



**AHLI BANK SAOG**

**Interim condensed financial statements  
30 June 2019**

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## CHAIRMAN'S REPORT

### Dear Shareholders

On behalf of the Board of Directors, I am glad to present the unaudited financial statements of ahlibank for the half year ended 30 June 2019. This is based on the condensed unaudited interim financial statements reviewed by external auditors of the Bank.

On the occasion of the 49<sup>th</sup> year of Renaissance, the Board and staff of ahlibank would like to join the nation in extending its heartfelt wishes to His Majesty Sultan Qaboos Bin Said, whose leadership has led Oman to great levels of prosperity and development.

### Financial Performance

	30-Jun-19	30-Jun-18	Growth %
	RO Million		
Total assets	2,382.8	2,131.4	11.8%
Loans & advances and financing, net	1,987.5	1,805.4	10.1%
Customers' deposits	1,612.4	1,508.3	6.9%
Equity	375.2	295.3	27.1%
Operating income	34.24	30.03	14.0%
Operating expenses	13.47	11.60	16.1%
Profit for the period	14.92	14.20	5.1%

Our first half performance shows a 5.1% increase in net profit to RO 14.92 million as compared to RO 14.20 million for the same period in year 2018. Total assets grew by 11.8% to RO 2,382.8 million and customer deposits increased by 6.9% to reach RO 1,612.4 million. Total equity increased to RO 375.2 million compared to RO 295.3 million to further support our business growth plans. Net loans & advances and financing grew by 10.1% reaching RO 1,987.5 million, in line with the Bank's strategic plan to grow in a prudent manner.

Total operating income increased by 14.0% to RO 34.24 million as compared to RO 30.03 million in June 2018. While the Bank's operating expenses increased to RO 13.47 million compared to RO 11.60 million in June 2018, the cost to income ratio remained at 39.4%, one of the lowest amongst financial institutions in the Sultanate.

### Capital

In June 2019, the Bank completed raising Basel III Compliant Perpetual Subordinated Bonds (Additional Tier 1 Capital Instruments) of RO 20 million, resulting in increasing the Bank's Capital Adequacy Ratio to 17.83%. This increase in capital will support planned portfolio growth in 2019.

## **Branch expansion**

The Bank increased its retail banking presence by opening a new conventional branch in Al- Buraimi during February 2019 and Al Saada Branch in July 19. The Bank is in the process of further expanding its branch footprint across Oman.

## **Rebranding**

During May 2019, ahlibank rebranded its Islamic banking window to *'ahli islamic'* to continue its impressive performance since inception in 2013. The vision behind the new brand is to become a leading Omani service provider, abiding by the ethics and values of Islamic finance, and helping customers, communities, people to prosper and grow.

## **Technology**

As part of ahlibank's commitment towards transformation to digitalization, the Bank shall continue to enhance, develop, and incorporate new state-of-the-art systems, platforms, and services focused on enhancing customer experience and satisfaction across all touch points. Some of the major initiatives planned include introducing multi-functional kiosks and introduction of E-branches. With launch of these initiatives, the Bank shall set new benchmarks for technological advancement and customer service.

## **CSR – Ramadan Initiatives**

As part of its commitment to social development, ahlibank has extended support to "Fak Kurba" initiative promoted by Oman Lawyers Association. During holy month of Ramadhan, ahlibank distributed 24,000 water bottles in various wilayats across the Sultanate, special Iftar with 'Association of early intervention for children with disability and special needs', charitable donations to Oman autism society & Al wafa social center.

## **Achievements**

During the second quarter of 2019, the Bank has been ranked as the "Best Bank in Oman" in the mid-size category at Oman Banking & Finance Awards 2019. Similarly, the Bank won the "Quality of Disclosure" award for the year 2019 awarded by Muscat Securities Market.

## **Looking ahead**

We believe that the combination of ahlibank's focused strategy and diversified business model will continue to create long-term value for our shareholders, stakeholders and customers. We see continued demand for financing in the near future due to increase in non-oil revenues as the government plans to focus on tourism & infrastructure development projects along with investments in sectors identified as key in the economic diversification plan. The Bank remains committed in expanding the branch network focus on digitalization, expansion of customer base and increase in market share.

We intend to preserve our initiatives and continue to strive for excellence and maximizing value for all stakeholders.

## **Acknowledgements**

On behalf of the members of the Board of Directors, I would like to convey our gratitude to His Majesty Sultan Qaboos bin Said for his foresight and guidance in leading Oman on its path to growth and prosperity. I would also like to convey our appreciation to our regulators, the Central Bank of Oman, Capital Market Authority and guidance received from other official bodies for their continued guidance and support.

I would also like to express my sincere appreciation to the Bank's management team and all our employees for their commitment and dedication to the overall success of the Bank, and above all, to our clients for their loyalty and trust in our efforts.

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**Hamdan Ali Nasser Al Hinai**

Chairman

Dated: 29 July 2019

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

Audited 31-Dec-18 US\$ '000	Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Note	Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000	Audited 31-Dec-18 RO '000
<b>ASSETS</b>							
			Cash and balances with				
398,457	171,078	<b>231,182</b>	Central Bank of Oman		<b>89,005</b>	65,865	153,406
62,408	15,117	<b>76,213</b>	Due from banks		<b>29,342</b>	5,820	24,027
4,858,901	4,689,384	<b>5,162,444</b>	Loans & advances and				
555,971	571,925	<b>617,738</b>	Financing, net	5	<b>1,987,541</b>	1,805,413	1,870,677
45,429	43,995	<b>52,023</b>	Investment securities	6	<b>237,829</b>	220,191	214,049
-	-	<b>3,891</b>	Property and equipment		<b>20,029</b>	16,938	17,490
27,899	44,655	<b>45,605</b>	Deferred tax asset (net)		<b>1,498</b>	-	-
			Other assets		<b>17,558</b>	17,192	10,741
<b>5,949,065</b>	<b>5,536,154</b>	<b>6,189,096</b>	<b>TOTAL ASSETS</b>		<b>2,382,802</b>	2,131,419	2,290,390
<b>LIABILITIES</b>							
381,239	558,016	<b>549,431</b>	Due to banks		<b>211,531</b>	214,836	146,777
4,315,961	3,917,590	<b>4,187,932</b>	Customers' deposits	7	<b>1,612,354</b>	1,508,272	1,661,645
135,000	100,000	<b>260,000</b>	Borrowed funds		<b>100,100</b>	38,500	51,975
652	351	-	Deferred tax liability		-	135	251
118,863	128,161	<b>152,374</b>	Other liabilities		<b>58,664</b>	49,342	45,762
64,935	64,935	<b>64,936</b>	Subordinated liabilities		<b>25,000</b>	25,000	25,000
<b>5,016,650</b>	<b>4,769,053</b>	<b>5,214,673</b>	<b>TOTAL LIABILITIES</b>		<b>2,007,649</b>	1,836,085	1,931,410
<b>EQUITY</b>							
388,647	388,647	<b>408,078</b>	Share capital	9	<b>157,110</b>	149,629	149,629
74,104	66,626	<b>74,104</b>	Legal reserve		<b>28,530</b>	25,651	28,530
48,312	45,239	<b>54,748</b>	Subordinated debt reserve		<b>21,078</b>	17,417	18,600
(17,883)	(9,912)	<b>(21,834)</b>	Fair value reserve		<b>(8,406)</b>	(3,816)	(6,885)
5,005	4,158	<b>4,960</b>	Special reserve		<b>1,910</b>	1,601	1,927
20,026	11,603	<b>27,034</b>	Impairment reserve		<b>10,408</b>	4,467	7,710
144,074	130,870	<b>105,255</b>	Retained earnings		<b>40,523</b>	50,385	55,469
<b>662,285</b>	<b>637,231</b>	<b>652,345</b>	<b>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK</b>		<b>251,153</b>	245,334	254,980
270,130	129,870	<b>322,078</b>	Tier 1 Perpetual subordinated bonds		<b>124,000</b>	50,000	104,000
<b>932,415</b>	<b>767,101</b>	<b>974,423</b>	<b>TOTAL EQUITY</b>		<b>375,153</b>	295,334	358,980
<b>5,949,065</b>	<b>5,536,154</b>	<b>6,189,096</b>	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,382,802</b>	2,131,419	2,290,390
44	43	<b>42</b>	Net assets value per share (US cents / baizas)	13.2	<b>160</b>	164	170
813,566	831,533	<b>831,758</b>	Contingent liabilities and commitments	17	<b>320,227</b>	320,140	313,223

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

**Hamdan Ali Nasser Al Hinai**  
Chairman

**Said Abdullah Al Hatmi**  
Chief Executive Officer

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.



