

# **National Bank of Oman SAOG**

## **INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 September 2018 (UNAUDITED)**



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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## CHAIRLADY'S REPORT Q3 2018

Dear Shareholders,

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to announce the results for the nine months ended 30<sup>th</sup> September 2018.

### Operating Performance

Market environment continues to improve on the expectation that Oman's economy will perform better in 2018 due to higher oil prices. The banking sector continues to face challenges with significant slowdown in growth. The sector continues to evolve with several consolidation measures, in Oman and across GCC. Your bank along with Bank Dhofar, made an announcement early in the quarter to explore the possibility of a merger.

For the nine months, NBO has reported a net profit of OMR 38.1 million, compared to OMR 34.5 million for the same period last year, showing an increase of 10.4 per cent. Strong fee income performances in Oman, despite challenges in growing the loan book, coupled with lower provisions in UAE have resulted in a positive growth year on year. With the stable performance in our UAE branch, particularly in the 3rd quarter, the bank is looking to achieve a strong performance going forward.

Total net income from Conventional and Islamic financing activities has decreased by 3 per cent primarily because of lower net interest income due to contraction of loan book. However the Oman operations continue to perform satisfactorily, given the market conditions. While margins have been broadly maintained at similar levels last year, the loan book contraction, mainly in the UAE has resulted in a lower NII. Non-interest income increased by 7.4 per cent to OMR 29.8 million due to our efforts to diversify our revenue streams in both retail and corporate businesses. The bank will continue to look for further opportunities to increase the total funded and non-funded income.

Total operating expenses for the first nine months of 2018 is OMR 45.3 million as compared to OMR 45.5 million for the corresponding period last year. The bank took several steps during 2017 and in early 2018 to manage costs down and they have started yielding positive results during this year. We will continue to manage costs judiciously during the remainder of the year in order to keep the total costs below last year.

Impairments on loans and advances for the first nine months of the year were at OMR 5.1 million, a reduction of 60 per cent over the corresponding period last year. This is primarily due to lower levels of provisioning in the UAE as compared to last year. Higher recoveries have also contributed to net lower provisions. The Bank continues to exercise constant vigil in monitoring the portfolio for both Oman and UAE.



The Bank's loan loss coverage ratio as of September 2018 is 112 per cent, compared to 104 per cent as at the start of the year. Provisions, which are now based on the new IFRS 9 standards, for the various stages of assets, seem to be conservatively estimated and maintained.

Gross Loans and advances as at September 2018 are at RO 2.8 billion, with a reduction over last year due to large repayments and conscious decision to exit certain high risk relationships in the UAE. Customer Deposits as at September were at RO 2.5 bln with the bank maintaining a healthy low-cost to high cost ratio at 60%.

The Capital Adequacy Ratio as at September 2018 stood at 16.1 per cent, well above the regulatory requirement of 12.875 per cent. The core equity ratio remains at 11.9 per cent and given that the interim profits is not factored in, we consider this ratio to be healthy.

Overall for the year, it has been a satisfactory performance for the bank with most financial metrics such as Return on Equity, Return on Assets, Margins, Cost to Income etc. remaining one of the best in Oman.

### **Key Achievements**

During the third quarter the team at NBO continued to work towards its goal of maintaining its position as the 'bank of choice' within the Sultanate. Our drive to continuously innovate and exceed expectations has led to many firsts this quarter as well as the overall growth of the Bank.

Despite the challenging market conditions, NBO demonstrated the strength and integrity of the Bank as a credible and reliable international player in the industry with the success of its latest issuance of EMTN notes. The Bank successfully concluded a 5 year USD 500 million EMTN issuance, with an order book of 2.4 times. Also, in a first of its kind, it also bought back USD 300 million of its existing notes via a tender offer.

### **Compelling Solutions and Digital Innovations**

The Bank introduced a number of compelling solutions and digital products throughout the third quarter. To support the demand for cashless transactions, NBO launched 'Badeel' the first-ever spend prepaid card in the Sultanate. The bank also launched state-of-the-art security deposit boxes, giving customers 24/7 access, 365 days a year. The new technology developed will ensure that the bank remains at the forefront of product development in the near future.



With each passing month, the Bank's popular Al Kanz prize draw continues to provide opportunities for customers to win big while helping them to understand the value of savings. This last quarter the Bank awarded Al Kanz winners with a total of nearly OMR 700,000

### **Delivering Positive Impacts**

As one of the first banks in the Sultanate, NBO is committed to making a positive impact across its communities. We continued to strive throughout the quarter to create a brighter future for the country with diverse and impactful initiatives.

