



AHLI BANK SAOG

**Unaudited interim condensed financial statements
31 March 2018**

CONTENTS OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

Chairman's report	3-4
Report on the review of interim condensed financial statements	5
Interim condensed statement of financial position	6
Interim condensed statement of comprehensive income	7
Interim condensed statement of changes in equity	8
Interim condensed statement of cash flows	9-10
Notes to the interim condensed financial statements	11-28

Chairman's Report

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present the unaudited financial statements of ahlibank for the first quarter of 2018. This is based on the condensed interim financial statements reviewed by the external auditors.

The year 2018 marks the 10th Anniversary of the foundation of ahlibank, from the erstwhile Alliance Housing Bank. It has been a journey of success and steady growth, from a balance sheet base of circa RO 306 million and a 7 branch network, to over a RO 2.0 Billion balance sheet and 20 branches.

We are optimistic that the economic landscape is gradually easing as oil prices stabilize at a new level signaling positive sentiments that will offer opportunities for the bank to grow across all business verticals.

Bank's Financial Performance

	31-Mar-18	31-Mar-17	Growth %
	RO Million		
Total assets	2,111.7	1,836.7	15.0%
Loans & advances and financing, net	1,769.1	1,537.9	15.0%
Customers' deposits	1,532.8	1,287.6	19.0%
Total Equity	291.3	234.3	24.3%
Operating income	14.60	12.08	20.9%
Operating expenses	5.38	5.01	7.4%
Profit for the period	7.05	5.21	35.4%

The bank performed significantly well, showing a 35.4% increase in profit for the period as compared to March 2017. Total operating income increased by 20.9% to RO 14.60 million at the end of March 2018 compared to RO 12.08 million in March 2017. Due to judicious management, the ratio of non-performing loans remained stable and total equity increased to RO 291.3 million compared to RO 234.3 million. While the Bank's operating expenses increased by 7.4% to RO 5.38 million compared to RO 5.01 million in March 2017, cost to income ratio improved to 36.9% (March 2017: 41.5%). Total assets grew 15.0% to RO 2,111.7 million, customer deposits increased by 19% to reach RO 1,532.8 million and total loans & advances and financing grew by 15.0% to reach RO 1,769.1 million.

The Year Ahead

We believe that the combination of ahlibank's focused strategy and diversified business model will continue to create long term value for our stakeholders. We look forward to expanding the Bank's branch footprint, while continuing to invest in alternate channels and innovative new product launches. We maintain our ongoing objective of being a financial institution that contributes to the growth of the local economy, serves people and businesses, and contributes to the success and aspirations of our clients, our employees, our community and our shareholders.

Acknowledgment

On behalf of the Board of Directors, I take this opportunity to convey our gratitude to His Majesty Sultan Qaboos Bin Said for his foresight and guidance, which has helped develop the banking sector and propel the country along its continuous path of growth and prosperity. I would also like to thank the Central Bank of Oman, for its confidence and support and to acknowledge the close cooperation, professional advice and guidance received from various Ministries and official bodies. These include the Capital Market Authority and other regulatory authorities.

I would also like to express my appreciation to our shareholders, management and staff for their strong commitment and dedication; to our strategic partner Ahli United Bank BSC for their valuable continuous support, and above all, to our clients for their loyalty and trust in our efforts.

Hamdan Ali Nasser Al Hinai

Chairman

Dated: 25 April 2018

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2018**

Audited 31-Dec-17	Unaudited 31-Mar-17	Unaudited 31-Mar-18		Unaudited 31-Mar-18	Unaudited 31-Mar-17	Audited 31-Dec-17
US\$ '000	US\$ '000	US\$ '000	Note	RO '000	RO '000	RO '000
ASSETS						
302,930	228,501	234,081		90,121	87,973	116,628
43,036	86,179	26,306		10,128	33,179	16,569
4,245,345	3,994,418	4,595,096	6	1,769,112	1,537,851	1,634,458
562,964	377,777	532,452		204,994	145,444	216,741
43,384	43,314	43,860		16,886	16,676	16,703
35,021	40,470	53,098		20,443	15,581	13,483
5,232,680	4,770,659	5,484,893		2,111,684	1,836,704	2,014,582
LIABILITIES						
346,922	395,940	417,327		160,671	152,437	133,565
3,768,444	3,344,498	3,981,205	7	1,532,764	1,287,632	1,450,851
150,000	200,000	100,000		38,500	77,000	57,750
810	392	351		135	151	312
109,811	143,444	164,347		63,274	55,226	42,277
64,935	77,922	64,935		25,000	30,000	25,000
4,440,922	4,162,196	4,728,165		1,820,344	1,602,446	1,709,755
EQUITY						
370,140	370,140	388,647		149,629	142,504	142,504
66,626	59,699	66,626		25,651	22,984	25,651
16,995	16,995	-	6	-	6,543	6,543
35,325	37,379	40,595		15,629	14,391	13,600
592	-	1,312		505	-	228
-	-	8,774	6	3,378	-	-
(317)	2,003	(6,540)		(2,518)	771	(122)
172,527	122,247	127,444		49,066	47,065	66,423
661,888	608,463	626,858		241,340	234,258	254,827
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK						
129,870	-	129,870		50,000	-	50,000
791,758	608,463	756,728		291,340	234,258	304,827
TOTAL LIABILITIES AND EQUITY						
5,232,680	4,770,659	5,484,893		2,111,684	1,836,704	2,014,582
Net assets value per share (US cents / baizas)						
46.4	42.7	41.9	10	161.3	164.4	178.8
Contingent liabilities and commitments						
803,087	590,051	819,236	12	315,406	227,170	309,189

The interim condensed financial statements were approved by the Board of Directors on 25 April 2018 and signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Lloyd Maddock
Chief Executive Officer