**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

	Share capital RO '000	Legal reserve RO '000	General		Fair value reserve RO '000	Special reserve RO '000	Impairment reserve RO '000	Retained earnings RO '000	Total RO '000	Tier 1	Total equity RO '000
			loan loss reserve RO '000	Subordinated debt reserve RO '000						Perpetual subordinated bond RO '000	
<b>Balance at 1 January 2019</b>	<b>149,629</b>	<b>28,530</b>	-	<b>18,600</b>	<b>(6,885)</b>	<b>1,927</b>	<b>7,710</b>	<b>55,469</b>	<b>254,980</b>	<b>104,000</b>	<b>358,980</b>
Profit for the period	-	-	-	-	-	-	-	14,922	14,922	-	14,922
Other comprehensive expense, net of tax	-	-	-	-	(1,460)	-	-	-	(1,460)	-	(1,460)
<b>Total comprehensive income</b>	-	-	-	-	<b>(1,460)</b>	-	-	<b>14,922</b>	<b>13,462</b>	-	<b>13,462</b>
Transfer to subordinated debt reserve	-	-	-	2,478	-	-	-	(2,478)	-	-	-
Transfer from special reserve	-	-	-	-	-	(17)	-	17	-	-	-
Transfer to impairment reserve	-	-	-	-	-	-	2,698	(2,698)	-	-	-
Interest paid on Tier 1 perpetual subordinated bond	-	-	-	-	-	-	-	(3,889)	(3,889)	-	(3,889)
Deferred tax asset on impairment reserve	-	-	-	-	-	-	-	1,563	1,563	-	1,563
Gain on sale of equity investments at FVOCI	-	-	-	-	(61)	-	-	61	-	-	-
<b>Transactions with owners recognised directly in equity</b>											
Issue of bonus shares	7,481	-	-	-	-	-	-	(7,481)	-	-	-
Cash dividends paid	-	-	-	-	-	-	-	(14,963)	(14,963)	-	(14,963)
Proceeds from Tier 1 perpetual subordinated bond	-	-	-	-	-	-	-	-	-	20,000	20,000
<b>Balance at 30 June 2019 RO (unaudited)</b>	<b>157,110</b>	<b>28,530</b>	-	<b>21,078</b>	<b>(8,406)</b>	<b>1,910</b>	<b>10,408</b>	<b>40,523</b>	<b>251,153</b>	<b>124,000</b>	<b>375,153</b>
<b>Balance at 30 June 2019 (US\$ '000) (unaudited)</b>	<b>408,078</b>	<b>74,104</b>	-	<b>54,748</b>	<b>(21,834)</b>	<b>4,960</b>	<b>27,034</b>	<b>105,255</b>	<b>652,345</b>	<b>322,078</b>	<b>974,423</b>

	Share capital RO '000	Legal reserve RO '000	General		Fair value reserve RO '000	Special reserve RO '000	Impairment reserve RO '000	Retained earnings RO '000	Total RO '000	Tier 1	Total equity RO '000
			loan loss reserve RO '000	Subordinated debt reserve RO '000						Perpetual subordinated bond RO '000	
<i>Balance at 1 January 2018</i>	142,504	25,651	6,543	13,600	(122)	228	-	66,423	254,827	50,000	304,827
<i>Changes on initial application of IFRS 9</i>	-	-	(6,543)	-	(1,525)	-	1,082	1,526	(5,460)	-	(5,460)
<i>Restated balance at 1 January 2018</i>	142,504	25,651	-	13,600	(1,647)	228	1,082	67,949	249,367	50,000	299,367
Profit for the period	-	-	-	-	-	-	-	14,202	14,202	-	14,202
Other comprehensive expense, net of tax	-	-	-	-	(2,151)	-	-	-	(2,151)	-	(2,151)
<b>Total comprehensive income</b>	-	-	-	-	<b>(2,151)</b>	-	-	<b>14,202</b>	<b>12,051</b>	-	<b>12,051</b>
Transfer to subordinated debt reserve	-	-	-	3,817	-	-	-	(3,817)	-	-	-
Transfer to special reserve	-	-	-	-	-	1,373	-	(1,373)	-	-	-
Transfer to impairment reserve	-	-	-	-	-	-	3,349	(3,349)	-	-	-
Gain on sale of equity investments at FVOCI	-	-	-	-	(18)	-	-	18	-	-	-
Technical write off of loans and advances	-	-	-	-	-	-	36	3	39	-	39
Transactions with owners recognised directly in equity											
Issue of bonus shares	7,125	-	-	-	-	-	-	(7,125)	-	-	-
Interest on Tier 1 perpetual subordinated bond	-	-	-	-	-	-	-	(1,873)	(1,873)	-	(1,873)
Cash dividends paid	-	-	-	-	-	-	-	(14,250)	(14,250)	-	(14,250)
<b>Balance at 30 June 2018 RO (unaudited)</b>	<b>149,629</b>	<b>25,651</b>	-	<b>17,417</b>	<b>(3,816)</b>	<b>1,601</b>	<b>4,467</b>	<b>50,385</b>	<b>245,334</b>	<b>50,000</b>	<b>295,334</b>
<b>Balance at 30 June 2018 (US\$ '000) (unaudited)</b>	<b>388,647</b>	<b>66,626</b>	-	<b>45,239</b>	<b>(9,912)</b>	<b>4,158</b>	<b>11,603</b>	<b>130,870</b>	<b>637,231</b>	<b>129,870</b>	<b>767,101</b>
<i>Balance at 1 July 2018</i>	149,629	25,651	-	17,417	(3,816)	1,601	4,467	50,385	245,334	50,000	295,334
Profit for the period	-	-	-	-	-	-	-	14,584	14,584	-	14,584
Other comprehensive expense, net of tax	-	-	-	-	(3,061)	-	-	-	(3,061)	-	(3,061)
<b>Total comprehensive income</b>	-	-	-	-	<b>(3,061)</b>	-	-	<b>14,584</b>	<b>11,523</b>	-	<b>11,523</b>
Transfer to legal reserve	-	2,879	-	-	-	-	-	(2,879)	-	-	-
Transfer to impairment reserve	-	-	-	-	-	-	3,243	(3,243)	-	-	-
Transfer to special reserve	-	-	-	-	-	326	-	(326)	-	-	-
Gain on sale of equity investments at FVOCI	-	-	-	-	(8)	-	-	8	-	-	-
Interest paid on Tier 1 perpetual subordinated bond	-	-	-	-	-	-	-	(1,877)	(1,877)	-	(1,877)
Transfer to subordinated debt reserve	-	-	-	1,183	-	-	-	(1,183)	-	-	-
<i>Proceeds from Tier 1 perpetual subordinated bond</i>	-	-	-	-	-	-	-	-	-	54,000	54,000
<b>Balance at 31 December 2018 RO</b>	<b>149,629</b>	<b>28,530</b>	-	<b>18,600</b>	<b>(6,885)</b>	<b>1,927</b>	<b>7,710</b>	<b>55,469</b>	<b>254,980</b>	<b>104,000</b>	<b>358,980</b>
<b>Balance at 31 December 2018 (US\$ '000)</b>	<b>388,647</b>	<b>74,104</b>	-	<b>48,312</b>	<b>(17,883)</b>	<b>5,005</b>	<b>20,026</b>	<b>144,074</b>	<b>662,285</b>	<b>270,130</b>	<b>932,415</b>

Appropriation to legal reserve is made on an annual basis.