In partnership with Dhofar Municipality, the bank was the Gold Sponsor of this year's edition of Salalah Tourism Festival. The Bank's participation in the annual festivities is a clear demonstration of how the finance and the tourism sectors can work together to advance national interests and economic growth.

Sharing a common value with sports, NBO's continuing support showcases the Bank's philosophy of success with its customer-centric value, giving back to the Bank's customers and community. As a result, NBO was recognized by the Royal Oman Police (ROP) and the Oman Automobile Association (OAA) for its continuing support of sports this quarter.

In addition to sports, NBO also focused its efforts to excite the youth this quarter, encouraging them to unlock their full potential. Inspiring the leaders of tomorrow, the Bank celebrated "Bring Your Kids to Work Day" where it hosted more than 100 children aged 5 to 16 at NBO's headquarters. The young students learned about the professional world and experienced a day in the life of an NBO employee, allowing them to get a better understanding of different departments and the work done at NBO.

NBO also awarded two Omani students with full academic scholarships at one of the top 20 best universities in the United Kingdom. Since its first launched in 2015, a total of 10 out of 15 merit-based scholarships have been offered to empower and create opportunities for talented youth from low-income families.

### **Appreciation**

On behalf of the members of the Board of Directors, I would like to acknowledge and thank our valued customers and shareholders for their unwavering support. We would also like to express our appreciation to our regulators, the Central Bank of Oman, the Central Bank of the UAE and the Capital Market Authority for their continued guidance and support. The Bank's



management team and staff continue to be instrumental to the success of NBO and we would like to thank them all for their continued dedication and commitment. Above all, we pay tribute to His Majesty, Sultan Qaboos Bin Said, for his visionary leadership and under whose wise guidance Oman steadfastly continues on towards sustainable economic and social development.



Rawan Bint Ahmed Al Said  
Chairperson



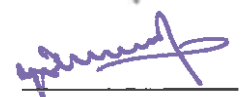
**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**As at 30 September 2018 (unaudited)**

		30/09/2018	30/09/2017	Audited 31/12/2017
	Notes	RO'000	RO'000	RO'000
<b>Assets</b>				
Cash and balances with Central Banks	3	295,140	304,940	383,111
Due from banks and other money market placements (net)	4	182,055	134,028	138,670
Loans, advances and financing activities for customers (net)	5	2,634,736	2,689,307	2,653,871
Financial investments	6	238,064	196,074	183,120
Premises and equipment	7	64,932	62,794	65,795
Other assets	8	52,621	58,263	45,785
<b>Total assets</b>		<b>3,467,548</b>	<b>3,445,406</b>	<b>3,470,352</b>
<b>Liabilities</b>				
Due to banks and other money market deposits		12,224	47,304	125,757
Customers' deposits and unrestricted investment accounts	9	2,500,566	2,490,895	2,461,267
Euro medium term notes	10	307,461	232,384	230,906
Other liabilities	11	84,806	77,779	73,347
Taxation	12	7,621	5,722	7,816
Subordinated debt	13	25,000	49,100	25,000
<b>Total liabilities</b>		<b>2,937,678</b>	<b>2,903,184</b>	<b>2,924,093</b>
<b>Equity</b>				
Share capital		162,595	154,852	154,852
Share premium		34,465	34,465	34,465
Legal reserve		51,617	49,159	51,617
Other non-distributable reserves	14	22,024	44,120	23,489
Proposed cash dividend		-	-	23,228
Proposed stock dividend		-	-	7,743
Retained earnings		143,669	144,126	135,365
<b>Total shareholders' equity attributable to the equity holders of the bank</b>		<b>414,370</b>	<b>426,722</b>	<b>430,759</b>
Tier 1 perpetual bond	15	115,500	115,500	115,500
<b>Total equity</b>		<b>529,870</b>	<b>542,222</b>	<b>546,259</b>
<b>Total liabilities and equity</b>		<b>3,467,548</b>	<b>3,445,406</b>	<b>3,470,352</b>
<b>Contingent liabilities and commitments</b>	16	<b>662,431</b>	<b>519,773</b>	<b>609,934</b>

The interim condensed financial statements were authorised for issue on 29 October 2018 in accordance with a resolution of the Board of Directors.

  
Chairperson



  
Chief Executive Officer

The attached notes 1 to 29 form part of the interim condensed financial statements.

