Meethaq has 20 branches (June 2018 - 19 branches) in the Sultanate of Oman.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the period ended 30 June 2019 of the Bank are prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting', applicable regulations of the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

For the period ended 30 June 2019, the Group has adopted all of the 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. The adoption of new and revised standards and interpretations has not resulted in any major changes to the Group's accounting policies and has not affected the amounts reported for the prior periods.

The unaudited interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year 2019.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The unaudited interim condensed financial statements have been prepared on the historical cost basis, modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivative financial instruments, FVOCI investment securities and investment recorded at fair value through profit or loss. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The Islamic window operation of the Parent Company; "Meethaq" uses Financial Accounting Standards ("FAS"), issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), for preparation and reporting of its financial information. Meethaq's financial information is included in the results of the Bank, after adjusting financial reporting differences, if any, between AAOIFI and IFRS.

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

IFRS 16 Leases

The Group has applied the accounting standard "IFRS 16 Leases" from its mandatory adoption date of 1 January 2019. It has applied the simplified transition approach and has not restated comparative amounts for the period prior to first adoption. The group has also applied the exemptions for short term leases and low value exemptions. The Group has applied the practical expedient to grandfather the definition of a lease on transition. This means that it has applied IFRS 16 to all contracts entered before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Group has recognised new assets and liabilities for its leases of premises, ATM/CDM's (automated teller machines and cash dispensing machines), vehicles and certain IT infrastructure facilities. The nature of expenses related to those leases has now changed because the Group has recognised a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group has recognised RO 12.5 million under right-of-use assets and additional lease liabilities as at 1 January 2019 of in the financial statements.

3. LOANS AND ADVANCES / ISLAMIC FINANCING RECEIVABLES

Loans and advances - Conventional banking

	Unaudited 30 June 2019 RO' 000	Audited 31 Dec 2018 RO' 000	Unaudited 30 June 2018 RO' 000
Corporate loans	**4,127,803**	4,108,883	3,800,750
Overdrafts and credit cards	**313,343**	279,632	303,397
Loans against trust receipts / Other advances	**551,175**	563,129	533,598
Bills purchased and discounted	**79,331**	62,707	68,307
Personal and housing loans	**3,178,513**	3,121,866	3,061,415
	8,250,165	8,136,217	7,767,467
Less: Impairment loss allowance	**(330,927)**	(307,732)	(287,127)
	7,919,238	7,828,485	7,480,340

Islamic financing receivables

	Unaudited 30 June 2019 RO' 000	Audited 31 Dec 2018 RO' 000	Unaudited 30 June 2018 RO' 000
Housing finance	**489,413**	484,705	472,091
Corporate finance	**649,867**	603,404	558,125
Consumer finance	**43,682**	43,700	43,500
	1,182,962	1,131,809	1,073,716
Less: Impairment loss allowance	**(23,810)**	(21,379)	(12,087)
	1,159,152	1,110,430	1,061,629

Movement in impairment loss is analysed below:

	Unaudited 30 June 2019 RO' 000	Audited 31 Dec 2018 RO' 000	Unaudited 30 June 2018 RO' 000
1 January	**329,111**	327,784	327,784
Remeasurement on transition to IFRS 9	**-**	(32,847)	(34,912)
At 1 January	**329,111**	294,937	292,872
Impairment for credit losses	**42,568**	78,864	30,484
Interest reserved during the period	**6,567**	10,060	5,201
Recoveries from impairment for credit losses	**(16,468)**	(36,706)	(19,932)
Reserve Interest recovered during the period	**(2,063)**	(5,575)	(2,389)
Written off during the period	**(5,916)**	(7,614)	(7,038)
Transfer from / (to) Memorandum portfolio	**957**	(4,686)	157
Transfer to collateral pending sale	**-**	(19)	(19)
Other movements	**(19)**	(150)	(122)
At 30 June / 31 December	**354,737**	329,111	299,214

3. LOANS AND ADVANCES / ISLAMIC FINANCING RECEIVABLES (continued)

At 30 June 2019, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 291.5 million (30 June 2018 : RO 271.2 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

The maturity profile of loans and advances / Islamic financing receivables was as follows

	Unaudited 30 June 2019 RO' 000	*Audited 31 Dec 2018 RO' 000*	*Unaudited 30 June 2018 RO' 000*
On demand or within 1 month	**1,455,062**	1,397,278	1,217,246
2 to 3 months	**556,895**	514,268	702,909
4 to 12 months	**811,680**	862,832	803,832
1 to 5 years	**2,226,743**	2,184,667	1,854,198
More than 5 years	**4,028,010**	3,979,870	3,963,784
	9,078,390	8,938,915	8,541,969

4. INVESTMENT SECURITIES

	Unaudited 30 June 2019 RO' 000	*Audited 31 Dec 2018 RO' 000*	*Unaudited 30 June 2018 RO' 000*
Equity investments:			
Designated as at FVTPL	**32,140**	30,119	32,339
Designated as at FVOCI	**89,227**	92,509	92,910
Equity investments	**121,367**	122,628	125,249
Debt investments:			
Designated as at FVTPL	**-**	-	-
Measured at FVOCI	**62,243**	62,879	62,551
Measured at amortised cost	**1,108,030**	1,085,188	997,417
Gross Debt investments	**1,170,273**	1,148,067	1,059,968
Less: Impairment loss allowance	**(978)**	(1,113)	(2,477)
Net debt investments	**1,169,295**	1,146,954	1,057,491
Total investment securities	**1,290,662**	1,269,582	1,182,740

4. INVESTMENT SECURITIES (continued)

As at 30 June 2019 (unaudited)	FVTPL RO' 000	FVOCI RO' 000	Amortised Cost RO' 000	Total RO' 000
Quoted Equities:				
Foreign securities	**10,686**	**63,118**	**-**	**73,804**
Other services sector	**-**	**7,176**	**-**	**7,176**
Unit funds	**11,423**	**-**	**-**	**11,423**
Financial service sector	**604**	**6,311**	**-**	**6,915**
Industrial sector	**-**	**1,626**	**-**	**1,626**
	22,713	**78,231**	**-**	**100,944**
Unquoted Equities:				
Financial services sector	**267**	**-**	**-**	**267**
Foreign securities	**682**	**1,672**	**-**	**2,354**
Local securities	**7,025**	**9,324**	**-**	**16,349**
Unit funds	**1,453**	**-**	**-**	**1,453**
	9,427	**10,996**	**-**	**20,423**
Equity investments	**32,140**	**89,227**	**-**	**121,367**
Quoted Debt:				
Government Bonds	**-**	**-**	**500,687**	**500,687**
Foreign Bonds	**-**	**35,481**	**5,020**	**40,501**
Local Bonds	**-**	**21,513**	**71,922**	**93,435**
	-	**56,994**	**577,629**	**634,623**
Unquoted Debt:				
Treasury Bills	**-**	**-**	**515,885**	**515,885**
Local Bonds	**-**	**5,249**	**14,516**	**19,765**
	-	**5,249**	**530,401**	**535,650**
Gross debt investments	**-**	**62,243**	**1,108,030**	**1,170,273**
Less: Impairment loss allowance	**-**	**(815)**	**(163)**	**(978)**
Net debt investments	**-**	**61,428**	**1,107,867**	**1,169,295**
Net investments	**32,140**	**150,655**	**1,107,867**	**1,290,662**
As at 30 June 2018	32,339	153,336	997,065	1,182,740