Notes 1 to 15 form part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

Unaudited 31-Mar-17 US\$ '000	Unaudited 31-Mar-18 US\$ '000		Note	Unaudited 31-Mar-18 RO '000	Unaudited 31-Mar-17 RO '000
46,694	54,803	Interest income		21,099	17,977
(24,520)	(26,356)	Interest expense		(10,147)	(9,440)
22,174	28,447	NET INTEREST INCOME		10,952	8,537
7,909	9,774	Income from Islamic financing and investments		3,763	3,045
(3,816)	(5,769)	Unrestricted investment account holders' share of profit and profit expense		(2,221)	(1,469)
4,093	4,005	NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS		1,542	1,576
26,267	32,452	NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTMENTS		12,494	10,113
5,101	5,457	Other operating income	5	2,101	1,964
31,368	37,909	OPERATING INCOME		14,595	12,077
(2,442)	(2,886)	Net impairment on financial assets	6	(1,111)	(940)
(5)	(10)	Loans & advances and financing written off		(4)	(2)
28,921	35,013	NET OPERATING INCOME		13,480	11,135
(8,296)	(9,195)	Staff expenses		(3,540)	(3,194)
(844)	(888)	Depreciation		(342)	(325)
(3,875)	(3,888)	Other operating expenses		(1,497)	(1,492)
(13,015)	(13,971)	OPERATING EXPENSES		(5,379)	(5,011)
15,906	21,042	PROFIT BEFORE TAXATION		8,101	6,124
(2,387)	(2,730)	Tax expense		(1,051)	(919)
13,519	18,312	PROFIT FOR THE PERIOD		7,050	5,205
		OTHER COMPREHENSIVE (EXPENSE) / INCOME - NET OF TAX			
		<i>Items that will not be reclassified to profit or loss</i>			
-	(301)	- Equity investments at FVOCI - net changes in fair value		(116)	-
		<i>Items that may be reclassified to profit or loss</i>			
(109)	-	- Net amount reclassified to profit or loss		-	(42)
-	1,042	- Fair value hedge - net changes in fair value		401	-
1,031	(3,003)	- Debt investments at FVOCI - net changes in fair value		(1,156)	397
922	(2,262)	OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD		(871)	355
14,441	16,050	TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		6,179	5,560
0.9	1.2	Basic and diluted earnings per share (US cents / baizas)	10	4.7	3.5

Notes 1 to 15 form part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

	Share capital	Legal reserve	General loan loss reserve	Subordinated debt reserve	Fair value reserve	Special reserve	Impairment reserve	Retained earnings	Total	Tier 1 Perpetual subordinated bond	Total Equity
Note	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2018	142,504	25,651	6,543	13,600	(122)	228	-	66,423	254,827	50,000	304,827
Changes on initial application of IFRS 9	-	-	(6,543)	-	(1,525)	-	1,082	1,526	(5,460)	-	(5,460)
Restated Balance at 1 January 2018	142,504	25,651	-	13,600	(1,647)	228	1,082	67,949	249,367	50,000	299,367
Profit for the period	-	-	-	-	-	-	-	7,050	7,050	-	7,050
Other comprehensive Income expense, net of tax	-	-	-	-	(871)	-	-	-	(871)	-	(871)
Total comprehensive income	-	-	-	-	(871)	-	-	7,050	6,179	-	6,179
Transfer to subordinated debt reserve	-	-	-	2,029	-	-	-	(2,029)	-	-	-
Transfer to special reserve	-	-	-	-	-	277	-	(277)	-	-	-
Transfer to impairment reserve	-	-	-	-	-	-	2,260	(2,260)	-	-	-
Gain on sale of equity investments at FVOCI	-	-	-	-	-	-	-	5	5	-	5
Technical write off of loans and advances	-	-	-	-	-	-	36	3	39	-	39
Issue of bonus shares	7,125	-	-	-	-	-	-	(7,125)	-	-	-
Cash dividend	-	-	-	-	-	-	-	(14,250)	(14,250)	-	(14,250)
Balance at 31 March 2018 (unaudited)	149,629	25,651	-	15,629	(2,518)	505	3,378	49,066	241,340	50,000	291,340
Balance at 31 March 2018 (US\$ '000) (unaudited)	388,647	66,626	-	40,595	(6,540)	1,312	8,774	127,444	626,858	129,870	756,728

	Share capital	Legal reserve	General loan loss reserve	Subordinated debt reserve	Fair value reserve	Special reserve	Impairment reserve	Retained earnings	Total	Tier 1 Perpetual subordinated bond	Total Equity
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Balance at 1 January 2017</i>	142,504	22,984	6,543	44,541	416	-	-	25,960	242,948	-	-
Profit for the period	-	-	-	-	-	-	-	5,205	5,205	-	-
Other comprehensive expense, net of tax	-	-	-	-	355	-	-	-	355	-	-
<i>Total comprehensive income</i>	-	-	-	-	355	-	-	5,205	5,560	-	-
Transfer from subordinated debt reserve	-	-	-	(30,150)	-	-	-	30,150	-	-	-
Cash dividends paid	-	-	-	-	-	-	-	(14,250)	(14,250)	-	-
<i>Balance at 31 March 2017 (unaudited)</i>	142,504	22,984	6,543	14,391	771	-	-	47,065	234,258	-	-
<i>Balance at 31 March 2017 (US\$ '000) (unaudited)</i>	370,140	59,699	16,995	37,379	2,003	-	-	122,247	608,463	-	-
<i>Balance at 1 April 2017</i>	142,504	22,984	6,543	14,391	771	-	-	47,065	234,258	-	-
Profit for the period	-	-	-	-	-	-	-	21,462	21,462	-	-
Other comprehensive expense, net of tax	-	-	-	-	(893)	-	-	-	(893)	-	-
Transfer to special reserve	-	-	-	-	-	228	-	(228)	-	-	-
<i>Total comprehensive income</i>	-	-	-	-	(893)	228	-	21,234	20,569	-	-
Transfer to legal reserve	-	2,667	-	-	-	-	-	(2,667)	-	-	-
Transfer from subordinated debt reserve	-	-	-	(791)	-	-	-	791	-	-	-
Proceeds from Tier 1 perpetual subordinated bond	-	-	-	-	-	-	-	-	-	50,000	50,000
<i>Balance at 31 December 2017</i>	142,504	25,651	6,543	13,600	(122)	228	-	66,423	254,827	50,000	304,827
<i>Balance at 31 December 2017 (US\$ '000)</i>	370,140	66,626	16,995	35,325	(317)	592	-	172,527	661,888	129,870	791,758

Appropriation to legal reserve is made on an annual basis.