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

**INTERIM CONDENSED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
42,848	<b>45,088</b>	<b>Profit before taxation</b>	<b>17,359</b>	16,497
<b>Adjustments for:</b>				
1,769	<b>2,740</b>	Depreciation	<b>1,055</b>	681
5,000	<b>8,847</b>	Net impairment on financial assets and write off	<b>3,406</b>	1,925
114	<b>135</b>	End of service benefits provision	<b>52</b>	44
182	-	Unrealised loss on investments securities	-	70
(52)	-	Gain on sale of investment securities	-	(20)
49,861	<b>56,810</b>	<b>Operating profit before working capital changes</b>	<b>21,872</b>	19,197
76,592	<b>(40,000)</b>	(Decrease)/increase in due to banks	<b>(15,400)</b>	29,488
(223)	<b>(5)</b>	End of service benefits paid	<b>(2)</b>	(86)
(463,119)	<b>(312,390)</b>	Increase in loans & advances and financing	<b>(120,270)</b>	(178,301)
348,078	<b>190</b>	Net movement in FVTPL investment securities	<b>73</b>	134,010
9,634	<b>(17,706)</b>	(Increase)/ decrease in other assets	<b>(6,817)</b>	3,709
149,145	<b>(128,029)</b>	(Decrease)/ increase in customers' deposits	<b>(49,291)</b>	57,421
4,990	<b>35,677</b>	Increase in other liabilities	<b>13,736</b>	1,921
174,958	<b>(405,453)</b>	<b>Cash (used in)/generated from operations</b>	<b>(156,099)</b>	67,359
(12,218)	<b>(9,109)</b>	Tax paid	<b>(3,507)</b>	(4,704)
162,740	<b>(414,562)</b>	<b>Net cash (used in)/generated from operating activities</b>	<b>(159,606)</b>	62,655
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
(349,756)	<b>(29,748)</b>	Increase in investment, net (excluding FVTPL investment)	<b>(11,453)</b>	(134,656)
(2,379)	<b>(9,335)</b>	Purchase of property and equipment	<b>(3,594)</b>	(916)
(352,135)	<b>(39,083)</b>	<b>Net cash used in investing activities</b>	<b>(15,047)</b>	(135,572)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
(37,013)	<b>(38,865)</b>	Dividends paid	<b>(14,963)</b>	(14,250)
(50,000)	<b>125,000</b>	Increase/ (decrease) in borrowed funds	<b>48,125</b>	(19,250)
-	<b>51,948</b>	Proceeds from Tier 1 perpetual subordinated bond	<b>20,000</b>	-
(4,865)	<b>(10,101)</b>	Interest paid on Tier 1 perpetual subordinated bond	<b>(3,889)</b>	(1,873)
(91,878)	<b>127,982</b>	<b>Net cash generated from / (used in) financing activities</b>	<b>49,273</b>	(35,373)
(281,273)	<b>(325,663)</b>	<b>Net change in cash and cash equivalents</b>	<b>(125,380)</b>	(108,290)
217,681	<b>352,382</b>	Cash and cash equivalents at 1 January	<b>135,667</b>	83,807
(63,592)	<b>26,719</b>	<b>Cash and cash equivalents at 30 June</b>	<b>10,287</b>	(24,483)
<b>Cash and cash equivalent comprises of the following:</b>				
30-Jun-18 US\$ '000	30-Jun-19 US\$ '000		30-Jun-19 RO '000	30-Jun-18 RO '000
169,714	<b>229,818</b>	Cash and current balances with Central Bank of Oman	<b>88,480</b>	65,340
15,117	<b>76,213</b>	Due from banks	<b>29,342</b>	5,820
133,000	<b>159,501</b>	Treasury bills with three months maturity	<b>61,408</b>	51,205
(381,423)	<b>(438,813)</b>	Due to banks	<b>(168,943)</b>	(146,848)
(63,592)	<b>26,719</b>		<b>10,287</b>	(24,483)
<b>Reconciliation of liabilities arising from financing activities</b>				
30-Jun-18 US\$ '000	30-Jun-19 US\$ '000		30-Jun-19 RO '000	30-Jun-18 RO '000
150,000	<b>135,000</b>	<b>Borrowed funds</b> Balance at beginning of the period	<b>51,975</b>	57,750
(50,000)	<b>125,000</b>	Cash flows	<b>48,125</b>	(19,250)
100,000	<b>260,000</b>	Balance at end of the period	<b>100,100</b>	38,500

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

**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 four branches (Sixteen conventional and eight Islamic branches). The registered address of the Bank is PO Box 545, Mina Al Fahal, Postal Code 116, Sultanate of Oman.

The Bank employed 625 employees as at 30 June 2019 compared to 561 as at 30 June 2018 and 598 as at 31 December 2018.

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The unaudited interim condensed financial statements for the six month 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 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 six month period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year 2019.

The accounting policies applied in these interim condensed financial statements are the same as those applied in the annual financial statements for the year ended 31 December 2018 except for changes resulting from adoption of IFRS 16-Leases.

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 those measured at amortised cost.

The functional and presentation 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 as a supplementary information only, using the exchange rate of RO 0.385 = US\$ 1.00.

**3. CHANGES IN ACCOUNTING POLICIES**

The Bank applied IFRS 16 with a date of initial application from 1 January 2019 which has resulted in change in accounting policy, as set out below:

**A. Definition of lease**

At inception of contract, the Bank assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the right to direct the use of an identified asset;
- the contract has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.

This policy is applied to contracts entered into or renewed on or after 1 January 2019. At inception or on renewal of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices.

**B. As a lessee**

The Bank recognises a Right of Use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred for obtaining the lease contract.

The ROU asset is subsequently depreciated using the straight line method from the commencement date until the useful life of the asset or end of lease term, whichever occurs earlier. The estimated useful lives of ROU assets are determined on the same basis of property and equipment. In addition, ROU assets are periodically tested for impairment and adjusted for losses, if any.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

**3. CHANGES IN ACCOUNTING POLICIES (Continued)**

**B. As a lessee (continued)**

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate of 4.50% as the discount rate for measurement of lease liability.

Lease payments included in the measurement of lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depends on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using effective interest method. It is remeasured when there is a change in future lease payments or lease assessment whether it will exercise a purchase, extension or termination option.

Interest on lease liability during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of lease liability. Interest on lease liability is shown separately from the depreciation charge on ROU asset in the statement of comprehensive income.

The Bank has disclosed ROU assets under 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

**Short term leases and leases of low value assets**

The Bank has elected not to recognise ROU assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

**C. Transition**

The Bank applied IFRS 16 using the modified retrospective approach, under which ROU assets are measured at an amount equal to the lease liability. Accordingly, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Under IFRS 16, the Bank recognises ROU assets and lease liabilities for most leases - i.e., these leases are on balance sheet. The Bank decided to apply recognition exemptions for short term leases/ leases of low value assets.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to all leases.
- Applied the exemption not to recognise ROU assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

**Impact on financial statements**

As at 31 December 2018, the total operating commitments as disclosed in financial statements was RO 0.648 million (equivalent US\$ 1.683 million). At transition, lease liabilities were measured at the present value of the remaining lease payments discounted at the Bank's incremental borrowing rate as at 1 January 2019. ROU assets are measured at an amount equal to lease liability, adjusted by the amount of any prepaid or accrued lease payments using the modified retrospective approach. Accordingly on transition to IFRS 16, the bank recognised RO 1.689 million of ROU assets (equivalent US\$ 4.387 million) and RO 1.253 million of lease liabilities (equivalent US\$ 3.255 million) as at 1 January 2019 and no adjustment was carried out in the opening retained earnings as on that date. During the period, an amount of RO 0.329 million (equivalent to US\$ 0.853 million) was recognised in statement of comprehensive income as depreciation and RO 0.032 million (equivalent to US\$ 0.084 million) as interest expense. As at 30 June 2019, the carrying value of ROU assets and lease liabilities are RO 1.809 million (equivalent US\$ 4.699 million) and RO 1.480 million (equivalent US\$ 3.844 million).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT**

In preparing these interim condensed financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2018.

**5. LOANS & ADVANCES AND FINANCING, NET**

Audited 31-Dec-18 US\$ '000	Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000	Audited 31-Dec-18 RO '000
			<b>Conventional Banking</b>			
2,748,059	2,679,322	<b>2,911,642</b>	Corporate lending	<b>1,120,982</b>	1,031,539	1,058,003
1,417,161	1,353,971	<b>1,490,552</b>	Retail lending	<b>573,863</b>	521,279	545,607
4,165,220	4,033,293	<b>4,402,194</b>	Loans & advances, gross	<b>1,694,845</b>	1,552,818	1,603,610
			<b>Islamic Banking</b>			
457,135	408,888	<b>512,626</b>	Corporate financing	<b>197,361</b>	157,422	175,997
325,943	322,260	<b>344,416</b>	Retail financing	<b>132,600</b>	124,070	125,488
783,078	731,148	<b>857,042</b>	Financing, gross	<b>329,961</b>	281,492	301,485
			<b>Loans &amp; advances and financing, gross</b>	<b>2,024,806</b>	1,834,310	1,905,095
			Loans and financing impairment (including reserve interest and profit)	<b>(37,265)</b>	(28,897)	(34,418)
4,948,298	4,764,441	<b>5,259,236</b>		<b>1,987,541</b>	1,805,413	1,870,677
(89,397)	(75,057)	<b>(96,792)</b>				
4,858,901	4,689,384	<b>5,162,444</b>				

The interest rate bands of gross loans & advances and financing are as follows:

1,441,018	1,555,745	<b>1,046,683</b>	0-5%	<b>402,973</b>	598,962	554,792
3,207,574	2,891,660	<b>3,900,969</b>	5-7%	<b>1,501,873</b>	1,113,289	1,234,916
289,756	306,382	<b>276,987</b>	7-10%	<b>106,640</b>	117,957	111,556
9,950	10,654	<b>34,597</b>	More than 10%	<b>13,320</b>	4,102	3,831
4,948,298	4,764,441	<b>5,259,236</b>		<b>2,024,806</b>	1,834,310	1,905,095

The analysis of net loans & advances and financing based on the residual maturity date is as below:

1,398,281	1,378,212	<b>1,325,766</b>	0-1 year	<b>510,420</b>	530,612	538,338
525,028	532,767	<b>633,629</b>	1-3 years	<b>243,947</b>	205,115	202,136
397,228	397,640	<b>499,149</b>	3-5 years	<b>192,173</b>	153,092	152,933
2,538,364	2,380,765	<b>2,703,900</b>	More than 5 years	<b>1,041,002</b>	916,594	977,270
4,858,901	4,689,384	<b>5,162,444</b>		<b>1,987,541</b>	1,805,413	1,870,677

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

**5. LOANS & ADVANCES AND FINANCING, NET (CONTINUED)**

**5.1 ECL Exposure/Impairment allowance of financial assets and off balance sheet**

The following tables contain an analysis of stage wise risk exposure/reconciliation of loss allowance from the opening to the closing balance of financial assets and off balance sheet items by class of financial instruments.