As at 31 December 2018 (Audited)	FVTPL RO' 000	FVOCI RO' 000	Amortised Cost RO' 000	Total RO' 000
Quoted Equities:				
Foreign securities	9,347	61,977	-	71,324
Other services sector	-	10,293	-	10,293
Unit funds	11,350	-	-	11,350
Financial service sector	610	7,408	-	8,018
Industrial sector	-	2,069	-	2,069
	21,307	81,747	-	103,054
Unquoted Equities:				
Foreign securities	1,155	1,615	-	2,770
Local securities	7,232	9,147	-	16,379
Unit funds	425	-	-	425
	8,812	10,762	-	19,574
Equities portfolio	30,119	92,509	-	122,628
Quoted Debt:				
Government Bonds	-	-	501,241	501,241
Foreign Bonds	-	34,036	2,018	36,054
Local Bonds	-	20,143	71,896	92,039
	-	54,179	575,155	629,334
Unquoted Debt:				
Treasury Bills	-	-	495,677	495,677
Local Bonds	-	8,700	14,356	23,056
	-	8,700	510,033	518,733
Gross debt portfolio	-	62,879	1,085,188	1,148,067
Less: Impairment loss allowance	-	(932)	(181)	(1,113)
Net debt portfolio	-	61,947	1,085,007	1,146,954
Net investments	30,119	154,456	1,085,007	1,269,582

5. CUSTOMERS' DEPOSITS

Conventional customers' deposits

	Unaudited 30 June 2019 RO' 000	Audited 31 Dec 2018 RO' 000	Unaudited 30 June 2018 RO' 000
Time deposits	**2,433,215**	3,082,061	2,079,018
Savings accounts	**2,542,068**	2,434,006	2,442,908
Current accounts	**1,776,335**	1,650,401	1,853,034
Call accounts	**224,423**	282,045	253,431
Others	**63,277**	55,706	67,587
	7,039,318	7,504,219	6,695,978

Islamic customers' deposits

	Unaudited 30 June 2019 RO' 000	Audited 31 Dec 2018 RO' 000	Unaudited 30 June 2018 RO' 000
Time deposits	**555,998**	590,735	639,792
Savings accounts	**178,399**	145,436	132,323
Current accounts	**127,934**	99,663	101,487
Other	**76,589**	122,632	123,111
	938,920	958,466	996,713

The maturity profile of customer's deposits (including Islamic customers' deposits) was as follows:

	Unaudited 30 June 2019 RO' 000	Audited 31 Dec 2018 RO' 000	Unaudited 30 June 2018 RO' 000
On demand or within 1 month	**633,770**	1,356,406	619,291
2 to 3 months	**658,505**	716,035	637,433
4 to 12 months	**2,028,775**	1,789,029	1,785,132
1 to 5 years	**3,254,666**	3,232,261	3,254,676
More than 5 years	**1,402,522**	1,368,954	1,396,159
	7,978,238	8,462,685	7,692,691

6. SHARE CAPITAL

In the Bank's annual general meeting held on 25 March 2019 the shareholders approved a dividend of 40%, 35% in the form of cash and 5% in the form of bonus shares. Thus shareholders received cash dividend of RO 0.035 per ordinary share of RO 0.100 each aggregating to RO 103.159 million on Bank's existing share capital. In addition, they received bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 147,370,636 shares of RO 0.100 each amounting to RO 14.737 million.

Shareholders of the Bank who hold 10% or more of the bank's shares are given below:

	Unaudited 30 June 2019 RO' 000	*Audited 31 Dec 2018 RO' 000*	*Unaudited 30 June 2018 RO' 000*
Number of shares held			
Royal Court Affairs	**731,160,223**	696,343,070	696,343,070
Dubai Financial Group LLC	**364,148,020**	346,807,639	348,807,639
% of shareholding			
Royal Court Affairs	**23.63%**	23.63%	23.63%
Dubai Financial Group LLC	**11.77%**	11.77%	11.77%

7. PERPETUAL TIER I CAPITAL

On 3 April 2017, the Bank issued Additional Equity Tier 1 (AET1) capital deposit amounting to OMR 130 million. The AET1 capital constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity. The AET 1 capital do not have a fixed or final redemption date. They are first callable by the Bank after a minimum of 5 years from the instrument date and thereafter in accordance with the terms of the agreement and subject to prior approval of Central Bank of Oman. The AET1 capital bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 5.5%. Thereafter the interest rate will be reset as per the terms of the agreement. Interest will be payable semi-annually in arrears and treated as deduction from equity. The Instrument meets all the requirements of AET 1 issuance as mandated by Basel and Central Bank of Oman norms.

8. CONTINGENT LIABILITIES

	Unaudited 30 June 2019 RO' 000	*Audited 31 Dec 2018 RO' 000*	*Unaudited 30 June 2018 RO' 000*
Letters of credit	**351,966**	398,549	458,770
Guarantees	**2,080,822**	2,277,886	2,389,867
	2,432,788	2,676,435	2,848,637

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

9. INTEREST INCOME / INCOME ON ISLAMIC FINANCING / INVESTMENT

	Unaudited -for six months ended- 30 June 2019 RO' 000	Unaudited -for six months ended- 30 June 2018 RO' 000	Unaudited -for three months ended- 30 June 2019 RO' 000	Unaudited -for three months ended- 30 June 2018 RO' 000
Loans and advances	**201,070**	179,917	**101,624**	90,213
Due from banks	**10,133**	9,070	**4,876**	5,280
Investments	**14,402**	10,683	**7,714**	5,641
	225,605	199,670	**114,214**	101,134
Islamic financing receivable	**30,410**	25,879	**15,377**	13,469
Islamic due from banks	**481**	425	**247**	249
Islamic investment	**1,305**	1,300	**656**	671
	32,196	27,604	**16,280**	14,389
	257,801	227,274	**130,494**	115,523

10. INTEREST EXPENSE / DISTRIBUTION TO DEPOSITORS

	Unaudited -for six months ended- 30 June 2019 RO' 000	Unaudited -for six months ended- 30 June 2018 RO' 000	Unaudited -for three months ended- 30 June 2019 RO' 000	Unaudited -for three months ended- 30 June 2018 RO' 000
Customer's deposits	**56,744**	45,523	**28,783**	23,503
Subordinated liabilities/manadatory convertible bonds	**1,039**	3,588	**483**	1,606
Bank borrowings	**13,205**	10,202	**6,715**	5,448
Euro medium term notes	**8,802**	9,261	**4,400**	4,887
	79,790	68,574	**40,381**	35,444
Islamic customers deposits	**13,945**	11,740	**7,190**	5,883
Islamic bank borrowings	**3,601**	876	**1,794**	516
Profit paid on Sukuk	**1,442**	1,143	**864**	576
	18,988	13,759	**9,848**	6,975
	98,778	82,333	**50,229**	42,419

11. COMMISSION AND FEES INCOME (NET)

The commission and fees shown in the interim condensed consolidated statement of comprehensive income is net off commission and fees paid of RO 534 thousands (30 June 2018 : RO 614 thousands).