Notes 1 to 15 form part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

Unaudited 31-Mar-17 US\$ '000	Unaudited 31-Mar-18 US\$ '000		Unaudited 31-Mar-18 RO '000	Unaudited 31-Mar-17 RO '000
CASH FLOWS FROM OPERATING ACTIVITIES				
15,906	21,042	Profit before taxation	8,101	6,124
Adjustments for:				
844	888	Depreciation	342	325
2,447	2,896	Net impairment on financial assets	1,115	942
-	-	Impairment on investments securities	-	-
99	60	End of service benefits provision	23	38
-	42	Unrealised loss on investments securities	16	-
-	(13)	Gain on sale of investment securities	(5)	-
19,296	24,915	Operating profit before working capital changes	9,592	7,429
-	131,475	Increase in due to banks	50,618	-
(26)	(213)	End of service benefits paid	(82)	(10)
(43,234)	(352,647)	Increase in loans & advances and financing Net movement in fair value through profit and loss investments securities	(135,769)	(16,645)
(28,151)	347,732	investments securities	133,877	(10,838)
43,132	212,761	Increase in customers' deposits	81,913	16,606
45,279	35,536	Changes in other assets and other liabilities	13,681	17,432
36,296	399,559	Cash generated from operations	153,830	13,974
(10,454)	(12,218)	Tax paid	(4,704)	(4,025)
25,842	387,341	Net cash generated from operating activities	149,126	9,949
CASH FLOWS FROM INVESTING ACTIVITIES				
-	(353,473)	Increase in investment, net (excluding fair value through profit or loss investments)	(136,087)	-
(314)	(1,364)	Purchase of property and equipment	(525)	(121)
(314)	(354,837)	Net cash used in investing activities	(136,612)	(121)
CASH FLOWS FROM FINANCING ACTIVITIES				
(37,013)	(37,013)	Dividends paid	(14,250)	(14,250)
(90,909)	-	Decrease in subordinated liabilities	-	(35,000)
70,000	(50,000)	Increase in borrowed funds	(19,250)	26,950
(57,922)	(87,013)	Net cash used in financing activities	(33,500)	(22,300)
(32,394)	(54,509)	Net change in cash and cash equivalents	(20,986)	(12,472)
139,771	217,680	Cash and cash equivalents at 1 January	83,807	53,812
107,377	163,171	Cash and cash equivalents at 31 March	62,821	41,340

**INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

Cash and cash equivalent comprises of the following:

31-Mar-17 US\$ '000	31-Mar-18 US\$ '000		31-Mar-18 RO '000	31-Mar-17 RO '000
227,138	232,717	Cash and current balances with Central Bank of Oman	89,596	87,448
86,179	26,306	Due from banks	10,128	33,179
90,000	90,000	Treasury bills with three months maturity	34,650	34,650
(295,940)	(185,852)	Due to banks	(71,553)	(113,937)
<u>107,377</u>	<u>163,171</u>		<u>62,821</u>	<u>41,340</u>

Reconciliation of liabilities arising from financing activities

31-Mar-17 US\$ '000	31-Mar-18 US\$ '000		31-Mar-18 RO '000	31-Mar-17 RO '000
		Borrowed funds		
130,000	150,000	Balance at beginning of the period	57,750	50,050
70,000	(50,000)	Cash flows	(19,250)	26,950
<u>200,000</u>	<u>100,000</u>	Balance at end of the period	<u>38,500</u>	<u>77,000</u>
		Subordinated liabilities		
168,831	64,935	Balance at beginning of the period	25,000	65,000
(90,909)	-	Cash flows	-	(35,000)
<u>77,922</u>	<u>64,935</u>	Balance at end of the period	<u>25,000</u>	<u>30,000</u>

Notes 1 to 15 form part of these interim condensed financial statements

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Ahli Bank SAOG (the Bank) is a joint stock company incorporated in the Sultanate of Oman and is engaged in the commercial banking activities through a network of twenty branches (thirteen conventional and seven Islamic branches). The registered address of the Bank is PO Box 545, Mina Al Fahal, Postal Code 116, Sultanate of Oman.

The Bank employed 545 employees as at 31 March 2018 compared to 544 as at 31 March 2017 and 542 as at 31 December 2017.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The unaudited interim condensed financial statements for the three month period ended 31 March 2018 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 disclosure requirements set out in the Rules and Disclosure and Proformas issued by the Capital Market Authority (CMA).

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

The unaudited interim condensed financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives and investment securities other than held to maturity securities.

The functional currency of the Bank is the Rial Omani (RO). These unaudited interim condensed financial statements of the Bank are prepared in RO. Certain figures are also presented in US dollars (US\$) for information purposes only, using the exchange rate of RO 0.385 = US\$ 1.00.

3. CHANGES IN ACCOUNTING POLICIES

The accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements except for changes resulting from adoption of the following:

- IFRS 15 – Revenue from Contracts with Customers
- IFRS 9 – Financial Instruments

3.1 IFRS 15- REVENUE FROM CONTRACT WITH CUSTOMERS

The Bank has adopted IFRS 15 as issued by IASB with effective date from 1 January 2018. This standard has superseded all revenue recognition requirements under IFRS and provides a principle based approach for revenue recognition with the introduction of concept for revenue recognition for performance obligation as they are satisfied. The Bank has assessed the impact of IFRS 15 and concluded that the application of this standard does not have any material impact on Bank's financial statements.

3.2 IFRS 9- FINANCIAL INSTRUMENTS

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

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Bank has also elected to continue to apply hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Consequently for notes disclosure, disclosures were also made only for the current period. The comparative notes disclosures repeat those disclosures made in the prior year / period.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

3. CHANGES IN ACCOUNTING POLICIES (Continued)

3.2 IFRS 9- FINANCIAL INSTRUMENTS (Continued)

3.2.1 Classification and measurements of financial instruments

The adoption of IFRS 9 has resulted in changes in Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets and are summarized below;

(a) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL.