**a) Exposure subject to ECL**

	30-Jun-19					30-Jun-18					31-Dec-18				
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000
Due from banks (including balances with CBO)	108,179	-	-	<b>108,179</b>	<b>280,984</b>	5,820	-	-	5,820	15,117	168,648	-	-	168,648	438,047
Loans & advances and financing	1,613,280	375,972	35,554	<b>2,024,806</b>	<b>5,259,236</b>	1,671,219	139,212	23,879	1,834,310	4,764,441	1,706,131	166,149	32,815	1,905,095	4,948,298
Investment securities (excluding equity investments)	232,524	-	-	<b>232,524</b>	<b>603,958</b>	213,838	-	-	213,838	555,423	207,851	-	-	207,851	539,872
Other assets	8,466	3,819	-	<b>12,285</b>	<b>31,909</b>	8,907	5,942	-	14,849	38,569	5,004	471	-	5,475	14,221
Loan commitments and financial guarantees	254,142	64,731	32	<b>318,905</b>	<b>828,325</b>	301,241	17,798	-	319,039	828,673	299,940	10,265	971	311,176	808,250

**b) Movement in impairment allowance and provision**

	30-Jun-19					30-Jun-18					31-Dec-18				
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000
<b>Opening balance</b>															
Due from banks (including balances with CBO)	1	-	-	1	<b>3</b>	2	-	-	2	5	2	-	-	2	5
Loans & advances and financing	6,706	10,097	17,615	34,418	<b>89,397</b>	6,162	11,895	9,663	27,720	72,000	6,162	11,895	9,663	27,720	72,000
Investment securities (excluding equity investments)	24	-	-	24	<b>62</b>	20	-	-	20	52	19	-	-	19	49
Other assets	7	4	-	11	<b>29</b>	25	129	-	154	400	25	129	-	154	400
Loan commitments and financial guarantees	833	142	205	1,180	<b>3,065</b>	414	1,251	-	1,665	4,325	414	1,251	-	1,665	4,325
<b>Net transfer between stages</b>															
Loans & advances and financing	1,321	(1,321)	-	-	-	5,337	(5,137)	(200)	-	-	8,149	(6,604)	(1,545)	-	-
Investment securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	105	(105)	-	-	-	110	(110)	-	-	-
Loan commitments and financial guarantees	(189)	189	-	-	-	1,071	(1,071)	-	-	-	828	(828)	-	-	-

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
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**5. LOANS & ADVANCES AND FINANCING, NET (CONTINUED)**

**5.1 ECL Exposure/Impairment allowance of financial assets and off balance sheet (Continued)**

**b) Movement in impairment allowance and provision (continued)**

	30-Jun-19					30-Jun-18					31-Dec-18				
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000
<b>Charge for the period (net)</b>															
Due from banks (including balances with CBO)	-	-	-	-	-	(1)	-	-	(1)	(3)	(1)	-	-	(1)	(3)
Loans & advances and financing*	(249)	2,244	851	<b>2,846</b>	<b>7,392</b>	(5,132)	3,022	3,287	1,177	3,057	(7,605)	4,806	9,497	6,698	17,397
Investment securities (excluding equity investments)	4	-	-	<b>4</b>	<b>10</b>	9	-	-	9	23	5	-	-	5	13
Other assets	-	-	-	-	-	(120)	1,670	-	1,550	4,026	(128)	(15)	-	(143)	(371)
Loan commitments and financial guarantees	89	580	(196)	<b>473</b>	<b>1,229</b>	(925)	615	-	(310)	(805)	(409)	(281)	205	(485)	(1,260)
<b>Closing balance</b>															
Due from banks(including balances with CBO)	<b>1</b>	-	-	<b>1</b>	<b>3</b>	1	-	-	1	2	1	-	-	1	3
Loans & advances and financing	<b>7,778</b>	<b>11,020</b>	<b>18,466</b>	<b>37,264</b>	<b>96,790</b>	6,367	9,780	12,750	28,897	75,057	6,706	10,097	17,615	34,418	89,397
Investment securities (excluding equity investments)	<b>28</b>	-	-	<b>28</b>	<b>73</b>	29	-	-	29	75	24	-	-	24	62
Other assets	<b>7</b>	<b>4</b>	-	<b>11</b>	<b>29</b>	10	1,694	-	1,704	4,426	7	4	-	11	29
Loan commitments and financial guarantees	<b>733</b>	<b>911</b>	<b>9</b>	<b>1,653</b>	<b>4,294</b>	560	795	-	1,355	3,520	833	142	205	1,180	3,065

\*Charge for the period includes reserve interest movement amounting to RO 0.171 million (Equivalent US\$ 0.444 million) and technical write off reversal amounting to RO 0.210 million (Equivalent US\$ 0.545 million)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

**5. LOANS & ADVANCES AND FINANCING, NET (CONTINUED)**

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

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 CBO norms, including those on restructuring of loan accounts for regulatory reporting purposes.

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
(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)
Standard	Stage 1	1,602,400	25,007	7,277	17,730	1,577,393	1,595,123	-	-
	Stage 2	229,255	-	2,952	(2,952)	229,255	226,303	-	-
	Stage 3	-	-	-	-	-	-	-	-
<b>Subtotal</b>		<b>1,831,655</b>	<b>25,007</b>	<b>10,229</b>	<b>14,778</b>	<b>1,806,648</b>	<b>1,821,426</b>	-	-
Special Mention	Stage 1	10,880	-	502	(502)	10,880	10,378	-	-
	Stage 2	146,717	-	8,068	(8,068)	146,717	138,649	-	-
	Stage 3	-	-	-	-	-	-	-	-
<b>Subtotal</b>		<b>157,597</b>	<b>-</b>	<b>8,570</b>	<b>(8,570)</b>	<b>157,597</b>	<b>149,027</b>	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,574	1,364	2,586	(1,222)	4,093	2,988	-	117
<b>Subtotal</b>		<b>5,574</b>	<b>1,364</b>	<b>2,586</b>	<b>(1,222)</b>	<b>4,093</b>	<b>2,988</b>	-	<b>117</b>
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,418	4,009	3,987	22	4,220	4,431	-	189
<b>Subtotal</b>		<b>8,418</b>	<b>4,009</b>	<b>3,987</b>	<b>22</b>	<b>4,220</b>	<b>4,431</b>	-	<b>189</b>
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	21,562	16,684	11,893	4,791	2,883	9,669	-	1,995
<b>Subtotal</b>		<b>21,562</b>	<b>16,684</b>	<b>11,893</b>	<b>4,791</b>	<b>2,883</b>	<b>9,669</b>	-	<b>1,995</b>
Other items not covered under CBO circular BM 977 and related instructions*	Stage 1	603,311	-	768	(768)	603,311	602,543	-	-
	Stage 2	68,550	-	915	(915)	68,550	67,635	-	-
	Stage 3	32	-	9	(9)	32	23	-	-
<b>Subtotal</b>		<b>671,893</b>	<b>-</b>	<b>1,692</b>	<b>(1,692)</b>	<b>671,893</b>	<b>670,201</b>	-	-
<b>Total</b>	<b>Stage 1</b>	<b>2,216,591</b>	<b>25,007</b>	<b>8,547</b>	<b>16,460</b>	<b>2,191,584</b>	<b>2,208,044</b>	-	-
	<b>Stage 2</b>	<b>444,522</b>	<b>-</b>	<b>11,935</b>	<b>(11,935)</b>	<b>444,522</b>	<b>432,587</b>	-	-
	<b>Stage 3</b>	<b>35,586</b>	<b>22,057</b>	<b>18,475</b>	<b>3,582</b>	<b>11,228</b>	<b>17,111</b>	-	<b>2,301</b>
	<b>Total in RO</b>	<b>2,696,699</b>	<b>47,064</b>	<b>38,957</b>	<b>8,107</b>	<b>2,647,334</b>	<b>2,657,742</b>	-	<b>2,301</b>
	<b>Total in US\$ '000</b>	<b>7,004,413</b>	<b>122,244</b>	<b>101,187</b>	<b>21,057</b>	<b>6,876,192</b>	<b>6,903,226</b>	-	<b>5,977</b>