12. OTHER OPERATING INCOME

	Unaudited -for six months ended- 30 June 2019 RO' 000	Unaudited -for six months ended- 30 June 2018 RO' 000	Unaudited -for three months ended- 30 June 2019 RO' 000	Unaudited -for three months ended- 30 June 2018 RO' 000
Foreign exchange	**18,371**	17,669	**8,988**	9,498
Profit on investment securities	**2,228**	3	**40**	(359)
Dividend income	**4,700**	5,050	**2,452**	4,341
Other income	**1,793**	2,812	**847**	965
	27,092	25,534	**12,327**	14,445

Dividend income recognised on FVOCI investments during the period ended 30 June 2019 is RO 3,809 thousands. (30 June 2018: RO 4,285 thousands)

13. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Unaudited -for six months ended- 30 June 2019 RO' 000	Unaudited -for six months ended- 30 June 2018 RO' 000	Unaudited -for three months ended- 30 June 2019 RO' 000	Unaudited -for three months ended- 30 June 2018 RO' 000
(Impairment) / reversal of impairment for credit losses:				
- Due from banks	**(327)**	(283)	**21**	(133)
- Loans and advances to customers	**(42,568)**	(30,484)	**(20,590)**	(20,605)
- Financial guarantees	**(1,768)**	(5,669)	**274**	(99)
- Acceptances	**(16)**	(4)	**(44)**	(4)
- Loan commitments / unutilised limits	**2,355**	(24)	**458**	(24)
- Investments	**134**	(750)	**111**	(375)
	(42,190)	(37,214)	**(19,770)**	(21,240)
Recoveries from impairment for credit losses	**16,468**	19,938	**7,850**	10,240
Recoveries from loans written off earlier	**735**	639	**389**	449
	17,203	20,577	**8,239**	10,689
	(24,987)	(16,637)	**(11,531)**	(10,551)

14. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders (after adjusting for interest on the convertible bonds, net of tax) for the period by the weighted average number of ordinary shares oustanding during the period as follows:

	Unaudited 30 June 2019	*Unaudited* 30 June 2018
Profit attributable to ordinary shareholders of parent company for diluted earnings per share (RO 000's)	**93,645**	89,700
Interest on convertible bonds, net of taxation (RO 000's)	**-**	206
	93,645	89,906
Weighted average number of shares in issue during the period (000's)	**3,094,783**	3,050,010
Basic and diluted earnings per share (RO)	**0.030**	0.029

There are no instruments that are dilutive in nature, hence the basic and diluted earnings per share are same for both the periods.

15. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. The terms of these transactions are approved by the Bank's Board and Management. The balances in respect of related parties included in the interim condensed consolidated statement of financial position as at the reporting date are as follows:

	Unaudited 30 June 2019 RO' 000	*Audited* 31 Dec 2018 RO' 000	*Unaudited* 30 June 2018 RO' 000
a) Directors and senior management			
Loans and advances (gross and net)	**2,968**	2,557	4,168
Current, deposit and other accounts	**1,551**	1,684	1,156
b) Major shareholders and others			
Loans and advances (gross & net)	**68,419**	66,024	50,515
Current, deposit and other accounts	**46,904**	56,746	88,965
Customers' liabilities under documentary credits, guarantees and other commitments	**7,295**	7,037	6,219

The income and expenses in respect of related parties included in the interim condensed consolidated financial statements are as follows:

	Unaudited 30 June 2019 RO' 000	*Unaudited* 30 June 2018 RO' 000
a) Directors and senior management		
Interest income	68	65
Interest expenditure	26	3
b) Major shareholders and others		
Interest income	1,577	1,281
Interest expenditure	664	813

During 2017, the Group entered into a settlement agreement with its related party Dubai Group LLC ('the borrower') on their exposure with the bank. As on 31 December 2017, the Group carried 100% provision towards this exposure. Under the agreement, the Group received RO 2.520 million as full and final settlement from the borrower in March 2018 against an exposure of RO 8.755 million. The settlement and the balance write-off is approved by the Board of directors and has necessary regulatory approval.

16. DERIVATIVES

As at 30 June 2019 (unaudited)	Positive fair value RO' 000	Negative fair value RO' 000	Notional total RO' 000	Notional amounts by term to maturity 0-3 months RO' 000	4-12 months RO' 000	> 12 months RO' 000
Fair value hedge	**-**	**91**	**12,969**	**-**	**-**	**12,969**
Cash flow hedge	**67**	**-**	**32,725**	**-**	**-**	**32,725**
Interest rate swaps	**12,411**	**11,936**	**717,747**	**-**	**154,100**	**563,647**
Commodities purchase contracts	**701**	**7,043**	**101,951**	**73,345**	**27,701**	**905**
Commodities sale contracts	**7,183**	**664**	**101,951**	**73,345**	**27,701**	**905**
Forward purchase contracts	**281**	**2,261**	**1,940,372**	**1,190,098**	**647,486**	**102,788**
Forward sales contracts	**5,325**	**3,712**	**1,934,922**	**1,190,521**	**642,600**	**101,801**
Total	**25,968**	**25,707**	**4,842,637**	**2,527,309**	**1,499,588**	**815,740**

As at 31 December 2018 (audited)	Positive fair value RO' 000	Negative fair value RO' 000	Notional total RO' 000	Notional amounts by term to maturity 0-3 months RO' 000	4-12 months RO' 000	> 12 months RO' 000
Fair value hedge	-	301	29,637	-	-	29,637
Cash flow hedge	514	-	39,270	-	-	39,270
Interest rate swaps	6,553	6,533	701,597	8,767	-	692,830
Currency options bought	3	-	321	321	-	-
Currency options sold	-	3	321	321	-	-
Commodities purchase contracts	758	5,187	115,315	64,965	45,905	4,445
Commodities sale contracts	5,333	738	115,315	64,965	45,905	4,445
Forward purchase contracts	434	1,830	1,661,242	1,058,525	491,319	111,398
Forward sales contracts	4,836	4,864	1,658,214	1,060,506	487,200	110,508
Total	18,431	19,456	4,321,232	2,258,370	1,070,329	992,533