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
For the period ended 30 September 2018 (unaudited)

	Notes	<u>Nine months ended</u>		<u>Three months ended</u>	
		<u>30 September</u>		<u>30 September</u>	
		2018	2017	2018	2017
		RO'000	RO'000	RO'000	RO'000
Interest income	17	108,005	109,004	36,077	36,502
Interest expense	18	(44,414)	(40,272)	(15,772)	(13,168)
<b>Net interest income</b>		<b>63,591</b>	<b>68,732</b>	<b>20,305</b>	<b>23,334</b>
Income from Islamic financing and Investment activities		4,343	4,200	1,514	1,414
Unrestricted investment account holders' share of profit		(2,594)	(2,193)	(934)	(924)
<b>Net Income from Islamic financing and Investment activities</b>		<b>1,749</b>	<b>2,007</b>	<b>580</b>	<b>490</b>
<b>Net interest income and net income from Islamic financing and Investment activities</b>		<b>65,340</b>	<b>70,739</b>	<b>20,885</b>	<b>23,824</b>
Other operating income	19	29,833	27,785	10,730	9,042
<b>OPERATING INCOME</b>		<b>95,173</b>	<b>98,524</b>	<b>31,615</b>	<b>32,866</b>
Staff costs		(27,625)	(26,331)	(9,283)	(8,633)
Other operating expenses	20	(14,363)	(16,529)	(4,729)	(5,474)
Depreciation	7	(3,311)	(2,624)	(1,077)	(889)
<b>OPERATING EXPENSES</b>		<b>(45,299)</b>	<b>(45,484)</b>	<b>(15,089)</b>	<b>(14,996)</b>
<b>PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX</b>		<b>49,874</b>	<b>53,040</b>	<b>16,526</b>	<b>17,870</b>
Credit loss expense – customer loans		(12,092)	(18,634)	(4,184)	(8,824)
Recoveries and releases from provision for credit losses		1,908	2,324	787	651
Recoveries and releases from loans and advances written off		5,148	4,538	1,937	1,376
Others		(68)	(833)	(68)	(815)
<b>TOTAL IMPAIRMENT LOSSES (NET)</b>		<b>(5,104)</b>	<b>(12,605)</b>	<b>(1,528)</b>	<b>(7,612)</b>
<b>PROFIT BEFORE TAX</b>		<b>44,770</b>	<b>40,435</b>	<b>14,998</b>	<b>10,258</b>
Taxation	12	(6,718)	(5,908)	(2,365)	(1,788)
<b>PROFIT FOR THE PERIOD</b>		<b>38,052</b>	<b>34,527</b>	<b>12,633</b>	<b>8,470</b>
<b>OTHER COMPREHENSIVE (EXPENSE)/INCOME</b>					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Revaluation (losses)/gains on equity instruments at fair value through other comprehensive income		(1,028)	-	926	-
<i>Items that will be reclassified subsequently to profit or loss</i>					
Debt instruments at fair value through other comprehensive income		(190)	-	68	-
Net movement on AFS investments		-	(2,849)	-	228
Tax effect of net results on FVOCI/AFS financial investments		(177)	156	(113)	62
<b>OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD</b>		<b>(1,395)</b>	<b>(2,693)</b>	<b>881</b>	<b>290</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>36,657</b>	<b>31,834</b>	<b>13,514</b>	<b>8,760</b>
Earnings per share:					
Basic and diluted, profit for the period attributable to equity holders	21	0.021	0.018	0.008	0.005

The attached notes 1 to 29 form part of the interim condensed financial statements.



**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
**For the period ended 30 September 2018 (unaudited)**

	Notes	Nine months ended 30 September	
		2018 RO'000	2017 RO'000
<b>Profit before taxation</b>		<b>44,770</b>	40,435
Adjustments for:			
Depreciation	7	3,311	2,624
Provision for impairment in investments value		108	807
Provision for credit losses (net)		12,092	18,634
Provision for credit loss expenses bank loans (net)		(40)	26
Profit on sale of fixed assets		-	(1)
Profit on sale of investments		(178)	(235)
Investment income		(6,477)	(4,836)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>53,586</b>	57,454
Due from banks and other money market deposits		7,046	(897)
Due to banks and other money market placements		(42,378)	(101,521)
Loans, advances and other financing activities for customers		(17,506)	(37,660)
Other assets		(8,044)	2,497
Customers' deposits and unrestricted investment accounts		39,299	91,534
Euro Medium Term Notes		76,555	-
Other liabilities		11,459	(3,004)
<b>Cash from operations</b>		<b>120,017</b>	8,403
Tax paid		(5,713)	(7,447)
<b>Net cash from operating activities</b>		<b>114,304</b>	956
<b>Investing activities</b>			
Purchase of investments		(56,734)	(91,201)
Proceeds from sale of investments		397	20,091
Purchase of premises and equipment	7	(2,512)	(19,073)
Disposal of premises and equipment		64	3
Translation difference in premises and equipment		9	(3)
Interest on Government Development Bond and T-Bills		5,486	3,523
Dividend income	19	991	1,313
<b>Net cash used in investing activities</b>		<b>(52,299)</b>	(85,347)
<b>Financing activities</b>			
Payment of dividend		(23,228)	(23,478)
Interest on Tier 1 perpetual bond		(4,548)	(4,548)
<b>Net cash used in financing activities</b>		<b>(27,776)</b>	(28,026)
<b>Increase/(Decrease) in cash and cash equivalents</b>		<b>34,229</b>	(112,417)
Cash and cash equivalents at the beginning of the period		406,563	502,493
<b>Cash and cash equivalents at the end of the period</b>		<b>440,792</b>	390,076
<b>Representing:</b>			
Cash and balances with Central Banks	3	294,640	304,440
Due from banks (maturing within 3 months)		158,376	90,561
Due to banks (maturing within 3 months)		(12,224)	(4,925)
		<b>440,792</b>	390,076