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

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

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

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

For an equity instrument that is not held for trading, the bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment on investment basis. All other financial assets are classified as measured at FVTPL. Under FVOCI, fair value changes are recognised in other comprehensive income (OCI) while dividends are recognised in profit or loss. On disposal of the investment the capital gain / loss is required to remain in OCI and is not recycled to profit or loss.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

IFRS 9 removes the requirement contained in IAS 39 relating to bifurcation of an embedded derivative from an asset host contract. However, entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

(b) Financial guarantee contracts and loan commitments

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision as described in Note 3.2.1(e). The Bank has issued no loan commitment that are measured at FVTPL. Liabilities arising from financial guarantee and loan commitments are included within provisions under other liabilities in statement of financial position.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

3. CHANGES IN ACCOUNTING POLICIES (Continued)

3.2 IFRS 9- FINANCIAL INSTRUMENTS (Continued)

3.2.1 Classification and measurement of financial instruments (Continued)

(c) Business model assessment

The Banks' business model reflects how it manages the assets to generate cash flows. Whether it is solely to collect the contractual cash flows from the asset or both the contractual cash flows and from sale of asset. Factors considered by the Bank in determining the business models for group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

(d) Assessment whether contractual cash flows are solely payments of principal and interest

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payment of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

(e) Impairment

The Bank assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or FVOCI which mainly include loans & advances and financings, investments (other than equity investments), interbank placements, loan commitments and financial guarantees. The Bank recognises a loss allowance and provision for such losses at reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioral credit models. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

(f) Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

3.2 IFRS 9- FINANCIAL INSTRUMENTS (Continued)

3.2.1 Classification and measurement of financial instruments (Continued)

(f) Measurement of ECL (Continued)

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

(g) Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a SICR since origination. The Bank is using three scenarios that is probability weighted to determine ECL.

The Bank's ECL allowance methodology, requires the Bank to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

(h) Assessment of significant increase in credit risk

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and the recognition of lifetime expected losses on loans that have experienced a SICR since origination. The determination of a SICR takes into account of many different macro economic factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain criteria such as 30 day past due and watch list status. The assessment of SICR will require experienced credit judgement.

The bank considers a financial instrument having a significant increase in credit risk based on the following factors:

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018

- The assessment will be based on comparison of risk of default (and not the expected loss) occurring over the lifetime of the asset as at the reporting date and as at the origination i.e. [Lifetime PD at reporting date – Lifetime PD at origination] which in turn is derived from the risk rating and expected life of the asset.

- The deterioration in credit quality will be judged as 'significant' if the Distance to Default (DD) on the reporting date has reduced by at least half as compared to the DD at initial recognition provided, however, that on the reporting date (i) the asset is not considered to be of low credit risk and (ii) the expected life of the asset has not increased since initial recognition. DD for any risk rating is defined as the number of notches separating it from default.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

3.2 IFRS 9- FINANCIAL INSTRUMENTS (Continued)

3.2.1 Classification and measurement of financial instruments (Continued)

(h) Assessment of significant increase in credit risk (Continued)

- The assessment of risk rating on each reporting date will be performed based on financial / non financial data & conduct and performance of the related asset.

(i) Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.

Overdrafts are considered as being past due once the customer has breached and advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether the borrower is in default, the Bank considers indicators that are;

- qualitative - e.g. breaches of covenant
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instruments is in default and their significance may vary over time to reflect changes in circumstances.

(j) Renegotiation of financial assets

Loans which are renegotiated will be continued to be assessed as Stage 2 for atleast 1 year from date of renegotiation as per CBO requirement.

3.2.2 Hedging

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and alignes hedge accounting more closely with risk management objectives and strategy with more qualitative approach to assess hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

The Bank has entered into interest rate swaps to hedge the variability in cash flows arising from changes in interest rates relating to investments. The types of hedge accounting relationships that the Bank currently designates meet the requirements of IFRS 9 and are aligned with Bank's risk management strategy and objective.

Based on Bank's assessment, there is no impact from the adoption of new standard on hedge accounting.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

3.3 TRANSITION

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

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

3. CHANGES IN ACCOUNTING POLICIES (Continued)

3.3 TRANSITION (Continued)

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

3.4 CHANGES AND IMPLICATIONS RESULTING FROM ADOPTION OF IFRS 9

(a) classification and measurement of financial assets and liabilities

The measurement and the carrying amount of financial assets and liabilities as presented at year ended 31 December 2017 and subsequently as per IFRS 9 at 1 January 2018 are compared and set out as below:

Financial assets	31-Dec-17		01-Jan-18	
	Measurement category	Carrying amount RO '000	Measurement category	Carrying amount RO '000
Cash and balances with Central Bank of Oman	Amortised cost (Loans and receivables)	116,628	Amortised cost (Loans and receivables)	116,628
Due from banks	Amortised cost (Loans and receivables)	16,569	Amortised cost (Loans and receivables)	16,567
Loans & advances and financing, net	Amortised cost (Loans and receivables)	1,634,458	Amortised cost (Loans and receivables)	1,630,838
Investment securities	Held for trading investments - Debt	134,489	FVOCI	134,489
	Available for sale investments – Debt	77,353	FVOCI	77,334
	Available for sale investments – Equity	307	FVTPL	307

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

Other assets - acceptances	Available for sale investments - Equity Amortised cost (Loans and receivables)	4,592	FVOCI Amortised cost (Loans and receivables)	4,592
		8,567		8,413
Financial Liabilities				
Due to banks	Amortised cost	133,565	Amortised cost	133,565
Customers' deposits	Amortised cost	1,450,851	Amortised cost	1,450,851
Borrowed funds	Amortised cost	57,750	Amortised cost	57,750
Subordinated liabilities	Amortised cost	25,000	Amortised cost	25,000
Other liabilities	Amortised cost	42,277	Amortised cost	40,612

3. CHANGES IN ACCOUNTING POLICIES (Continued)

3.4 CHANGES AND IMPLICATIONS RESULTING FROM ADOPTION OF IFRS 9 (Continued)

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018;

Financial assets	31-Dec-17	Reclassification	Remeasurement	01-Jan-18
Amortised cost	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman	116,628	-	-	116,628
Due from banks	16,569			
Remeasurement: ECL allowance		-	(2)	
Closing balance				16,567
Amortised cost				
Loans & advances and financing, net	1,634,458			
Remeasurement: ECL allowance		-	(3,620)	
Closing balance				1,630,838
Other assets - acceptances	8,567			
Remeasurement: ECL allowance		-	(154)	
Closing balance				8,413
Total Amortised cost	1,776,222	-	(3,776)	1,772,446