As at 30 June 2018 (unaudited)	Positive fair value RO' 000	Negative fair value RO' 000	Notional total RO' 000	Notional amounts by term to maturity 0-3 months RO' 000	4-12 months RO' 000	> 12 months RO' 000
Fair value hedge	-	659	61,574	-	-	61,574
Cash flow hedge	790	-	45,815	-	-	45,815
Interest rate swaps	9,138	9,114	647,570	1,283	13,110	633,177
Currency options - bought	145	-	16,945	10,718.00	6,227.00	-
Currency options - sold	-	145	16,945	10,718	6,227	-
Commodity options - bought	18	-	840	840.00	-	-
Commodity options - sold	-	18	840	840	-	-
Commodities purchase contracts	592	3,953	119,603	93,430.00	12,371.00	13,802
Commodities sale contracts	3,883	548	110,335	90,306	6,227	13,802
Forward purchase contracts	481	2,331	1,414,880	1,029,208.00	280,913.00	104,759
Forward sales contracts	18,286	524	1,405,985	1,018,359	284,765	102,861
Total	33,333	17,292	3,841,332	2,255,702	609,840	975,790

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

17. SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive committee that are used to make strategic decisions. The committee considers the business from both a geographic and product perspective. Geographically, management considers the performance of whole bank in Oman and International markets. The Oman market is further segregated into corporate, consumer, wholesale and Islamic banking as all of these business lines are located in Oman. Segment information in respect of geographical locations is as follows:

Unaudited 30 June 2018 RO' 000 Total	Unaudited 30 June 2018 RO' 000 International	Unaudited 30 June 2018 RO' 000 Oman		Unaudited 30 June 2019 RO' 000 Oman	Unaudited 30 June 2019 RO' 000 International	Unaudited 30 June 2019 RO' 000 Total
199,670	9,540	190,130	Interest income	215,200	10,405	225,605
(68,574)	(5,099)	(63,475)	Interest expense	(74,023)	(5,767)	(79,790)
27,604	-	27,604	Income from Islamic financing	32,196	-	32,196
(13,759)	-	(13,759)	Distribution to depositors	(18,988)	-	(18,988)
46,450	3,355	43,095	Commission and fee income (net)	45,769	2,184	47,953
25,534	2,642	22,892	Other operating income	25,596	1,496	27,092
216,925	10,438	206,487		225,750	8,318	234,068
			Operating expenses			
(86,825)	(4,056)	(82,769)	Other operating expenses	(86,712)	(3,606)	(90,318)
(6,644)	(126)	(6,518)	Depreciation	(6,641)	(149)	(6,790)
(93,469)	(4,182)	(89,287)		(93,353)	(3,755)	(97,108)
(16,637)	(7,200)	(9,437)	Net impairment losses on financial assets	(17,041)	(7,946)	(24,987)
(17,119)	(33)	(17,086)	Tax expense	(18,311)	(17)	(18,328)
(127,225)	(11,415)	(115,810)		(128,705)	(11,718)	(140,423)
89,700	(977)	90,677	**Profit (Loss) for the period**	97,045	(3,400)	93,645
			Other information			
11,535,737	506,129	11,029,608	Total assets	11,510,379	494,421	12,004,800

17. SEGMENTAL INFORMATION (continued)

The Group reports the segment information by the following business segments Corporate, Consumer, Wholesale, International and Islamic banking. The following table shows the distribution of the Group's operating income, net profit and total assets by business segments:

30 June 2019 (unaudited)	Corporate banking RO '000	Consumer banking RO '000	Wholesale banking RO '000	International banking* RO '000	Subtotal RO '000	Islamic banking RO '000	Total RO '000
Segment revenue							
Net interest income	**63,185**	**65,430**	**12,563**	**4,637**	**145,815**	**-**	**145,815**
Net income from Islamic financing	**-**	**-**	**-**	**-**	**-**	**13,208**	**13,208**
Commission, fees and other income	**9,399**	**35,275**	**24,874**	**3,701**	**73,249**	**1,796**	**75,045**
Operating income	**72,584**	**100,705**	**37,437**	**8,338**	**219,064**	**15,004**	**234,068**
Segment costs							
Operating expenses	**(15,379)**	**(61,015)**	**(8,975)**	**(4,735)**	**(90,104)**	**(7,004)**	**(97,108)**
Impairment (net)	**(9,070)**	**(3,408)**	**(497)**	**(9,946)**	**(22,921)**	**(2,066)**	**(24,987)**
Tax expense	**(7,761)**	**(5,843)**	**(4,112)**	**278**	**(17,438)**	**(890)**	**(18,328)**
	(32,210)	**(70,266)**	**(13,584)**	**(14,403)**	**(130,463)**	**(9,960)**	**(140,423)**
Segment profit for the period	**40,374**	**30,439**	**23,853**	**(6,065)**	**88,601**	**5,044**	**93,645**
Segment assets	**4,493,995**	**3,353,814**	**2,244,634**	**526,059**	**10,618,502**	**1,386,298**	**12,004,800**

30 June 2018 (unaudited)	Corporate banking RO '000	Consumer banking RO '000	Wholesale banking RO '000	International banking* RO '000	Subtotal RO '000	Islamic banking RO '000	Total RO '000
Segment revenue							
Net interest income	54,994	62,318	9,290	4,494	131,096	-	131,096
Net income from Islamic financing	-	-	-	-	-	13,845	13,845
Commission, fees and other income	12,318	31,916	20,273	6,012	70,519	1,465	71,984
Operating income	67,312	94,234	29,563	10,506	201,615	15,310	216,925
Segment costs							
Operating expenses	(15,276)	(57,581)	(8,558)	(5,226)	(86,641)	(6,828)	(93,469)
Impairment (net)	(3,997)	(2,725)	(1,329)	(7,200)	(15,251)	(1,386)	(16,637)
Tax expense	(7,520)	(5,315)	(2,913)	(233)	(15,981)	(1,138)	(17,119)
	(26,793)	(65,621)	(12,800)	(12,659)	(117,873)	(9,352)	(127,225)
Segment profit for the period	40,519	28,613	16,763	(2,153)	83,742	5,958	89,700
Segment assets	4,263,259	3,285,879	2,126,178	540,217	10,215,533	1,320,204	11,535,737

Note: * International banking includes overseas operations and cost allocations from Oman operations

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

18 ASSET LIABILITY MATURITY

The asset and liability maturity profile was as follows:

	Unaudited 30 June 2019 RO' 000	Audited 31 Dec 2018 RO' 000	Unaudited 30 June 2018 RO' 000
ASSETS			
On demand or within 1 month	**2,582,105**	3,153,049	2,376,106
2 to 3 months	**965,830**	846,519	1,144,846
4 to 12 months	**1,225,453**	1,180,962	1,296,134
1 to 5 years	**2,789,220**	2,691,699	2,353,863
More than 5 years	**4,442,192**	4,415,810	4,364,788
	12,004,800	12,288,039	11,535,737
LIABILITIES AND EQUITY			
On demand or within 1 month	**1,184,754**	1,932,824	1,216,421
2 to 3 months	**1,136,452**	1,068,774	955,352
4 to 12 months	**2,489,732**	2,041,255	2,151,170
1 to 5 years	**3,880,376**	3,947,508	3,980,856
More than 5 years	**3,313,486**	3,297,678	3,231,938
	12,004,800	12,288,039	11,535,737
MISMATCH			
On demand or within 1 month	**1,397,351**	1,220,225	1,159,685
2 to 3 months	**(170,622)**	(222,255)	189,494
4 to 12 months	**(1,264,279)**	(860,293)	(855,036)
1 to 5 years	**(1,091,156)**	(1,255,809)	(1,626,993)
More than 5 years	**1,128,706**	1,118,132	1,132,850
	-	-	-

Mismatch represents difference between assets and liabilities for each maturity band.

19. CAPITAL ADEQUACY

The following table sets out the capital adequacy position of the Group as per Basel III regulatory requirements

	Unaudited 30 June 2019 RO' 000	Audited 31 Dec 2018 RO' 000	Unaudited 30 June 2018 RO' 000
Common Equity Tier I capital	**1,634,490**	1,635,605	1,569,794
AET I capital deposit	**130,000**	130,000	130,000
Tier I capital	**1,764,490**	1,765,605	1,699,794
Tier II capital	**108,589**	121,674	58,995
Total regulatory capital	**1,873,079**	1,887,279	1,758,789
Total risk weighted assets	**9,929,963**	9,818,019	10,089,431
Of which: Credit risk weighted assets	**8,986,696**	8,853,084	9,070,474
Of which: Market risk weighted assets	**143,740**	165,407	253,545
Of which: Operational risk weighted assets	**799,528**	799,528	765,412
Capital ratios :			
Common Equity Tier 1	**16.46%**	16.66%	15.56%
Tier 1	**17.77%**	17.98%	16.85%
Total capital	**18.86%**	19.22%	17.43%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

19. CAPITAL ADEQUACY (continued)

The following table sets out the capital adequacy position of the Group as per Basel II guidelines issued by Central Bank of Oman for monitoring purposes:

	Unaudited *30 June 2019* *RO' 000*	*Audited* *31 Dec 2018* *RO' 000*	*Unaudited* *30 June 2018* *RO' 000*
Tier I capital	**1,779,099**	1,782,254	1,719,023
Tier II capital	**107,725**	120,732	39,767
Total regulatory capital	**1,886,824**	1,902,986	1,758,790
Total risk weighted assets	**9,929,963**	9,818,019	10,089,431
Of which: Credit risk weighted assets	**8,986,696**	8,853,084	9,070,474
Of which: Market risk weighted assets	**143,740**	165,407	253,545
Of which: Operational risk weighted assets	**799,528**	799,528	765,412
Capital ratios :			
Tier 1	**17.92%**	18.15%	17.04%
Total capital	**19.00%**	19.38%	17.43%

20. LIQUIDITY

The following table sets out the Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) of the Group:

	Unaudited *30 June 2019* *RO' 000*	*Audited* *31 Dec 2018* *RO' 000*	*Unaudited* *30 June 2018* *RO' 000*
LCR	**303%**	298%	168%
NSFR	**113%**	107%	109%

21. LEVERAGE RATIO

Under its Basel III guidelines, Basel Committee for Banking Supervision (BCBS) introduced a non-risk sensitive Leverage Ratio to address excessive build-up of on and off-balance sheet exposures, which was the root cause of the Financial/Credit crisis of 2008. The ratio is calculated by dividing the Tier I capital of the bank by the Bank's total assets (sum of all on and off-balance sheet assets). Being a DSIB the Bank is required to maintain a higher Leverage ratio of 5% considering the systemic importance.

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure as at the reporting dates:

		Unaudited 30 June 2019 RO' 000	*Audited 31 Dec 2018 RO' 000*	*Unaudited 30 June 2018 RO' 000*
1	Total consolidated assets as per published financial statements	**12,004,800**	12,288,039	11,535,737
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(29,218)**	(33,299)	(38,457)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**-**	-	
4	Adjustments for derivative financial instruments	**96,509**	61,849	69,829
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	**-**	-	
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	**1,545,139**	1,618,560	1,786,836
7	Other adjustments	**(7,800)**	(7,733)	(6,108)
8	Leverage ratio exposure	**13,609,430**	13,927,416	13,347,837

Table 2: Leverage ratio common disclosure template

		Unaudited 30 June 2019 RO' 000	*Audited 31 Dec 2018 RO' 000*	*Unaudited 30 June 2018 RO' 000*
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**12,004,800**	12,288,039	11,535,737
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	**(37,018)**	(41,032)	(44,565)
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	**11,967,782**	12,247,007	11,491,172
	Derivative Exposures			
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	**28,088**	21,576	35,410
5	Add-on amounts for PFE associated with all derivatives transactions	**68,421**	40,273	34,419
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**-**	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**-**	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	**-**	-	-
9	Adjusted effective notional amount of written credit derivatives	**-**	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-**	-	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**96,509**	61,849	69,829
	Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**-**	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-	-
14	CCR exposure for SFT assets	**-**	-	-
15	Agent transaction exposures	**-**	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	-	-
	Other Off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	**3,111,946**	3,359,619	3,361,001
18	(Adjustments for conversion to credit equivalent amounts)	**(1,566,807)**	-1,741,059	-1,574,165
19	**Off-balance sheet items (sum of lines 17 and 18)**	**1,545,139**	1,618,560	1,786,836
	Capital and total exposures			
20	Tier 1 capital	**1,764,490**	1,765,605	1,699,794
21	Total exposures (sum of lines 3, 11, 16 and 19)	**13,609,430**	13,927,416	13,347,837
	Leverage Ratio			
22	**Basel III leverage ratio (%)**	**13.0%**	12.7%	12.7%

22. CLASSIFICATION, MEASUREMENT AND IMPAIRMENT OF FINANCIAL INSTRUMENTS

1. IFRS 9 Financial Instruments

The Group 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 Group did not early adopt IFRS 9 in any previous periods.

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

2. Classification and measurement of financial assets and financial liabilities

2.1 Classification of financial assets and financial liabilities

The Group classifies its financial assets in the following measurement categories:
- at fair value through other comprehensive income (FVOCI) or
- at fair value through profit or loss (FVTPL);
- at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the financial assets' cash flows.