\*Cash and balances with Central Bank include minimum cash reserve to be maintained with Central Bank of Oman amounted to RO 75 million (30 September 2017: RO 74 million).

The attached notes 1 to 29 form part of the interim condensed financial statements.

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**As at 30 September 2018 (unaudited)**

<i>(RO'000)</i>	Share capital	Share premium	Legal reserve *	Other non-distributable reserves*	Proposed cash dividend	Proposed stock dividend	Retained earnings	Total	Tier 1 perpetual bond	Total
Balance at 1 January 2018	154,852	34,465	51,617	23,489	23,228	7,743	135,365	430,759	115,500	546,259
Impact of adopting IFRS 9 (note 29)	-	-	-	(70)	-	-	(23,684)	(23,754)	-	(23,754)
<b>Restated opening balance under IFRS 9</b>	<b>154,852</b>	<b>34,465</b>	<b>51,617</b>	<b>23,419</b>	<b>23,228</b>	<b>7,743</b>	<b>111,681</b>	<b>407,005</b>	<b>115,500</b>	<b>522,505</b>
Total comprehensive income for the period	-	-	-	(1,395)	-	-	38,052	36,657	-	36,657
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Withholding tax provision on tier 1 perpetual bond	-	-	-	-	-	-	(1,516)	(1,516)	-	(1,516)
Issue of bonus shares	7,743	-	-	-	-	(7,743)	-	-	-	-
Dividend paid	-	-	-	-	(23,228)	-	-	(23,228)	-	(23,228)
<b>Balance at 30 September 2018</b>	<b>162,595</b>	<b>34,465</b>	<b>51,617</b>	<b>22,024</b>	<b>-</b>	<b>-</b>	<b>143,669</b>	<b>414,370</b>	<b>115,500</b>	<b>529,870</b>
Balance at 1 January 2017	147,478	34,465	49,159	46,196	23,478	7,374	114,764	422,914	115,500	538,414
Total comprehensive income for the period	-	-	-	(2,693)	-	-	34,527	31,834	-	31,834
Transfer to restructured debt reserve	-	-	-	617	-	-	(617)	-	-	-
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Issue of bonus shares	7,374	-	-	-	-	(7,374)	-	-	-	-
Dividend paid	-	-	-	-	(23,478)	-	-	(23,478)	-	(23,478)
Balance at 30 September 2017	154,852	34,465	49,159	44,120	-	-	144,126	426,722	115,500	542,222
Balance at 1 October 2017	154,852	34,465	49,159	44,120	-	-	144,126	426,722	115,500	542,222
Total comprehensive income for the year	-	-	-	(914)	-	-	9,499	8,585	-	8,585
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Transfer to retained earnings	-	-	-	(24,717)	-	-	24,717	-	-	-
Transfer to subordinated debts reserve	-	-	-	5,000	-	-	(5,000)	-	-	-
Transfer to legal reserve	-	-	2,458	-	-	-	(2,458)	-	-	-
Proposed dividend	-	-	-	-	23,228	7,743	(30,971)	-	-	-
Balance at 31 December 2017	154,852	34,465	51,617	23,489	23,228	7,743	135,365	430,759	115,500	546,259

\*Transfers to legal reserve and subordinated debt reserve are made on an annual basis.

The attached notes 1 to 29 form part of the interim condensed financial statements.