\* 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  
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**5. LOANS & ADVANCES AND FINANCING, NET (CONTINUED)**

**5.2 Comparison of provision held as per IFRS 9 and required as per CBO norms (Continued)**

**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
					RO '000				
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	44,609	1,902	3,295	(1,393)	42,707	41,314	-	-
	Stage 3	-	-	-	-	-	-	-	-
<b>Subtotal</b>		<b>44,609</b>	<b>1,902</b>	<b>3,295</b>	<b>(1,393)</b>	<b>42,707</b>	<b>41,314</b>	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,487	6,478	3,666	2,812	1,679	4,821	-	330
<b>Sub total</b>		<b>8,487</b>	<b>6,478</b>	<b>3,666</b>	<b>2,812</b>	<b>1,679</b>	<b>4,821</b>	-	<b>330</b>
<b>Total</b>	<b>Stage 1</b>	-	-	-	-	-	-	-	-
	<b>Stage 2</b>	<b>44,609</b>	<b>1,902</b>	<b>3,295</b>	<b>(1,393)</b>	<b>42,707</b>	<b>41,314</b>	-	-
	<b>Stage 3</b>	<b>8,487</b>	<b>6,478</b>	<b>3,666</b>	<b>2,812</b>	<b>1,679</b>	<b>4,821</b>	-	<b>330</b>
	<b>Total in RO</b>	<b>53,096</b>	<b>8,380</b>	<b>6,961</b>	<b>1,419</b>	<b>44,386</b>	<b>46,135</b>	-	<b>330</b>
	<b>Total in US\$ '000</b>	<b>137,912</b>	<b>21,766</b>	<b>18,081</b>	<b>3,686</b>	<b>115,288</b>	<b>119,831</b>	-	<b>857</b>

\*Net of provisions and reserve interest as per CBO norms

**5.3 Impairment charge and provisions held**

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	2,942	2,942	-
Provisions required as per CBO norms/ held as per IFRS 9*	47,064	38,957	8,107
Gross NPL ratio (percentage)	1.76%	1.76%	-
Net NPL ratio (percentage)	0.55%	0.85%	-0.29%

\*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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
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**6. INVESTMENT SECURITIES**

Audited 31-Dec-18 US\$ '000	Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000	Audited 31-Dec-18 RO '000
			<b>Equity investments:</b>			
1,226	1,296	<b>1,036</b>	Designated at FVTPL	<b>399</b>	499	472
14,935	15,281	<b>12,817</b>	Designated at FVOCI	<b>4,934</b>	5,883	5,750
16,161	16,577	<b>13,853</b>	<b>Total Equity investments</b>	<b>5,333</b>	6,382	6,222
			<b>Debt investments:</b>			
539,872	555,423	<b>603,958</b>	Designated at FVOCI	<b>232,524</b>	213,838	207,851
539,872	555,423	<b>603,958</b>	<b>Gross debt investments</b>	<b>232,524</b>	213,838	207,851
(62)	(75)	<b>(73)</b>	Less: Impairment allowance	<b>(28)</b>	(29)	(24)
539,810	555,348	<b>603,885</b>	<b>Net debt investments</b>	<b>232,496</b>	213,809	207,827
555,971	571,925	<b>617,738</b>	<b>Total investment securities</b>	<b>237,829</b>	220,191	214,049

The table below summarises the concentration of investments by various sectors.

Audited 31-Dec-18 RO '000	Unaudited 30-Jun-18 RO '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000	Audited 31-Dec-18 RO '000
			<b>Equity investments:</b>			
			<b>A. Designated at FVTPL</b>			
			<b>Quoted investments - Oman</b>			
81	-	<b>93</b>	Banking and investment sector	<b>36</b>	-	31
195	242	<b>192</b>	Service sector	<b>74</b>	93	75
			<b>Quoted investments - Foreign</b>			
283	291	<b>229</b>	Manufacturing	<b>88</b>	112	109
203	252	<b>223</b>	Construction	<b>86</b>	97	78
464	511	<b>299</b>	Service sector	<b>115</b>	197	179
1,226	1,296	<b>1,036</b>	<b>Total</b>	<b>399</b>	499	472
			<b>B. Designated at FVOCI</b>			
			<b>Quoted investments - Oman</b>			
1,969	2,403	<b>1,888</b>	Manufacturing	<b>727</b>	925	758
2,795	3,265	<b>2,473</b>	Banking and investment sector	<b>952</b>	1,257	1,076
6,169	5,423	<b>4,969</b>	Service sector	<b>1,913</b>	2,088	2,375
			<b>Quoted investments - Foreign</b>			
1,291	1,361	<b>875</b>	Manufacturing	<b>337</b>	524	497
1,410	1,405	<b>1,322</b>	Banking and investment sector	<b>509</b>	541	543
909	1,091	<b>951</b>	Service sector	<b>366</b>	420	350
392	333	<b>339</b>	Construction	<b>130</b>	128	151
14,935	15,281	<b>12,817</b>	<b>Total</b>	<b>4,934</b>	5,883	5,750

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

**6. INVESTMENT SECURITIES (continued)**

Audited 31-Dec-18	Unaudited 30-Jun-18	Unaudited 30-Jun-19		Unaudited 30-Jun-19	Unaudited 30-Jun-18	Audited 31-Dec-18
RO '000	RO '000	US\$ '000		RO '000	RO '000	RO '000
			<b>Debt investments:</b>			
			<b>A. Designated at FVOCI</b>			
			<b>Quoted investments - Oman</b>			
317,846	319,982	<b>334,779</b>	Government development bonds	<b>128,890</b>	123,193	122,371
33,361	35,257	<b>41,566</b>	Government bonds	<b>16,003</b>	13,574	12,844
28,886	29,021	<b>29,013</b>	Government sukuku	<b>11,170</b>	11,173	11,121
18,247	19,935	<b>19,655</b>	Services	<b>7,567</b>	7,675	7,025
49	55	<b>52</b>	Banking and investment	<b>20</b>	21	19
			<b>Quoted investments - Foreign</b>			
125,483	134,979	<b>161,517</b>	Government bonds	<b>62,184</b>	51,967	48,311
16,000	16,194	<b>17,376</b>	Banking and investment	<b>6,690</b>	6,235	6,160
<b>539,872</b>	<b>555,423</b>	<b>603,958</b>	<b>Total</b>	<b>232,524</b>	213,838	207,851
(62)	(75)	<b>(73)</b>	Less: Impairment allowance	<b>(28)</b>	(29)	(24)
<b>539,810</b>	<b>555,348</b>	<b>603,885</b>	<b>Total debt investments</b>	<b>232,496</b>	213,809	207,827
<b>555,971</b>	<b>571,925</b>	<b>617,738</b>	<b>Total investments</b>	<b>237,829</b>	220,191	214,049

**7. CUSTOMERS' DEPOSITS**

Customers' deposits can be analysed as follows:

Audited 31-Dec-18	Unaudited 30-Jun-18	Unaudited 30-Jun-19		Unaudited 30-Jun-19	Unaudited 30-Jun-18	Audited 31-Dec-18
US\$ '000	US\$ '000	US\$ '000		RO '000	RO '000	RO '000
			<b>Conventional Banking</b>			
2,329,143	2,198,540	<b>2,419,114</b>	Time deposits	<b>931,359</b>	846,438	896,720
1,196,647	912,068	<b>1,050,327</b>	Demand deposits	<b>404,376</b>	351,146	460,709
278,706	266,930	<b>313,174</b>	Savings deposits	<b>120,572</b>	102,768	107,302
<b>3,804,496</b>	<b>3,377,538</b>	<b>3,782,615</b>	<b>Total</b>	<b>1,456,307</b>	1,300,352	1,464,731
			<b>Islamic Banking</b>			
226,099	286,481	<b>189,826</b>	Time deposits	<b>73,083</b>	110,295	87,048
153,717	120,005	<b>87,613</b>	Demand deposits	<b>33,731</b>	46,202	59,181
131,649	133,566	<b>127,878</b>	Savings deposits	<b>49,233</b>	51,423	50,685
<b>511,465</b>	<b>540,052</b>	<b>405,317</b>	<b>Total</b>	<b>156,047</b>	207,920	196,914
<b>4,315,961</b>	<b>3,917,590</b>	<b>4,187,932</b>	<b>Total</b>	<b>1,612,354</b>	1,508,272	1,661,645

The analysis of customer deposits based on the residual maturity date is as below:

1,540,719	1,145,489	<b>1,174,139</b>	0-6 Months	<b>452,043</b>	441,013	593,177
802,997	897,278	<b>1,026,817</b>	6-12 months	<b>395,325</b>	345,452	309,154
1,147,753	1,205,485	<b>1,201,440</b>	1-3 years	<b>462,554</b>	464,112	441,884
824,492	669,338	<b>785,536</b>	3 years and above	<b>302,432</b>	257,695	317,430
<b>4,315,961</b>	<b>3,917,590</b>	<b>4,187,932</b>	<b>Total</b>	<b>1,612,354</b>	1,508,272	1,661,645

Interest rate bands of deposits is as follows:

599,966	878,065	<b>598,792</b>	0-2%	<b>230,535</b>	338,055	230,987
2,445,052	2,251,365	<b>1,815,106</b>	2-4%	<b>698,816</b>	866,775	941,345
1,270,943	788,160	<b>1,774,034</b>	4-6%	<b>683,003</b>	303,442	489,313
<b>4,315,961</b>	<b>3,917,590</b>	<b>4,187,932</b>	<b>Total</b>	<b>1,612,354</b>	1,508,272	1,661,645

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
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**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-18 US\$ '000	Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000	Audited 31-Dec-18 RO '000
<b>Directors and senior management</b>						
1,587	1,325	2,382	Loans & advances and financing, net	917	510	611
1,494	2,117	1,810	Customers' deposits	697	815	575
42	104	21	Prepaid expenses	8	40	16
<b>Major shareholders and others</b>						
3,182	2,335	4,758	Due from banks	1,832	899	1,225
1,099	1,192	1,140	Investment securities	439	459	423
			Other assets			
			Fair value of forward foreign			
		138	exchange contracts	53	-	146
379	-	-	- Fair value of swaps	-	480	77
200	1,247	-	Due to banks	31,458	46,884	38,777
100,719	121,777	81,709	Customers' deposits	5,735	160	3
8	416	14,896	Other liabilities			
			Accrued expenses	-	-	6
16	-	-	Other payables	-	213	-
-	553	-	Fair value of forward foreign			
			exchange contracts	-	233	-
-	605	-	Fair value of swaps	1,473	-	-
-	-	3,826				
28,982	27,730	23,857	Contingent liabilities and commitments	9,185	10,676	11,158

The income and expenses in respect of related parties included in the statement of comprehensive income are as follows:

Audited 31-Dec-18 US\$ '000	Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000	Audited 31-Dec-18 RO '000
<b>Directors and senior management</b>						
52	26	39	Interest and profit income	15	10	20
34	23	16	Interest and profit expense	6	9	13
416	-	-	Board remuneration proposed	-	-	160
104	49	49	Board sitting fees	19	19	40
94	47	47	Shariah supervisory board expenses	18	18	36
122	62	62	Other operating expenses	24	24	47
<b>Major shareholders and others</b>						
826	387	455	Interest and profit income	175	149	318
4,622	2,149	1,571	Interest and profit expense	605	827	1,779
			Loss / (Gain) on fair value of interest	1,550	122	(280)
(727)	317	4,026	rate swaps			
977	579	166	Other operating expenses	64	223	376

The Bank has rented a branch premises from a Director. In accordance with the agreement, an amount of RO 0.024 million equivalent to US\$ 0.062 million was included in the other operating expenses (30 June 2018: RO 0.024 million equivalent to US\$ 0.062 million and 31 December 2018: RO 0.047 million equivalent to US\$ 0.123 million).

Compensation of the key management personnel for the six month period ended 30 June 2019 was RO 0.661 million equivalent to US\$ 1.717 million (30 June 2018: RO 0.580 million equivalent to US\$ 1.506 million).

**9. SHARE CAPITAL**

The authorised share capital of the Bank is 2,500,000,000 shares of 100 baizas each (30 June 2018 and 31 December 2018: 2,500,000,000 shares of 100 baizas each) out of which 1,571,102,349 (30 June 2018 and 31 December 2018: 1,496,287,951 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 30 June 2019 shareholding of AUB was 549,885,812 shares equivalent to 35% (30 June 2018 and 31 December 2018: 523,700,774 shares equivalent to 35%).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**
**10. INTEREST INCOME**

Interest bearing assets earned interest at an overall annualised rate of 5.45% for six months period ended 30 June 2019 (30 June 2018 - 5.23%)

Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000
102,616	<b>120,184</b>	Loans and advances	<b>46,271</b>	39,507
9,600	<b>11,213</b>	Investments	<b>4,317</b>	3,696
545	<b>834</b>	Due from banks	<b>321</b>	210
<u>112,761</u>	<u><b>132,231</b></u>		<u><b>50,909</b></u>	<u>43,413</u>

**11. INTEREST EXPENSE**

The average annualised cost of funds for six months period ended 30 June 2019 is 3.42% (30 June 2018- 3.03%)

34,540	48,429	Time deposits	<b>18,645</b>	13,298
13,813	13,644	Demand and saving deposits	<b>5,253</b>	5,318
3,642	4,229	Borrowings	<b>1,628</b>	1,402
3,343	2,682	Inter-bank deposits	<b>1,033</b>	1,287
<u>55,338</u>	<u><b>68,984</b></u>		<u><b>26,559</b></u>	<u>21,305</u>

**12. OTHER OPERATING INCOME**

9,597	<b>13,681</b>	Fees and commission, net (refer note 12.1)	<b>5,267</b>	3,695
52	<b>29</b>	Gain on sale of investments, net	<b>11</b>	20
2,055	<b>3,119</b>	Foreign exchange gain, net	<b>1,201</b>	791
657	<b>675</b>	Dividend income	<b>260</b>	253
(179)	<b>(47)</b>	Others	<b>(18)</b>	(69)
<u>12,182</u>	<u><b>17,457</b></u>		<u><b>6,721</b></u>	<u>4,690</u>

**12.1. DISAGGREGATION OF FEE AND COMMISSION INCOME**

IFRS 15 requires the disclosure of disaggregated revenue earned from contracts with customers for major products / service lines. The below table provides disaggregation of fees and other income & commission with the Bank's reportable segments:

Particulars	30-Jun-19			30-Jun-18		
	Retail banking RO '000	Wholesale banking, treasury and investment banking RO '000	Total RO '000	Retail banking RO '000	Wholesale banking, treasury and investment banking RO '000	Total RO '000
<b>Disaggregated income</b>						
Service charges	240	232	472	240	252	492
Fees income	577	3,526	4,103	489	2,143	2,632
Commission income	12	805	817	7	715	722
Total fee and commission income	<b>829</b>	<b>4,563</b>	<b>5,392</b>	736	3,110	3,846
Fee expense	(117)	(8)	(125)	(142)	(9)	(151)
Fee and commission, net	<b>712</b>	<b>4,555</b>	<b>5,267</b>	594	3,101	3,695

Particulars	30-Jun-19			30-Jun-18		
	Retail banking US\$'000	Wholesale banking, treasury and investment banking US\$'000	Total US\$'000	Retail banking US\$'000	Wholesale banking, treasury and investment banking US\$'000	Total US\$'000
<b>Disaggregated income</b>						
Service charges	624	602	1,226	623	655	1,278
Fees income	1,498	9,159	10,657	1,270	5,566	6,836
Commission	31	2,091	2,122	18	1,857	1,875
Total fee and commission income	<b>2,153</b>	<b>11,852</b>	<b>14,005</b>	1,911	8,078	9,989
Fee expense	(303)	(21)	(324)	(369)	(23)	(392)
Fee and commission, net	<b>1,850</b>	<b>11,831</b>	<b>13,681</b>	1,542	8,055	9,597

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

**13. BASIC AND DILUTED EARNINGS / NET ASSETS VALUE PER SHARE**

**13.1 BASIC AND DILUTED EARNINGS PER SHARE**

Unaudited 31-Dec-18 US\$ '000	Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000	Unaudited 31-Dec-18 RO '000
74,771	36,887	<b>38,758</b>	Profit for the period/year	<b>14,922</b>	14,202	28,786
1,571,102	1,571,102	<b>1,571,102</b>	Weighted average number of outstanding shares during the period/year (in 000's)	<b>1,571,102</b>	1,571,102	1,571,102
5	2	<b>2</b>	Earnings per share (cents /baizas)	<b>9</b>	9	18

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 for the six months period ended 30 June 2019 and comparative periods have been calculated using the weighted average shares outstanding for the current period. The weighted average shares outstanding includes 146,066,205 bonus shares issued for nil consideration.