The Group classifies its financial liabilities at amortised cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities at fair value through profit or loss such as derivative liabilities.

2.2 Measurement of financial assets and financial liabilities

2.2.1 Financial assets measured at amortised cost

Debt instruments
Investments in debt instruments are measured at amortised cost where they have:
- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost less impairment. The measurement of credit impairment is included in *note 3 Impairment of financial assets*.

2.2.2 Financial assets measured at fair value through other comprehensive income
a) Debt instruments

Investments in debt instruments are measured at fair value through other comprehensive income where they have:
- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in profit and loss. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. The measurement of credit impairment is included in *note 3 Impairment of financial assets.*

22. CREDIT QUALITY ANALYSIS (continued)

b) Equity instruments
Investment in equity instruments that are not held for trading are measured at fair value through other comprehensive income, where an irrevocable election has been made by management.

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

2.2.3 Items at fair value through profit or loss
Items at fair value through profit or loss comprise:
• items held for trading;
• items specifically designated as fair value through profit or loss on initial recognition; and
• debt instruments with contractual terms that do not represent solely payments of principal and interest.
Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement as they arise.

3. Impairment of financial assets

3.1 IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses on all financial assets at amortised cost or at fair value through other comprehensive income (other than equity instruments), lease receivables and certain loan commitments and financial guarantee contracts. The expected credit loss must also consider forward looking information to recognise impairment allowances earlier in the lifecycle of a product. IFRS 9 consequently is likely to increase the volatility of impairment allowances as the economic outlook changes, although cash flows and cash losses are expected to remain unchanged.

3.2 IFRS 9 introduces a three-stage approach to impairment as follows:
• Stage 1 - the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition; When a Credit Facility is first recognised, the Group recognises a loss allowance based on 12 month ECL.
• Stage 2 - lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
• Stage 3 - lifetime expected credit losses for financial instruments which are credit impaired either at origination or at reporting date (for e.g. in default stage) i.e. having objective evidence of default / credit impaired, shall be classified under Stage 3. Credit Facilities, considered as credit-impaired, are those facilities where any payment of principal or interest is overdue by more than 89 days. Besides quantitative and qualitative criteria are also applied for assigning Stage 3.

3.3 Assessment of significant increase in credit risk (SICR)

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information. Retail facilities use the number of days past due (DPD) to determine significant increase in credit risk. For non-retail facilities, internally derived credit ratings as described above have been identified as representing the best available determinant of credit risk. The Group assigns each facility a credit rating at initial recognition based on available information about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Group considers that significant increase in credit risk occurs when an asset is more than 30 DPD.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

22. CREDIT QUALITY ANALYSIS (continued)

3.4 Criteria used for determining SICR (i.e. movement from Stage 1 to Stage 2)

Stage 2 consists of facilities that have undergone significant increase in credit risk (SICR) since initial recognition (unless they are classified under low credit risk at the reporting date). For these exposures Lifetime ECL is recognized which might have a significant impact on the overall ECL A facility would be assigned to Stage 2 based on Quantitative, Qualitative and Backstop Criteria.

3.4.1 Quantitative Criteria

a) For non-retail exposure: based on rating degradation and days past due.

i) Rating Degradation Table

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition based on its credit risk grade downgrade provided below:

Classification	Minimum credit risk grade downgrade
Grades Aaa to Baa3	4 to 6 notch
Grades Ba1 to Caa2	1 to 4 notch

ii) Days past due (DPD) based

Any facility which has been more than 30 days delinquent would be assigned to Stage 2

b) For retail exposure: based on Days past due.

Any facility which has been more than 30 days delinquent would be assigned to Stage 2

3.4.2 Qualitative criteria

a) Individual Assessment of any Non Retail exposure belonging to list of Top 20 borrowers

b) Special Mention accounts, contracts having specific provision and not in Stage 3 & contracts having interest in suspense and not in Stage 3

c) 'In addition to the extant requirements laid down under IFRS 9, the group also follows the qualitative criteria prescribed by CBO vide its circular BM 1149 for SICR assessment.

3.5. Calculation of expected credit losses (ECL)

ECLs are calculated using three main components, i.e. a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking customer and macro-economic data. For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk. The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility. The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiplied by LGD and EAD.

3.6. Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios is formulated. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities in the countries where the Group operates, supranational organisations, and selected private-sector and academic forecasters.

22. CREDIT QUALITY ANALYSIS (continued)

4. Regulatory reserves
4.1 Impairment reserve

CBO circular BM 1149 sets out guidelines on implementation of IFRS 9 while replacing existing prudential impairment norms of the Central Bank. As per the circular, in the year of adoption, if IFRS 9 based provision for impairment is lower than the provision for impairment as per regulatory guidelines, the excess, net of tax, shall be transferred as an appropriation from net profit after taxes to a regulatory reserve "Impairment reserve" under Parent Company's equity. In subsequent years, if IFRS 9 based provision for impairment (i.e. charge to the profit and loss) is lower than provision for impairment as per regulatory guidelines, the excess, net of tax, shall be transferred as an appropriation from net profit after taxes to aforementioned Impairment reserve.

The regulatory impairment reserve cannot be used by the bank for capital adequacy calculation and for declaration of any dividends. Utilization of the Impairment reserve created above would require prior approval of the Central Bank of Oman.

4.2 Reserve for restructured accounts

Bank of Oman (CBO). This reserve represents provisions on performing but restructured accounts at the rate prescribed by CBO. This reserve is not available for regulatory capital or distribution of dividends. The reserve will be released to retained earnings on satisfactory performance of these accounts as per regulatory guidelines. The reserve requirement has been dispensed with effect from November 2018. However, the reserve already made in this regard will continue till the restructured accounts are upgraded.