FVOCI

FVOCI – Debt investments securities

	134,489			
Reclassification from: Held from trading investments		134,489	-	
Closing balance				134,489

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

FVOCI – Debt investments

securities	77,353			
Reclassification from: Available for sale investments		77,353		
Remeasurement: ECL allowance			(19)	
Closing balance				77,334

FVOCI – Equity

investment securities

	4,592			
Reclassification from: Available for sale securities		4,592	-	
Closing balance				4,592

Total FVOCI

	216,434	216,434	(19)	216,415
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FVTPL

Investment securities

	307			
Reclassification from: Held for trading securities		307	-	
Closing balance				307

Total FVTPL

	307	307	-	307
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3. CHANGES IN ACCOUNTING POLICIES (Continued)

3.4 CHANGES AND IMPLICATIONS RESULTING FROM ADOPTION OF IFRS 9 (Continued)

(b) Reconciliation of statement of financial position from IAS 39 to IFRS 9 (Continued)

	31-Dec-17	Reclassification	Remeasurement	01-Jan-18
Financial Liabilities	RO '000	RO '000	RO '000	RO '000
Amortised cost				
Due to banks	133,565	-	-	133,565
Customers' deposits	1,450,851	-	-	1,450,851
Borrowed funds	57,750	-	-	57,750
Subordinated liabilities	25,000	-	-	25,000
	1,667,166	-	-	1,667,166
Other Liabilities				
	42,277			
Remeasurement: Provision for loan commitment and financial guarantee		-	(1,665)	-
Closing balance	42,277	-	(1,665)	40,612

(c) Reconciliation of impairment allowance and provisions balance from IAS 39 to IFRS 9

	IAS 39 : 31-Dec-17	Reclassification	Remeasurement	IFRS 9 : 1-Jan-18
	RO '000	RO '000	RO '000	RO '000
Due from banks	-	-	2	2
Loans and advances & financing	29,482	-	2,922	26,560
Investment securities	1,556	1,556	19	19
Other assets	-	-	154	154
Loan commitments and financial guarantees	-	-	1,665	1,665

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

3.5 ECL Exposure of financial assets and off balance sheet

The following table contains an analysis of stagewise risk exposure of financial assets and off balance sheet for which ECL allowance and provision is recognised as at 31 March 2018.

Exposure subject to ECL	Stage 1	Stage 2	Stage 3	Total
	RO '000	RO '000	RO '000	RO '000
Due from Banks	10,128		-	10,128
Loans and Advances & financing	1,637,275	138,231	21,930	1,797,436
Investment Securities	198,166		-	198,166
Other assets	10,737	7,480	-	18,217
Loan commitments and financial guarantees	181,887	12,377	-	194,264

3.6 Movement in Impairment allowance and provision

	Stage 1	Stage 2	Stage 3	Total
	RO '000	RO '000	RO '000	RO '000
Opening balance as at 1 January 2018				
Due from Banks	2	-	-	2
Loans and Advances & financing	6,162	11,895	8,503	26,560
Investment Securities	19	-	-	19
Other assets	25	129	-	154
Loan commitments and financial guarantees	414	1,251	-	1,665

3. CHANGES IN ACCOUNTING POLICIES (Continued)

3.6 Movement in Impairment allowance and provision (Continued)

Net transfer between stages and P&L impact

Due from Banks	(1)	-	-	(1)
Loans and Advances & financing	1,000	(1,795)	1,144	349
Investment Securities	(1)	-	-	(1)
Other assets	49	1,263	-	1,312
Loan commitments and financial guarantees	117	(666)	-	(549)

Closing balance as at 31 March 2018

Due from Banks	1	-	-	1
Loans and Advances & financing	7,162	10,100	9,647	26,909
Investment Securities	18	-	-	18
Other assets	74	1,392	-	1,466
Loan commitments and financial guarantees	531	585	-	1,116

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these financial statements, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited financial statements as at and for the year ended 31 December 2017, except the below which were a result of adoption of IFRS 9:

Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

5. OTHER OPERATING INCOME

Other operating income comprises commission, fees, dividend, realized and unrealized gain/loss on financial investments classified as FVTPL and miscellaneous income.

6. LOANS & ADVANCES AND FINANCING ACTIVITIES

Audited 31-Dec-17 US\$ '000	Unaudited 31-Mar-17 US\$ '000	Unaudited 31-Mar-18 US\$ '000		Unaudited 31-Mar-18 RO '000	Unaudited 31-Mar-17 RO '000	Audited 31-Dec-17 RO '000
			Conventional Banking			
2,325,631	2,147,712	2,613,883	Corporate lending	1,006,345	826,869	895,368
1,332,883	1,331,381	1,334,065	Retail lending	513,615	512,582	513,160
3,658,514	3,479,093	3,947,948	Loans & advances, gross	1,519,960	1,339,451	1,408,528
			Islamic Banking			
326,764	249,600	398,335	Corporate financing	153,359	96,096	125,804
322,662	327,872	322,382	Retail financing	124,117	126,231	124,225
649,426	577,472	720,717	Financing, gross	277,476	222,327	250,029
			Loans & advances and financing, gross			
4,307,940	4,056,565	4,668,665		1,797,436	1,561,778	1,658,557
			Loans and financing impairment on portfolio basis (including reserve interest and profit)			
(62,595)	(62,147)	(73,569)		(28,324)	(23,927)	(24,099)
4,245,345	3,994,418	4,595,096		1,769,112	1,537,851	1,634,458

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

6. LOANS & ADVANCES AND FINANCING ACTIVITIES (Continued)

In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant CBO norms, including those on restructuring of loans accounts for regulatory reporting purposes.

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

Disclosure requirements containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognised as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149.