**13.2 NET ASSETS VALUE PER SHARE**

Audited 31-Dec-18 US\$ '000	Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000	Unaudited 31-Dec-18 RO '000
662,285	637,231	<b>652,345</b>	Net assets	<b>251,153</b>	245,334	254,980
1,496,288	1,496,288	<b>1,571,102</b>	Issued and paid up shares (in'000)	<b>1,571,102</b>	1,496,288	1,496,288
44	43	<b>42</b>	Net assets value per share (cents/baizas)	<b>160</b>	164	170

**14. 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.
2. Wholesale 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.

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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019**

**14. SEGMENT INFORMATION (continued)**

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:

	30-Jun-19			30-Jun-18			31-Dec-18		
	Retail banking RO '000	Wholesale banking, treasury & investment RO '000	Total RO '000	Retail banking RO '000	Wholesale banking, treasury & investment RO '000	Total RO '000	Retail banking RO '000	Wholesale banking, treasury & investment RO '000	Total RO '000
Net interest income	8,025	16,325	24,350	6,883	15,225	22,108	13,066	31,684	44,750
Net income from islamic financing and investments	1,479	1,685	3,164	1,213	2,014	3,227	2,446	4,858	7,304
<b>Net interest income and income from islamic financing and investments</b>	<b>9,504</b>	<b>18,010</b>	<b>27,514</b>	<b>8,096</b>	<b>17,239</b>	<b>25,335</b>	<b>15,512</b>	<b>36,542</b>	<b>52,054</b>
Other operating income	712	6,009	6,721	326	4,364	4,690	1,114	8,985	10,099
<b>Net operating income</b>	<b>10,216</b>	<b>24,019</b>	<b>34,235</b>	<b>8,422</b>	<b>21,603</b>	<b>30,025</b>	<b>16,626</b>	<b>45,527</b>	<b>62,153</b>
Net impairment on financial assets & write off	(1,111)	(2,295)	(3,406)	(215)	(1,710)	(1,925)	(179)	(4,929)	(5,108)
Operating expenses	(7,663)	(5,807)	(13,470)	(6,393)	(5,210)	(11,603)	(12,981)	(10,271)	(23,252)
<b>Profit before taxation</b>	<b>1,442</b>	<b>15,917</b>	<b>17,359</b>	<b>1,814</b>	<b>14,683</b>	<b>16,497</b>	<b>3,466</b>	<b>30,327</b>	<b>33,793</b>
Tax expense	(216)	(2,221)	(2,437)	(272)	(2,023)	(2,295)	(520)	(4,487)	(5,007)
<b>Segment profit for the period/year</b>	<b>1,226</b>	<b>13,696</b>	<b>14,922</b>	<b>1,542</b>	<b>12,660</b>	<b>14,202</b>	<b>2,946</b>	<b>25,840</b>	<b>28,786</b>
<b>Segment assets</b>	<b>698,601</b>	<b>1,684,201</b>	<b>2,382,802</b>	<b>636,110</b>	<b>1,495,309</b>	<b>2,131,419</b>	<b>660,409</b>	<b>1,629,981</b>	<b>2,290,390</b>
<b>Segment liabilities</b>	<b>266,163</b>	<b>1,741,486</b>	<b>2,007,649</b>	<b>254,188</b>	<b>1,581,897</b>	<b>1,836,085</b>	<b>257,785</b>	<b>1,673,625</b>	<b>1,931,410</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Net interest income	20,844	42,403	63,247	17,878	39,545	57,423	33,938	82,296	116,234
Net income from islamic financing and investments	3,842	4,376	8,218	3,150	5,231	8,381	6,353	12,619	18,972
<b>Net interest income and income from islamic financing and investments</b>	<b>24,686</b>	<b>46,779</b>	<b>71,465</b>	<b>21,028</b>	<b>44,776</b>	<b>65,804</b>	<b>40,291</b>	<b>94,915</b>	<b>135,206</b>
Other operating income	1,849	15,608	17,457	847	11,335	12,182	2,894	23,337	26,231
<b>Net operating income</b>	<b>26,535</b>	<b>62,387</b>	<b>88,922</b>	<b>21,875</b>	<b>56,111</b>	<b>77,986</b>	<b>43,185</b>	<b>118,252</b>	<b>161,437</b>
Net impairment on financial assets & write off	(2,886)	(5,961)	(8,847)	(558)	(4,442)	(5,000)	(465)	(12,802)	(13,267)
Operating expenses	(19,904)	(15,083)	(34,987)	(16,606)	(13,532)	(30,138)	(33,717)	(26,678)	(60,395)
<b>Profit before taxation</b>	<b>3,745</b>	<b>41,343</b>	<b>45,088</b>	<b>4,711</b>	<b>38,137</b>	<b>42,848</b>	<b>9,003</b>	<b>78,772</b>	<b>87,775</b>
Tax expense	(561)	(5,769)	(6,330)	(706)	(5,255)	(5,961)	(1,351)	(11,654)	(13,005)
<b>Segment profit for the period/year</b>	<b>3,184</b>	<b>35,574</b>	<b>38,758</b>	<b>4,005</b>	<b>32,882</b>	<b>36,887</b>	<b>7,652</b>	<b>67,118</b>	<b>74,770</b>
<b>Segment assets</b>	<b>1,814,548</b>	<b>4,374,548</b>	<b>6,189,096</b>	<b>1,652,235</b>	<b>3,883,919</b>	<b>5,536,154</b>	<b>1,715,348</b>	<b>4,233,717</b>	<b>5,949,065</b>
<b>Segment liabilities</b>	<b>691,333</b>	<b>4,523,340</b>	<b>5,214,673</b>	<b>660,230</b>	<b>4,108,823</b>	<b>4,769,053</b>	<b>669,571</b>	<b>4,347,079</b>	<b>5,016,650</b>

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**15. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial assets and financial liabilities, other than those disclosed in the table below, 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.

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 following table contains analysis of financial instruments measured at fair value at the reporting date:

	30-Jun-19			30-Jun-18			31-Dec-18		
	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
<b>Financial assets:</b>									
Investments at FVTPL	399	-	399	499	-	499	472	-	472
Investments at FVOCI	35,963	201,467	237,430	34,122	185,570	219,692	32,537	181,040	213,577
<i>Derivative financial instruments</i>									
Interest rate swaps	-	-	-	-	480	480	-	77	77
Forward foreign exchange contracts	656	-	656	907	-	907	668	-	668
	<b>37,018</b>	<b>201,467</b>	<b>238,485</b>	<b>35,528</b>	<b>186,050</b>	<b>221,578</b>	<b>33,677</b>	<b>181,117</b>	<b>214,794</b>
<b>Financial liabilities</b>									
<i>Derivative financial instruments</i>									
Interest rate swaps	-	1,473	1,473	-	-	-	-	-	-
Forward foreign exchange contracts	94	-	94	705	-	705	17	-	17
	<b>94</b>	<b>1,473</b>	<b>1,567</b>	<b>705</b>	<b>-</b>	<b>705</b>	<b>17</b>	<b>-</b>	<b>17</b>
<b>Financial assets:</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Investments at FVTPL	1,036	-	1,036	1,296	-	1,296	1,226	-	1,226
Investments at FVOCI	93,410	523,292	616,702	88,629	482,000	570,629	84,511	470,234	554,745
<i>Derivative financial instruments</i>									
Interest rate swaps	-	-	-	-	1,247	1,247	-	200	200
Forward foreign exchange contracts	1,704	-	1,704	2,356	-	2,356	1,735	-	1,735
	<b>96,150</b>	<b>523,292</b>	<b>619,442</b>	<b>92,281</b>	<b>483,247</b>	<b>575,528</b>	<b>87,472</b>	<b>470,434</b>	<b>557,906</b>
<b>Financial liabilities</b>									
<i>Derivative financial instruments</i>									
Interest rate swaps	-	3,826	3,826	-	-	-	-	-	-
Forward foreign exchange contracts	244	-	244	1,831	-	1,831	44	-	44
	<b>244</b>	<b>3,826</b>	<b>4,070</b>	<b>1,831</b>	<b>-</b>	<b>1,831</b>	<b>44</b>	<b>-</b>	<b>44</b>

No financial instruments are carried at level 3 fair value as on 30 June 2019 (30 June 2018 and 31 December 2018: nil)

There are no transfers between levels of fair value measurement hierarchy during the period.

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**16. DERIVATIVES**

**Derivative product types**

Swaps are contractual agreements between two parties to exchange interest based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Forward contracts are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forward contracts are customised contracts transacted over the counter.

**Derivatives held for hedging purposes**

Fixed interest rates on principal amount of loans and investments are normally hedged using interest rate swaps whose repayments dates are the same as of hedge item. These contracts are designated as fair value hedges.

**Derivatives held for risk management purposes**

The Bank has entered into interest rate swaps and forward contracts for risk management purposes which are usually not closed out prior to contractual maturity. The Bank ensures that its exposure is kept to acceptable level by buying and selling of foreign currencies in forward market when necessary to address short term imbalances.