## **NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**

### **30 September 2018 (unaudited)**

#### **1 LEGAL STATUS AND PRINCIPAL ACTIVITIES**

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale banking, investment banking services and Islamic banking within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on the Muscat Stock Exchange.

The bank employed 1,543 employees as of 30 September 2018 (30 September 2017 – 1,523 employees / 31 December 2017 - 1,501).

#### **2 SIGNIFICANT ACCOUNTING POLICIES**

The interim condensed financial statements of the bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017, except for the effects of adoption of IFRS 9 as described in note 28 to this interim condensed financial statement. In addition, results of the nine month period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of banks annual financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards.

The condensed interim financial statements are prepared in Rial Omani, rounded to the nearest thousands, except as indicated. The functional currency of the bank is Rial Omani.

The interim condensed financial statements are prepared under the historical cost convention, modified to include revaluation of freehold land and buildings, measurement of derivative financial instruments, equities and puttable investments, either through profit and loss account or through other comprehensive Income, at fair value.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**3 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>30/09/2018</i>	<i>30/09/2017</i>	<i>31/12/2017</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	55,206	44,844	51,378
Treasury bills	5,000	196	239
Certificate of Deposit with Central Banks	-	-	7,861
Other balances with Central Banks	234,434	259,400	323,133
<b>Cash and cash equivalents</b>	<b>294,640</b>	<b>304,440</b>	<b>382,611</b>
Capital deposit with Central Bank of Oman	500	500	500
<b>Cash and balances with Central Banks</b>	<b>295,140</b>	<b>304,940</b>	<b>383,111</b>

- (i) At 30 September 2018, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (30 September 2017: RO 500,000) as capital deposit. This deposit cannot be withdrawn without the Central Bank of Oman approval.
- (ii) Minimum cash reserve to be maintained with Central Bank of Oman as of 30 September 2018 amounted to RO 75 million (30 September 2017: RO 74 million).

**4 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)**

	<i>30/09/2018</i>	<i>30/09/2017</i>	<i>31/12/2017</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	11,165	18,865	18,865
Placements with banks	142,477	81,389	74,405
Demand balances	28,834	33,868	45,494
<b>Due from banks and other money market placements</b>	<b>182,476</b>	<b>134,122</b>	<b>138,764</b>
Less: allowance for the credit losses	(421)	(94)	(94)
<b>Net due from banks and other money market placements</b>	<b>182,055</b>	<b>134,028</b>	<b>138,670</b>

Movement in allowances for the credit losses is set out below:

	<i>9 months ended</i>	<i>9 months ended</i>	<i>12 months ended</i>
	<i>30/09/2018</i>	<i>30/09/2017</i>	<i>31/12/2017</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	94	68	68
Impact of adopting IFRS 9 (note 28)	367	NA	NA
Restated opening balance under IFRS 9	461	68	68
Released/provided during the period / year	(40)	26	26
Balance at end of period / year (note 11)	421	94	94

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**5 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET)**

	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>31/12/2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
Overdrafts	<b>102,160</b>	92,943	99,990
Personal loans	<b>1,390,068</b>	1,363,993	1,360,285
Other loans	<b>1,283,669</b>	1,343,545	1,310,127
Gross loans, advances and financing activities for customers	<b>2,775,897</b>	2,800,481	2,770,402
Less: allowance for credit losses	<b>(141,161)</b>	(111,174)	(116,531)
Net loans and advances	<b>2,634,736</b>	2,689,307	2,653,871

Gross loans, advances and financing activities for customers include RO 101 million due from related parties at 30 September 2018 (30 September 2017 – RO 127 million, 31 December 2017 – RO 139 million).

The movement in the provision for impairment of loans, advances and financing activities for customers is set out below:

*Movement in the provision for impairment of funded loans and advances*

	<b>9 months ended</b>	<b>9 months ended</b>	<b>12 months ended</b>
	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>31/12/2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
Balance at beginning of period / year	<b>116,531</b>	98,015	98,015
Impact of adopting IFRS 9 (note 29)	<b>13,791</b>	NA	NA
Restated opening balance under IFRS 9	<b>130,322</b>	98,015	98,015
Provided during the period / year	<b>19,360</b>	22,466	30,885
Recovered/ released during the period / year	<b>(1,908)</b>	(2,324)	(3,007)
Written off during the period / year	<b>(6,611)</b>	(6,985)	(9,364)
Translation difference	<b>(2)</b>	2	2
Balance at end of period / year	<b>141,161</b>	111,174	116,531

Provided during the period includes contractual interest reserved for RO 6,857 thousands.

Recovered/released during the period includes recovery of reserved interest for RO 996 thousands.