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
					RO '000				
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	1,530,815	21,618	5,967	15,651	1,509,197	1,524,848	-	-
	Stage 2	85,693	-	4,481	(4,481)	85,693	81,212	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		1,616,508	21,618	10,448	11,170	1,594,890	1,606,060	-	-
Special Mention	Stage 1	106,460	-	1,195	(1,195)	106,460	105,265	-	-
	Stage 2	52,538	-	5,619	(5,619)	52,538	46,919	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		158,998	-	6,814	(6,814)	158,998	152,184	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,954	995	2,113	(1,118)	2,881	1,841	-	78
Subtotal		3,954	995	2,113	(1,118)	2,881	1,841	-	78
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,841	3,734	3,301	433	4,781	5,540	-	326
Subtotal		8,841	3,734	3,301	433	4,781	5,540	-	326
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	9,135	6,541	4,233	2,308	1,583	4,902	-	1,011
Subtotal		9,135	6,541	4,233	2,308	1,583	4,902	-	1,011
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	400,918	-	624	(624)	400,918	400,294	-	-
	Stage 2	19,857	-	1,977	(1,977)	19,857	17,880	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		420,775	-	2,601	(2,601)	420,775	418,174	-	-
Total	Stage 1	2,038,193	21,618	7,786	13,832	2,016,575	2,030,407	-	-
	Stage 2	158,088	-	12,077	(12,077)	158,088	146,011	-	-
	Stage 3	21,930	11,270	9,647	1,623	9,245	12,283	-	1,415
	Total	2,218,211	32,888	29,510	3,378	2,183,908	2,188,701	-	1,415

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, loan commitments and financial guarantees.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

6. LOANS & ADVANCES AND FINANCING ACTIVITIES (Continued)

6.2 Restructured Loans

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	RO '000 (3)	RO '000 (4)	RO '000 (5)	RO '000 (6) = (4)-(5)	RO '000 (7)=(3)-(4)-(-10)	RO '000 (8) = (3)-(5)	RO '000 (9)	RO '000 (10)
Classified as performing	Stage 1	696	60	2	58	636	694	-	-
	Stage 2	3,990	445	246	199	3,545	3,744	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		4,686	505	248	257	4,181	4,438	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,912	2,069	1,508	561	843	1,404	-	-
Sub total		2,912	2,069	1,508	561	843	1,404	-	-
Total	Stage 1	696	60	2	58	636	694	-	-
	Stage 2	3,990	445	246	199	3,545	3,744	-	-
	Stage 3	2,912	2,069	1,508	561	843	1,404	-	-
	Total	7,598	2,574	1,756	818	5,024	5,842	-	-

*Net of provisions and reserve interest as per CBO norms

6.3 Impairment charge and provisions held

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	-	1,111	(1,111)
Provisions required as per CBO norms/ held as per IFRS 9	32,888	29,510	3,378
Gross NPL ratio (percentage)	1.22%	1.22%	-
Net NPL ratio (percentage)	0.59%	0.68%	-0.09%

In accordance with CBO requirements, where the aggregate provision on portfolio & specific basis computed as per CBO norms is higher than the impairment allowance computed under IFRS 9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

In accordance with the requirements of CBO circular BM 977, the bank was required to create a portfolio based provision by debiting to the statement of comprehensive income. Based on CBO approval, the Bank has set aside an amount of RO 6.543 million equivalent to US\$ 16.995 million as a non distributable General loan loss reserve for three years from 1 January 2008 to 31 December 2010. Post IFRS 9 implementation on 1 January 2018, CBO has allowed the bank to transfer this reserve to retained earnings.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

7. CUSTOMERS' DEPOSITS

Customers' deposits can be analysed as follows:

Audited 31-Dec-17 US\$ '000	Unaudited 31-Mar-17 US\$ '000	Unaudited 31-Mar-18 US\$ '000		Unaudited 31-Mar-18 RO '000	Unaudited 31-Mar-17 RO '000	Audited 31-Dec-17 RO '000
Conventional Banking						
2,124,000	2,078,566	2,050,644	Time deposits	789,498	800,248	817,740
822,257	651,491	1,053,390	Demand deposits	405,555	250,824	316,569
243,215	167,322	245,377	Savings deposits	94,470	64,419	93,638
3,189,472	2,897,379	3,349,411		1,289,523	1,115,491	1,227,947
Islamic Banking						
353,068	270,699	361,990	Time deposits	139,366	104,219	135,931
110,270	105,558	143,995	Demand deposits	55,438	40,640	42,454
115,634	70,862	125,809	Savings deposits	48,437	27,282	44,519
578,972	447,119	631,794		243,241	172,141	222,904
3,768,444	3,344,498	3,981,205		1,532,764	1,287,632	1,450,851

8. RELATED PARTY TRANSACTIONS

The Bank enters into transactions with major shareholders, directors, senior management and their related entities in the ordinary course of business at mutually agreed terms and conditions.

The balances in respect of related parties included in the statement of financial position are as follows:

Audited 31-Dec-17 US\$ '000	Unaudited 31-Mar-17 US\$ '000	Unaudited 31-Mar-18 US\$ '000		Unaudited 31-Mar-18 RO '000	Unaudited 31-Mar-17 RO '000	Audited 31-Dec-17 RO '000
Directors and senior management						
			Loans & advances and financing, net	544	728	565
1,468	1,891	1,413	Customers' deposits	985	1,313	881
2,288	3,410	2,558	Prepaid rent	8	55	29
75	143	21	Major shareholders and others			
			Due from banks	885	532	829
2,153	1,382	2,299	Investment securities	475	472	468
1,216	1,226	1,234	Other assets			
			- Fair value of forward contracts	251	106	67
174	275	652	Due to banks	40,737	50,321	38,814
100,816	130,704	105,810	Customers' deposits	27	26	9
23	68	70	Other payables	220	974	-
-	2,530	571	Contingent liabilities and commitments			
39,068	57,909	31,730		12,216	22,295	15,041

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

Directors and Senior Management						
62	16	13	Interest and profit income	5	6	24
47	8	13	Interest and profit expense	5	3	18
421	-		- Board remuneration proposed	-	-	162
99	68	29	Board sitting fees	11	26	38
			Shariah supervisory board expenses	9	9	36
94	23	23	Other operating expenses	12	12	47
122	31	31	Major shareholders and others			
			Interest and profit income	1	-	-
-	-	3	Interest and profit expense	128	272	1,585
4,117	706	332	Other operating income	2	1	-
-	3	5	Gain on fair value of interest rate contracts	555	-	162
421	-	1,442	Gain on foreign exchange forward contracts	251	-	67
174	-	652	Other operating expenses	165	231	653
1,696	600	429				

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018

8. RELATED PARTY TRANSACTIONS (Continued)

During the period the Bank has not purchased debt instruments from the related party (31 March 2017: Nil and 31 December 2017: RO 21.625 million equivalent to US\$ 56.168 million).