The table below shows the assets and liabilities fair values of derivative financial instruments, together with the notional cash flows analysed by the term of their maturity.

	<b>Assets RO '000</b>	<b>Liabilities RO '000</b>	<b>Notional cash flows RO '000</b>
<b>At 30 June 2019</b>			
<b>Derivatives for hedging:</b>			
Interest rate swaps	-	<b>1,473</b>	<b>27,143</b>
<b>Derivatives:</b>			
Forward purchase contracts	-	<b>94</b>	<b>155,843</b>
Forward sales contracts	<b>656</b>	-	<b>155,273</b>
	<b>US\$ 000</b>	<b>US\$ 000</b>	<b>US\$ 000</b>
<b>Derivatives for hedging:</b>			
Interest rate swaps	-	<b>3,826</b>	<b>70,501</b>
<b>Derivatives:</b>			
Forward purchase contracts	-	<b>244</b>	<b>404,787</b>
Forward sales contracts	<b>1,704</b>	-	<b>403,306</b>
<b>At 30 June 2018</b>	RO '000	RO '000	RO '000
<i>Derivatives for hedging:</i>			
Interest rate swaps	480	-	27,143
<i>Derivatives:</i>			
Forward purchase contracts	-	705	324,427
Forward sales contracts	907	-	324,216
	US\$ 000	US\$ 000	US\$ 000
<i>Derivatives for hedging:</i>			
Interest rate swaps	1,247	-	70,501
<i>Derivatives:</i>			
Forward purchase contracts	-	1,831	842,668
Forward sales contracts	2,356	-	842,119
<b>At 31 December 2018</b>	RO '000	RO '000	RO '000
<i>Derivatives for hedging:</i>			
Interest rate swaps	77	-	27,143
<i>Derivatives:</i>			
Forward purchase contracts	-	17	154,970
Forward sales contracts	668	-	155,621
	US\$ 000	US\$ 000	US\$ 000
<i>Derivatives for hedging:</i>			
Interest rate swaps	200	-	70,501
<i>Derivatives:</i>			
Forward purchase contracts	-	44	402,520
Forward sales contracts	1,735	-	404,210

Fair values are included under other assets where positive and other liabilities where negative.

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**17. CONTINGENT LIABILITIES AND COMMITMENTS**

Audited 31-Dec-18 US\$ '000	Unaudited 30-Jun-18 US\$ '000	Unaudited 30-Jun-19 US\$ '000		Unaudited 30-Jun-19 RO '000	Unaudited 30-Jun-18 RO '000	Unaudited 31-Dec-18 RO '000
411,894	347,826	<b>432,732</b>	Financial guarantees	<b>166,602</b>	133,913	158,579
275,608	367,613	<b>285,784</b>	Letters of credit	<b>110,027</b>	141,531	106,109
120,748	113,234	<b>109,808</b>	Loan commitments	<b>42,276</b>	43,595	46,488
3,634	1,403	<b>3,434</b>	Capital commitments	<b>1,322</b>	540	1,399
1,682	1,457	-	Lease commitments	-	561	648
<b>813,566</b>	<b>831,533</b>	<b>831,758</b>		<b>320,227</b>	320,140	313,223

**18. ASSETS AND LIABILITIES MATURITY**

As at 30 June 2019	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
<b>Assets</b>	<b>653,503</b>	<b>199,067</b>	<b>438,487</b>	<b>1,091,745</b>	<b>2,382,802</b>
<b>Liabilities and equity</b>	<b>(438,630)</b>	<b>(666,020)</b>	<b>(654,280)</b>	<b>(623,872)</b>	<b>(2,382,802)</b>
<b>Net liquidity gap</b>	<b>214,873</b>	<b>(466,953)</b>	<b>(215,793)</b>	<b>467,873</b>	<b>-</b>
<b>Net liquidity gap in US \$ '000</b>	<b>558,112</b>	<b>(1,212,865)</b>	<b>(560,501)</b>	<b>1,215,255</b>	<b>-</b>

As at 30 June 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
<b>Assets</b>	<b>633,165</b>	<b>177,728</b>	<b>358,984</b>	<b>961,542</b>	<b>2,131,419</b>
<b>Liabilities and equity</b>	<b>(499,259)</b>	<b>(519,357)</b>	<b>(619,662)</b>	<b>(493,141)</b>	<b>(2,131,419)</b>
<b>Net liquidity gap</b>	<b>133,906</b>	<b>(341,629)</b>	<b>(260,678)</b>	<b>468,401</b>	<b>-</b>
<b>Net liquidity gap in US \$ '000</b>	<b>347,808</b>	<b>(887,348)</b>	<b>(677,086)</b>	<b>1,216,626</b>	<b>-</b>

  

As at 31 December 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
<b>Assets</b>	<b>728,896</b>	<b>184,334</b>	<b>355,846</b>	<b>1,021,314</b>	<b>2,290,390</b>
<b>Liabilities and equity</b>	<b>(523,053)</b>	<b>(584,871)</b>	<b>(662,866)</b>	<b>(519,600)</b>	<b>(2,290,390)</b>
<b>Net liquidity gap</b>	<b>205,843</b>	<b>(400,537)</b>	<b>(307,020)</b>	<b>501,714</b>	<b>-</b>
<b>Net liquidity gap in US \$ '000</b>	<b>534,658</b>	<b>(1,040,355)</b>	<b>(797,456)</b>	<b>1,303,153</b>	<b>-</b>

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**19. CAPITAL MANAGEMENT**

The risk asset ratio is 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. The minimum capital adequacy ratio requirement for the year is 13.50% including capital conservation buffer of 2.50% (31 December 2018: 12.875% including capital conservation buffer of 1.875%). The capital adequacy ratio working is as follows:

The following table sets out the capital adequacy position

	<b>Unaudited 30-Jun-19 RO '000</b>	Unaudited 30-Jun-18 RO '000	Audited 31-Dec-18 RO '000
Common Equity Tier 1 (CET1)	<b>231,400</b>	237,237	225,730
Additional Tier 1	<b>124,000</b>	50,000	104,000
Tier 1	<b>355,400</b>	287,237	329,730
Tier 2	<b>20,261</b>	14,702	23,191
<b>Total regulatory capital</b>	<b>375,661</b>	301,939	352,921
<b>Risk weighted assets</b>			
Credit risk	<b>1,931,352</b>	1,821,408	1,850,818
Market risk	<b>68,894</b>	65,622	63,812
Operational risk	<b>107,150</b>	102,196	102,196
<b>Total risk weighted assets</b>	<b>2,107,396</b>	1,989,226	2,016,826
<b>Capital adequacy ratio</b>			
CET1 capital expressed as a percentage of total risk-weighted assets	<b>10.98%</b>	11.93%	11.19%
Total tier I capital expressed as a percentage of total risk-weighted assets	<b>16.86%</b>	14.44%	16.35%
Tier II capital expressed as a percentage of total risk-weighted assets	<b>0.97%</b>	0.74%	1.15%
Total regulatory capital expressed as a percentage of total risk-weighted assets	<b>17.83%</b>	15.18%	17.50%
	<b>Unaudited 30-Jun-19 US\$ '000</b>	Unaudited 30-Jun-18 US\$ '000	Audited 31-Dec-18 US\$ '000
Common Equity Tier 1 (CET1)	<b>601,039</b>	616,200	586,312
Additional Tier 1	<b>322,078</b>	129,870	270,130
Tier 1	<b>923,117</b>	746,070	856,442
Tier 2	<b>52,626</b>	38,187	60,236
<b>Total regulatory capital</b>	<b>975,743</b>	784,257	916,678
<b>Risk weighted assets</b>			
Credit risk	<b>5,016,498</b>	4,730,930	4,807,319
Market risk	<b>178,946</b>	170,447	165,745
Operational risk	<b>278,312</b>	265,444	265,444
<b>Total risk weighted assets</b>	<b>5,473,756</b>	5,166,821	5,238,508
<b>Capital adequacy ratio</b>			
CET1 capital expressed as a percentage of total risk-weighted assets	<b>10.98%</b>	11.93%	11.19%
Total tier I capital expressed as a percentage of total risk-weighted assets	<b>16.86%</b>	14.44%	16.35%
Tier II capital expressed as a percentage of total risk-weighted assets	<b>0.97%</b>	0.74%	1.15%
Total regulatory capital expressed as a percentage of total risk-weighted assets	<b>17.83%</b>	15.18%	17.50%

**20. COMPARATIVE FIGURES**

Corresponding figures have been rearranged and reclassified in order to conform with the presentation for the current period for the purpose of comparison and for better presentation. Such reclassifications are not considered material and do not affect previously reported net income or shareholder's equity.