22. CREDIT QUALITY ANALYSIS (continued)

22.1 Financial instruments by stages

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9:

RO'000

30 June 2019	Stage 1	Stage 2	Stage 3	Total
Gross exposure				
Central Bank balances	141,936	-	-	141,936
Due from Banks	585,620	-	-	585,620
Loans and advances	6,999,033	2,142,558	291,536	9,433,127
Investment Securities at FVOCI	56,062	6,181	-	62,243
Investment Securities at amortized Cost	1,100,104	7,926	-	1,108,030
Total funded gross exposure	8,882,755	2,156,665	291,536	11,330,956
Financial guarantee contracts	1,581,613	833,052	18,123	2,432,788
Acceptances	88,600	44,013	58	132,671
Loan Commitment/Unutilised limits	1,439,094	706,357	-	2,145,451
Total non-funded gross exposure	3,109,307	1,583,422	18,181	4,710,910
Total gross exposure	**11,992,062**	**3,740,087**	**309,717**	**16,041,866**
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	975	-	-	975
Loans and advances	14,909	119,409	220,419	354,737
Investment Securities at FVOCI	105	710	-	815
Investment Securities at amortized Cost	106	57	-	163
Total funded impairment	16,095	120,176	220,419	356,690
Financial guarantee contracts	1,797	21,553	8,238	31,588
Acceptances	69	38	-	107
Loan Commitment/Unutilised limits	2,550	5,315	-	7,865
Total non-funded impairment	4,416	26,906	8,238	39,560
Total impairment	**20,511**	**147,082**	**228,657**	**396,250**
Net exposure				
Central Bank balances	141,936	-	-	141,936
Due from Banks	584,645	-	-	584,645
Loans and advances	6,984,124	2,023,149	71,117	9,078,390
Investment Securities at FVOCI	55,957	5,471	-	61,428
Investment Securities at amortized Cost	1,099,998	7,869	-	1,107,867
Total funded net exposure	8,866,660	2,036,489	71,117	10,974,266
Financial guarantee contracts	1,579,816	811,499	9,885	2,401,200
Acceptances	88,531	43,975	58	132,564
Loan Commitment/Unutilised limits	1,436,544	701,042	-	2,137,586
Total net non-funded exposure	3,104,891	1,556,516	9,943	4,671,350
Total net exposure	**11,971,551**	**3,593,005**	**81,060**	**15,645,616**

Stage 1: 75% of gross exposure in scope for IFRS 9 is in Stage 1 and has not experienced a significant increase in credit risk since origination.

Stage 2: 23% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS9.

Stage 3: 2% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

22. CREDIT QUALITY ANALYSIS (continued)

22.1 Financial instruments by stages

The following table discloses the stage-wise gross exposure, impairment and net exposure of only those financial assets that are tested for impairment under IFRS 9:

RO'000

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Gross exposure				
Central Bank balances	773,482	-	-	773,482
Due from Banks	457,106	335	-	457,441
Loans and advances	6,595,413	2,385,829	286,784	9,268,026
Investment Securities at FVOCI	51,440	11,439	-	62,879
Investment Securities at amortized Cost	1,076,278	8,910	-	1,085,188
Total funded gross exposure	8,953,719	2,406,513	286,784	11,647,016
Financial guarantee contracts	1,694,294	967,009	15,132	2,676,435
Acceptances	42,871	64,561	56	107,488
Loan Commitment/Unutilised limits	1,212,384	1,088,437	-	2,300,821
Total non-funded gross exposure	2,949,549	2,120,007	15,188	5,084,744
Total gross exposure	**11,903,268**	**4,526,520**	**301,972**	**16,731,760**
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	645	3	-	648
Loans and advances	14,942	107,679	206,490	329,111
Investment Securities at FVOCI	84	848	-	932
Investment Securities at amortized Cost	89	92	-	181
Total funded impairment	15,760	108,622	206,490	330,872
Financial guarantee contracts	1,330	21,257	7,233	29,820
Acceptances	16	48	27	91
Loan Commitment/Unutilised limits	2,246	7,973	-	10,219
Total non-funded impairment	3,592	29,278	7,260	40,130
Total impairment	**19,352**	**137,900**	**213,750**	**371,002**
Net exposure				
Central Bank balances	773,482	-	-	773,482
Due from Banks	456,461	332	-	456,793
Loans and advances	6,580,471	2,278,150	80,294	8,938,915
Investment Securities at FVOCI	51,356	10,591	-	61,947
Investment Securities at amortized Cost	1,076,189	8,818	-	1,085,007
Total funded net exposure	8,937,959	2,297,891	80,294	11,316,144
Financial guarantee contracts	1,692,964	945,752	7,899	2,646,615
Acceptances	42,855	64,513	29	107,397
Loan Commitment/Unutilised limits	1,210,138	1,080,464	-	2,290,602
Total net non-funded exposure	2,945,957	2,090,729	7,928	5,044,614
Total net exposure	**11,883,916**	**4,388,620**	**88,222**	**16,360,758**

Stage 1: 71.1% of gross exposure in scope for IFRS 9 is in Stage 1 and has not experienced a significant increase in credit risk since origination.

Stage 2: 27.1% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS9.

Stage 3: 1.8% of gross exposure is in Stage 3 which is credit impaired including defaulted assets and some forbearance assets.

22. CREDIT QUALITY ANALYSIS (continued)

22.2 COMPARISON OF IFRS 9 WITH CENTRAL BANK OF OMAN (CBO) NORMS

The following tables are as per the requirements of CBO circular BM 1149:

a. Impairment charge and provisions held

RO '000

As at 30 June 2019 (Unaudited)	*As per CBO norms*	*As per IFRS 9*	*Difference*
Impairment loss charged to profit and loss account (net of recoveries)*	24,987	24,987	-
Provisions required as per CBO norms / held as per IFRS 9 *	387,993	396,250	(8,257)
Gross NPL ratio **	3.09%	3.09%	-
Net NPL ratio **	0.69%	0.68%	0.01%

* Note: Impairment loss and provisions held above includes unallocated provision created by the bank

** NPL ratios are calculated on the basis of funded non performing loans and funded exposures

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

RO '000

Asset classification as per CBO norms (1)	*Asset classification as per IFRS 9 (2)*	*Gross amount (3)*	*Provision as per CBO norms (4)*	*Reserve interest as per CBO norms (5)*	*Provision as per IFRS 9 (6)*	*Difference (7) = (4)+(5)-(6)*	*Net carrying amount (8) = (3)-(6)*	*Interest recognised as per IFRS 9 (9)*
Standard	Stage 1	**7,584,653**	**107,963**	**-**	**15,884**	**92,079**	**7,568,769**	**-**
	Stage 2	**1,437,781**	**14,519**	**-**	**74,145**	**(59,626)**	**1,363,636**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Sub total	**9,022,434**	**122,482**	**-**	**90,029**	**32,453**	**8,932,405**	**-**
Special Mention	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**704,777**	**35,463**	**1,715**	**45,263**	**(8,085)**	**659,514**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Sub total	**704,777**	**35,463**	**1,715**	**45,263**	**(8,085)**	**659,514**	**-**
Substandard	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**43,315**	**10,288**	**364**	**10,652**	**-**	**32,663**	**-**
	Sub total	**43,315**	**10,288**	**364**	**10,652**	**-**	**32,663**	**-**
Doubtful	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**32,009**	**13,003**	**530**	**13,533**	**-**	**18,476**	**-**
	Sub total	**32,009**	**13,003**	**530**	**13,533**	**-**	**18,476**	**-**
Loss	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**234,393**	**178,310**	**25,838**	**204,472**	**(324)**	**29,921**	**-**
	Sub total	**234,393**	**178,310**	**25,838**	**204,472**	**(324)**	**29,921**	**-**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	**4,407,409**	**-**	**-**	**4,627**	**(4,627)**	**4,402,782**	**-**
	Stage 2	**1,597,529**	**-**	**-**	**27,674**	**(27,674)**	**1,569,855**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Sub total	**6,004,938**	**-**	**-**	**32,301**	**(32,301)**	**5,972,637**	**-**
Total	Stage 1	**11,992,062**	**107,963**	**-**	**20,511**	**87,452**	**11,971,551**	**-**
	Stage 2	**3,740,087**	**49,982**	**1,715**	**147,082**	**(95,385)**	**3,593,005**	**-**
	Stage 3	**309,717**	**201,601**	**26,732**	**228,657**	**(324)**	**81,060**	**-**
	Total	**16,041,866**	**359,546**	**28,447**	**396,250**	**(8,257)**	**15,645,616**	**-**