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the interim condensed statement of comprehensive income.

As of 30 September 2018 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 137 million (30 September 2017 – RO 105 million and 31 December 2017 – RO 113 million).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**6 FINANCIAL INVESTMENTS**

	<i>Carrying value 30/09/2018 RO'000</i>	<i>Carrying value 30/09/2017 RO'000</i>	<i>Carrying value 31/12/2017 RO'000</i>
<b>Fair value through profit and loss</b>			
<b>Quoted investments- Oman</b>			
Banking and investment sector	5,039	-	-
	<b>5,039</b>	-	-
<b>Quoted investments- Foreign</b>			
Banking and investment sector	381	-	-
	<b>381</b>	-	-
<b>Unquoted investments</b>			
Banking and investment sector	2,296	-	-
Service sector	251	-	-
	<b>2,547</b>	-	-
<b>Total Fair value through profit and loss</b>	<b>7,967</b>	-	-
<b>Held for trading</b>			
<b>Quoted investments- Oman</b>			
Government Sukuk	-	3,000	-
Banking and investment sector	-	550	550
Government Development Bonds	-	75,622	55,221
Equities	-	19	-
	-	79,191	55,771
<b>Total held for trading</b>	-	79,191	55,771
<b>Investment measured at FVOCI</b>			
<b>Quoted investments- Oman</b>			
Government Development Bonds	342	-	-
Banking and investment sector	1,680	-	-
Manufacturing sector	20,468	-	-
Service sector	3,743	-	-
	<b>26,233</b>	-	-
<b>Quoted investments- Foreign</b>			
Banking and investment sector	3,081	-	-
	<b>3,081</b>	-	-
<b>Unquoted investments</b>			
Banking and investment sector	295	-	-
Service sector	36	-	-
	<b>331</b>	-	-
<b>Total FVOCI</b>	<b>29,645</b>	-	-

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**6 FINANCIAL INVESTMENTS (continued)**

	<i>Carrying value 30/09/2018 RO'000</i>	<i>Carrying value 30/09/2017 RO'000</i>	<i>Carrying value 31/12/2017 RO'000</i>
<b>Available for sale</b>			
<b>Quoted investments- Oman</b>			
Banking and investment sector	-	850	-
Manufacturing sector	-	2,451	2,273
Service sector	-	21,154	21,061
Government Development Bonds	-	-	3,895
	-	24,455	27,229
<b>Quoted investments- Foreign</b>			
Banking and investment sector	-	2,540	2,542
	-	2,540	2,542
<b>Unquoted investments</b>			
Banking and investment sector	-	7,526	7,448
Manufacturing sector	-	3,483	-
Service sector	-	341	341
	-	11,350	7,789
<b>Total available for sale</b>	-	38,345	37,560
<b>Investment measured at amortised cost</b>			
<b>Quoted investments- Oman</b>			
Government Development Bonds	173,555	-	-
Government Sukuk	3,000	-	-
Banking and investment sector	4,337	-	-
Manufacturing sector	5,775	-	-
Service sector	7,450	-	-
	194,117	-	-
<b>Quoted investments- Foreign</b>			
Government Development Bonds	4,982	-	-
Banking Sector	1,963	-	-
	6,945	-	-
<b>Total amortised cost</b>	201,062	-	-
<b>Held to maturity</b>			
<b>Quoted investments- Oman</b>			
Government Development Bonds	-	64,743	76,986
Manufacturing sector	-	5,775	5,775
Government Sukuk	-	963	-
	-	71,481	82,761
<b>Quoted investments- Overseas</b>			
Government Development Bonds	-	5,086	5,060
Banking and investment sector	-	1,971	1,968
	-	7,057	7,028
<b>Total Held to maturity</b>	-	78,538	89,789
<b>Less: impact of adopting IFRS 9 (note 29)</b>	(610)	NA	NA
<b>TOTAL FINANCIAL INVESTMENTS</b>	<b>238,064</b>	<b>196,074</b>	<b>183,120</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**6 FINANCIAL INVESTMENTS (continued)**

Movement in allowances for the credit losses for debt securities at fair value through other comprehensive income and amortised cost:

	<i>9 months ended 30/09/2018 RO'000</i>	<i>9 months ended 30/09/2017 RO'000</i>	<i>12 months ended 31/12/2017 RO'000</i>
Balance at the beginning of the period/year	NA	NA	NA
Impact of adopting IFRS 9 (note 29)	NA	NA	NA
Restated opening balance under IFRS 9	502	NA	NA
Provided during the period/year	108	NA	NA
Balance at the end of the period/year	610	NA	NA