The Bank has a committed line of loans from one of the related parties of RO 57.700 million equivalent to US\$ 149.870 million (31 March 2017: RO 57.800 million equivalent to US\$ 150 million and 31 December 2017: RO 57.700 million equivalent to US\$ 149.870 million).

The Bank has rented a branch premises from a Director. In accordance with the agreement, an amount of RO 0.012 million equivalent to US\$ 0.031 million was included in the other operating expenses (31 March 2017: RO 0.012 million equivalent to US\$ 0.031 million and 31 December 2017: RO 0.047 million equivalent to US\$ 0.123 million).

Compensation of the key management personnel for the three month period ended 31 March 2018 was RO 0.321 million equivalent to US\$ 0.834 million (31 March 2017: RO 0.389 million equivalent to US\$ 1.010 million).

9. SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares of 100 baizas each (31 March 2017 and 31 December 2017: 2,500,000,000 shares of 100 baizas each) out of which 1,496,287,950 (31 March 2017 and 31 December 2017: 1,425,036,144 shares) are issued and fully paid up.

Ahli United Bank BSC (AUB) is the only shareholder owning 10% or more of the Bank's shares. On 31 March 2018 shareholding of AUB was 523,700,744 shares equivalent to 35% (31 March 2017 and 31 December 2017: 498,762,642 shares equivalent to 35%)

10. BASIC AND DILUTED EARNINGS AND NET ASSETS VALUE PER SHARE

Basic earnings per share figures are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period as follows:

				Unaudited 31-Mar-18	Unaudited 31-Mar-17	Audited 31-Dec-17
Weighted average number of shares in 000's				1,496,287	1,496,287	1,496,287
Outstanding number of shares in 000's				1,496,287	1,425,036	1,425,036
	Audited 31-Dec-17	Unaudited 31-Mar-17	Unaudited 31-Mar-18	Unaudited 31-Mar-18	Unaudited 31-Mar-17	Audited 31-Dec-17
	US\$ '000	US\$ '000	US\$ '000	RO '000	RO '000	RO '000
Profit for the period / year	69,267	13,519	18,312	7,050	5,205	26,667
Net assets	661,888	608,463	626,858	241,340	234,258	254,827
Basic earnings per share (cents/baizas)	4.6	0.9	1.2	4.7	3.5	17.8
Net assets value per share (cents/baizas)	46.4	42.7	41.9	161.3	164.4	178.8

No figure for diluted earnings per share has been presented as the Bank has not issued any instruments which would have a diluting impact on earnings per share when exercised.

Earnings per share at and for the three months period ended 31 March 2018 and comparative periods have been calculated using the weighted average shares outstanding for the current period. The weighted average shares outstanding includes 71,251,807 bonus shares issued for nil consideration.

11. SEGMENT REPORTING

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into two operating segments based on products and services as follows:

1. Retail banking includes customers' deposits, unrestricted investments accounts, consumer loans, overdrafts, credit card, Islamic financing and fund transfer facilities.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

2. Corporate banking, treasury and investments include deposits including current accounts, term deposits, loans & advances and Islamic financing etc. for corporate and institutional customers, Treasury, Trade Finance and Investment Banking Services.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

11. SEGMENT INFORMATION (continued)

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the profit after tax.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on pool rate, which is approximates the cost of the funds.

Segment information is as follows:

	31 March 2018			31 March 2017		
	Retail banking RO '000	Corporate banking, Treasury & Investment RO '000	Total RO '000	Retail banking RO '000	Corporate banking, Treasury & Investment RO '000	Total RO '000
Net interest income	3,466	7,486	10,952	2,899	5,638	8,537
Net income from islamic financing and investments	600	942	1,542	520	1,056	1,576
Net interest income and income from islamic	4,066	8,428	12,494	3,419	6,694	10,113
Other operating income	96	2,005	2,101	258	1,706	1,964
Net operating income	4,162	10,433	14,595	3,677	8,400	12,077
Net impairment on financial assets	(101)	(1,010)	(1,111)	(498)	(442)	(940)
Loans & advances and financing written off	(4)	-	(4)	(2)	-	(2)
Operating expenses	(3,161)	(2,218)	(5,379)	(2,717)	(2,294)	(5,011)
Profit before taxation	896	7,205	8,101	460	5,664	6,124
Tax expense	(135)	(916)	(1,051)	(69)	(850)	(919)
Segment profit for the period	761	6,289	7,050	391	4,814	5,205
Segment assets	628,951	1,482,733	2,111,684	628,029	1,208,675	1,836,704
Segment liabilities	239,107	1,581,237	1,820,344	181,958	1,420,488	1,602,446
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net interest income	9,003	19,444	28,447	7,530	14,644	22,174
Net income from islamic financing and investments	1,558	2,447	4,005	1,351	2,742	4,093
Net interest income and income from islamic	10,561	21,891	32,452	8,881	17,386	26,267
Other operating income	249	5,208	5,457	670	4,431	5,101
Net operating income	10,810	27,099	37,909	9,551	21,817	31,368
Loans and financing impairment, net of recoveries	(263)	(2,623)	(2,886)	(1,294)	(1,148)	(2,442)
Impairment for investments	(10)	-	(10)	(5)	-	(5)
Operating expenses	(8,210)	(5,761)	(13,971)	(7,057)	(5,958)	(13,015)
Profit before taxation	2,327	18,715	21,042	1,195	14,711	15,906
Tax expense	(351)	(2,379)	(2,730)	(179)	(2,208)	(2,387)
Segment profit for the period	1,976	16,336	18,312	1,016	12,503	13,519
Segment assets	1,633,639	3,851,255	5,484,893	1,631,244	3,139,415	4,770,659
Segment liabilities	621,057	4,107,109	4,728,165	472,618	3,689,578	4,162,196

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

12. CONTINGENT LIABILITIES AND COMMITMENTS

Audited 31-Dec-17 US\$ '000	Unaudited 31-Mar-17 US\$ '000	Unaudited 31-Mar-18 US\$ '000		Unaudited 31-Mar-18 RO '000	Unaudited 31-Mar-17 RO '000	Audited 31-Dec-17 RO '000
353,647	386,309	348,613	Financial guarantees	134,216	148,729	136,154
373,078	69,506	371,426	Letters of credit	142,999	26,760	143,635
68,548	126,132	96,613	Loan commitments	37,196	48,561	26,391
6,026	6,553	932	Capital commitments	359	2,523	2,320
1,788	1,551	1,652	Lease commitments	636	597	689
803,087	590,051	819,236		315,406	227,170	309,189