c. Restructured loans

RO '000

Asset classification as per CBO norms (1)	*Asset classification as per IFRS 9 (2)*	*Gross amount (3)*	*Provision as per CBO norms (4)*	*Reserve interest as per CBO norms (5)*	*Provision as per IFRS 9 (6)*	*Difference (7) = (4)+(5)-(6)*	*Net carrying amount (8) = (3)-(6)*	*Interest recognised as per IFRS 9 (9)*
Classified as performing	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**83,735**	**8,631**	**-**	**12,434**	**(3,803)**	**71,301**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Sub total	**83,735**	**8,631**	**-**	**12,434**	**(3,803)**	**71,301**	**-**
Classified as non-performing	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**95,622**	**66,829**	**6,997**	**73,826**	**-**	**21,796**	**-**
	Sub total	**95,622**	**66,829**	**6,997**	**73,826**	**-**	**21,796**	**-**
Total	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**83,735**	**8,631**	**-**	**12,434**	**(3,803)**	**71,301**	**-**
	Stage 3	**95,622**	**66,829**	**6,997**	**73,826**	**-**	**21,796**	**-**
	Total	**179,357**	**75,460**	**6,997**	**86,260**	**(3,803)**	**93,097**	**-**

22. CREDIT QUALITY ANALYSIS (continued)

22.2 COMPARISON OF IFRS 9 WITH CENTRAL BANK OF OMAN (CBO) NORMS

The following tables are as per the requirements of CBO circular BM 1149:

a. Impairment charge and provisions held

RO '000

As at 31 December 2018 (Audited)	*As per CBO norms*	*As per IFRS 9*	*Difference*
Impairment loss charged to profit and loss account (net of recoveries)*	43,855	43,855	-
Provisions required as per CBO norms / held as per IFRS 9 *	358,555	369,889	(11,334)
Gross NPL ratio **	3.09%	3.09%	-
Net NPL ratio **	0.91%	0.89%	0.02%

* Note: Impairment loss and provisions held above includes unallocated provision created by the Group

** NPL ratios are calculated on the basis of funded non performing loans and funded exposures

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

RO '000

Asset classification as per CBO norms	*Asset classification as per IFRS 9*	*Gross amount*	*Provision as per CBO norms*	*Reserve interest as per CBO norms*	*Provision as per IFRS 9*	*Difference*	*Net carrying amount*	*Interest recognised as per IFRS 9*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7) = (4)+(5)-(6)*	*(8) = (3)-(6)*	*(9)*
Standard	Stage 1	**7,052,519**	**103,339**	**-**	**15,589**	**87,750**	**7,036,930**	**-**
	Stage 2	**1,726,165**	**17,416**	**-**	**54,704**	**(37,288)**	**1,671,461**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Sub total	**8,778,684**	**120,755**	**-**	**70,293**	**50,462**	**8,708,391**	**-**
Special Mention	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**660,024**	**30,023**	**-**	**52,977**	**(22,954)**	**607,047**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Sub total	**660,024**	**30,023**	**-**	**52,977**	**(22,954)**	**607,047**	**-**
Substandard	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**44,254**	**10,813**	**372**	**11,185**	**-**	**33,069**	**-**
	Sub total	**44,254**	**10,813**	**372**	**11,185**	**-**	**33,069**	**-**
Doubtful	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**52,142**	**21,706**	**1,442**	**29,122**	**(5,974)**	**23,020**	**-**
	Sub total	**52,142**	**21,706**	**1,442**	**29,122**	**(5,974)**	**23,020**	**-**
Loss	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**205,576**	**153,049**	**20,394**	**173,443**	**-**	**32,133**	**-**
	Sub total	**205,576**	**153,049**	**20,394**	**173,443**	**-**	**32,133**	**-**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	**2,949,549**	**-**	**-**	**3,590**	**(3,590)**	**2,945,959**	**-**
	Stage 2	**2,119,982**	**-**	**-**	**29,279**	**(29,279)**	**2,090,703**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Sub total	**5,069,531**	**-**	**-**	**32,869**	**(32,869)**	**5,036,662**	**-**
Total	Stage 1	**10,002,068**	**103,339**	**-**	**19,179**	**84,160**	**9,982,889**	**-**
	Stage 2	**4,506,171**	**47,439**	**-**	**136,960**	**(89,521)**	**4,369,211**	**-**
	Stage 3	**301,972**	**185,568**	**22,208**	**213,750**	**(5,974)**	**88,222**	**-**
	Total	**14,810,211**	**336,346**	**22,208**	**369,889**	**(11,335)**	**14,440,322**	**-**

Note: The above disclosure for December 2018 excludes central bank balances and investment securities measured at amortised cost and FVOCI

c. *Restructured loans*

Asset classification as per CBO norms	*Asset classification as per IFRS 9*	*Gross amount*	*Provision as per CBO norms*	*Reserve interest as per CBO norms*	*Provision as per IFRS 9*	*Difference*	*Net carrying amount*	*Interest recognised as per IFRS 9*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7) = (4)+(5)-(6)*	*(8) = (3)-(6)*	*(9)*
Classified as performing	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**64,964**	**8,663**	**-**	**13,060**	**(4,397)**	**51,904**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Sub total	**64,964**	**8,663**	**-**	**13,060**	**(4,397)**	**51,904**	**-**
Classified as non-performing	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**89,751**	**62,289**	**6,735**	**70,902**	**(1,878)**	**18,849**	**-**
	Sub total	**89,751**	**62,289**	**6,735**	**70,902**	**(1,878)**	**18,849**	**-**
Total	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**64,964**	**8,663**	**-**	**13,060**	**(4,397)**	**51,904**	**-**
	Stage 3	**89,751**	**62,289**	**6,735**	**70,902**	**(1,878)**	**18,849**	**-**
	Total	**154,715**	**70,952**	**6,735**	**83,962**	**(6,275)**	**70,753**	**-**

23. Comparative figures

No material corresponding figures for 2018 included for comparative purposes were reclassified