**Details of significant investments**

Details of investments exceeding 10% of the carrying value of the bank's investment are as follows:

	<i>Bank's portfolio %</i>	<i>Carrying value RO'000</i>
<b><u>30 September 2018</u></b>		
Government Development Bonds and sukus	77.9	185,281
<b><u>30 September 2017</u></b>		
Government Development Bonds and sukus	76.2	149,414
<b><u>31 December 2017</u></b>		
Government Development Bonds and sukus	77.1	141,162

**7 PREMISES AND EQUIPMENT**

	<i>Freehold land, buildings and leasehold improvements RO'000</i>	<i>Motor vehicles, furniture and equipment RO'000</i>	<i>Capital work in progress RO'000</i>	<i>Total RO'000</i>
<b>Reconciliation of carrying amount:</b>				
Balance at 1 January 2018, net of accumulated depreciation	51,249	12,486	2,060	65,795
Additions	37	970	1,505	2,512
Disposals	(4)	(10)	(49)	(63)
Transfers	358	426	(784)	-
Translation difference	(1)			(1)
Depreciation	(1,347)	(1,964)	-	(3,311)
<b>Balance at 30 September 2018, net of accumulated depreciation</b>	<b>50,292</b>	<b>11,908</b>	<b>2,732</b>	<b>64,932</b>
At cost / valuation	66,604	41,743	2,732	111,079
Accumulated depreciation	(16,312)	(29,835)	-	(46,147)
<b>Net carrying value at 30 September 2018</b>	<b>50,292</b>	<b>11,908</b>	<b>2,732</b>	<b>64,932</b>
Net carrying value at 30 September 2017	12,194	7,438	43,162	62,794
Net carrying value at 31 December 2017	51,249	12,486	2,060	65,795



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**8 OTHER ASSETS**

	<i>30/09/2018</i>	<i>30/09/2017</i>	<i>31/12/2017</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest receivable and others	<b>23,574</b>	25,770	16,353
Positive fair value of derivatives (note 27)	<b>1,433</b>	4,505	2,701
Customers' indebtedness for acceptances (note 11)	<b>27,265</b>	27,150	25,173
Deferred tax (note 12)	<b>349</b>	838	1,558
	<b>52,621</b>	58,263	45,785

**9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS**

	<i>30/09/2018</i>	<i>30/09/2017</i>	<i>31/12/2017</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	<b>935,921</b>	890,361	878,304
Savings accounts	<b>566,182</b>	593,681	582,521
Term deposits	<b>998,463</b>	1,006,853	1,000,442
	<b>2,500,566</b>	2,490,895	2,461,267

**10 EURO MEDIUM TERM NOTES**

On 25 September 2018, the bank has concluded Euro Medium Term note amounting to USD 500 million under its USD 1.5 billion Euro Medium Term Note Programme. The Bank also bought back USD 300 million of existing USD 600 million notes due in October 2019 via tender offer. The bonds are listed on the Irish Stock Exchange and are governed by English law. The carrying amount of EMTN is stated after taking into account the amount of MTM value of the fair value hedge. (Refer note 27).

**11 OTHER LIABILITIES**

	<i>30/09/2018</i>	<i>30/09/2017</i>	<i>31/12/2017</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and other accruals	<b>47,617</b>	46,682	45,200
Liabilities under acceptances (note 8)	<b>27,265</b>	27,150	25,173
Allowances for credit losses – non-funded facilities	<b>8,684</b>	NA	NA
Negative fair value of derivatives (note 27)	<b>1,240</b>	3,947	2,974
	<b>84,806</b>	77,779	73,347

Movement in the allowance for credit losses - non-funded loans, advances and financing activities for customers:

	<i>9 months</i>	<i>9 months</i>	<i>12 months</i>
	<i>Ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/09/2018</i>	<i>30/09/2017</i>	<i>31/12/2017</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	-	NA	NA
Impact of adopting IFRS 9 (note 28)	<b>9,094</b>	NA	NA
Restated opening balance under IFRS 9	<b>9,094</b>	NA	NA
Provided during the period / year	<b>592</b>	NA	NA
Recovered/ released during the period / year	<b>(1,002)</b>	NA	NA
Balance at end of period / year	<b>8,684</b>	NA	NA

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**12 TAXATION**

	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>31/12/2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
<b>Statement of comprehensive income</b>			
Current period/year	<b>5,686</b>	5,762	7,843
Deferred tax adjustment	<b>1,032</b>	146	(608)
	<b>6,718</b>	5,908	7,235

The bank is liable to income tax at the following rates:

- Sultanate of Oman: 15% of taxable income
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income

Set out below is reconciliation between incomes tax calculated on accounting profit with income tax expense for the period:

	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>31/12/2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
Accounting profit	<b>44,770</b>	40,435	51,261
Tax at applicable rate	<b>6,716</b>	6,065	7,689
Non-deductible expenses	<b>529</b>	535	755
Tax exempt revenues	<b>(928)</b>	(1,300)	(1,549)
Others	<b>(631)</b>	462	948
	<b>5,686</b>	5,762	7,843

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2011.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2014.