13. ASSETS AND LIABILITIES MATURITY

As at 31 March 2018	Upto 3 months RO '000	Above 3 months to 12 months RO '000	Above 1 year to 5 years RO '000	More than 5 years RO '000	Total RO '000
Assets	626,453	179,038	362,154	944,039	2,111,684
Liabilities and equity	(491,583)	(547,357)	(564,981)	(507,763)	(2,111,684)
Net liquidity gap	134,870	(368,319)	(202,827)	436,276	-
Net liquidity gap in US \$ '000	350,312	(956,673)	(526,823)	1,133,184	-
<i>As at 31 March 2017</i>					
Assets	623,814	131,700	264,122	817,068	1,836,704
Liabilities and equity	(454,482)	(468,808)	(478,834)	(434,580)	(1,836,704)
Net liquidity gap	169,332	(337,108)	(214,712)	382,488	-
Net liquidity gap in US \$ '000	439,824	(875,605)	(557,694)	993,475	-
<i>As at 31 December 2017</i>					
Assets	545,438	164,891	362,904	941,349	2,014,582
Liabilities and equity	(408,642)	(514,573)	(609,347)	(482,020)	(2,014,582)
Net liquidity gap	136,796	(349,682)	(246,443)	459,329	-
Net liquidity gap in US \$ '000	355,315	(908,265)	(640,112)	1,193,062	-

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

14. CAPITAL MANAGEMENT

The risk asset ratio, calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014. Minimum capital adequacy ratio requirement as of 31 March 2018 is 13.875 % including capital conservation buffer of 1.875% (31 March 2017 and 31 December 2017: 13.250% including capital conservation buffer of 1.250%).

As per CBO circular BSD/2018/1 dated 20 March 2018, minimum capital adequacy ratio requirement has been reduced to 11% with effect from 1 April 2018. As per new ratio, Tier 2 capital will be restricted to 2% from 3%. CET 1, Tier 1 and capital conservation buffer requirements remained unchanged.

The capital adequacy ratio working as of 31 March 2018 is as follows:

	31-Mar-18	31-Dec-17
	RO '000	RO '000
Common Equity Tier 1 (CET1)	234,191	230,830
Additional Tier 1	50,000	50,000
Tier 1	284,191	280,830
Tier 2	17,324	31,849
Total regulatory capital	301,515	312,679
Risk weighted assets		
Credit risk	1,773,014	1,639,809
Market risk	64,832	131,055
Operational risk	102,196	101,544
Total risk weighted assets	1,940,042	1,872,408
Capital adequacy ratio		
CET1 capital expressed as a percentage of total risk-weighted assets	12.07%	12.33%
Total tier I capital expressed as a percentage of total risk-weighted assets	14.65%	15.00%
Tier II capital expressed as a percentage of total risk-weighted assets	0.89%	1.70%
Total regulatory capital expressed as a percentage of total risk-weighted assets	15.54%	16.70%
	31-Mar-18	31-Dec-17
	US\$ '000	US\$ '000
Common Equity Tier 1 (CET1)	608,288	599,558
Additional Tier 1	129,870	129,870
Tier 1	738,158	729,429
Tier 2	44,997	82,725
Total regulatory capital	783,155	812,153
Risk weighted assets		
Credit risk	4,605,231	4,259,244
Market risk	168,395	340,403
Operational risk	265,444	263,751
Total risk weighted assets	5,039,070	4,863,397
Capital adequacy ratio		
CET1 capital expressed as a percentage of total risk-weighted assets	12.07%	12.33%
Total tier I capital expressed as a percentage of total risk-weighted assets	14.65%	15.00%
Tier II capital expressed as a percentage of total risk-weighted assets	0.89%	1.70%
Total regulatory capital expressed as a percentage of total risk-weighted assets	15.54%	16.70%

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017**

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 8, approximate their carrying values.

The bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below analysis of financial instruments measured at fair value at the reporting date:

	31-Mar-18			31-Mar-17			31-Dec-17		
	Level 1 RO '000	Level 2 RO '000	Total RO '000	Level 1 RO '000	Level 2 RO '000	Total RO '000	Level 1 RO '000	Level 2 RO '000	Total RO '000
Financial assets:									
Investments at FVTPL	612	-	612	-	96,041	96,041	-	134,489	134,489
Investments at FVOCI	35,305	169,077	204,382	14,753	34,650	49,403	36,052	46,200	82,252
<i>Derivative financial instruments</i>									
Interest rate swaps	-	622	622	-	-	-	-	218	218
Forward foreign exchange contracts	1,089	-	1,089	1,023	-	1,023	1,025	-	1,025
	37,006	169,699	206,705	15,776	130,691	146,467	37,077	180,907	217,984
Financial liabilities									
<i>Derivative financial instruments</i>									
Interest rate swaps	-	67	67	-	-	-	-	56	56
Forward foreign exchange contracts	839	-	839	959	-	959	836	-	836
	839	67	906	959	-	959	836	56	892
Financial assets:	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Investments at FVTPL	1,590	-	1,590	-	249,457	249,457	-	349,322	349,322
Investments at FVOCI	91,701	439,161	530,862	38,320	90,000	128,320	93,642	120,000	213,642
<i>Derivative financial instruments</i>									
Interest rate swaps	-	1,616	1,616	-	-	-	-	-	-
Forward foreign exchange contracts	2,829	-	2,829	2,657	-	2,657	2,662	-	2,662
	96,120	440,777	536,897	40,977	339,457	380,434	96,304	469,322	565,626
Financial liabilities									
<i>Derivative financial instruments</i>									
Interest rate swaps	-	174	174	-	-	-	-	-	-
Forward foreign exchange contracts	2,179	-	2,179	2,491	-	2,491	2,171	-	2,171
	2,179	174	2,353	2,491	-	2,491	2,171	-	2,171

No financial instruments are carried at level 3 fair value as on 31 March 2018 (31 March 2017 and 31 December 2017: nil)