	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>31/12/2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
<b>Tax liability</b>			
Income tax and other taxes – Current period/year	<b>5,686</b>	5,762	7,843
Income tax and other taxes – Prior years	<b>1,935</b>	(40)	(27)
	<b>7,621</b>	5,722	7,816

	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>31/12/2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
<b>Recognised deferred tax assets (note 8)</b>			
Deferred tax assets are attributable to the following:			
Provisions	<b>448</b>	725	1,480
FVOCI / Available for sale investments	<b>(99)</b>	113	78
	<b>349</b>	838	1,558

Deferred tax is calculated at 15% (2017 – 15%).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**13 SUBORDINATED DEBT**

	<i>30/09/2018</i>	<i>30/09/2017</i>	<i>31/12/2017</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
At 1 January	<b>25,000</b>	49,100	49,100
Redeemed during the period/year	-	-	(24,100)
	<b>25,000</b>	49,100	25,000

As per circular number BM 1009 issued by Central Bank of Oman, as at 31 December 2017 subordinated debts above have capital benefits of RO 3.4 million, and these will be fully amortised by the end of 2018.

**14 OTHER NON-DISTRIBUTABLE RESERVES**

	<i>Fair value</i>	<i>Revaluation</i>	<i>Subordinated</i>	<i>Restructured</i>	<i>Total</i>
	<i>reserve</i>	<i>reserve</i>	<i>debt reserve</i>	<i>debt reserved</i>	<i>RO '000</i>
	<i>RO '000</i>	<i>RO '000</i>	<i>RO '000</i>	<i>RO '000</i>	<i>RO '000</i>
At 1 January 2018	<b>(2,496)</b>	<b>4,385</b>	<b>21,600</b>	-	<b>23,489</b>
Investment securities (debt and puttable instruments) reclassified from available-for-sale to those measured at FVTPL (note 29.1)	<b>276</b>	-	-	-	<b>276</b>
Investment securities (equity) reclassified from available-for-sale to those measured at FVOCI (note 29.1)	<b>(346)</b>	-	-	-	<b>(346)</b>
Restated opening balance under IFRS 9	<b>(2,566)</b>	<b>4,385</b>	<b>21,600</b>	-	<b>23,419</b>
Net movement on FVOCI investments	<b>(1,218)</b>	-	-	-	<b>(1,218)</b>
Tax effect on FVOCI financial investments	<b>(177)</b>	-	-	-	<b>(177)</b>
<b>At 30 September 2018</b>	<b>(3,961)</b>	<b>4,385</b>	<b>21,600</b>	-	<b>22,024</b>
At 30 September 2017	<b>(1,582)</b>	4,385	40,700	617	44,120

- (i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.
- (ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 13). The reserve is available for transfer back to retained earning upon maturity of the subordinated debt.

**15 TIER 1 PERPETUAL BOND**

The bank, in 2015 issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000. (R.O 115,500,000)

The Tier 1 Securities constitute direct, unconditional, subordinated and unsecured obligations of the bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the bank at its sole discretion on 18 November 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the Central Bank of Oman.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875% which is the aggregate of margin and 5 year mid-swap rate that was prevailing at the time of issuance. The mid-swap rate will be reset at end of every fifth year. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the bank's discretion.

These securities form part of Tier 1 Capital of the bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
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**16 CONTINGENT LIABILITIES AND COMMITMENTS**

	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>31/12/2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
Guarantees	<b>368,377</b>	380,593	364,920
Documentary letters of credit	<b>90,854</b>	95,921	82,187
Undrawn commitment to lend	<b>203,200</b>	43,259	162,827
	<b>662,431</b>	519,773	609,934

(i) The allowances for credit losses for commitments and financial guarantees amounts to RO 8,684 thousands and is included under note 11.

(ii) Contingent liabilities include RO 3.6million (30 September 2017 – RO 0.11 million and 31 December 2017– RO 0.29 million) relating to non-performing loans.

(iii) Guarantees include an amount of RO 4.5 million (original amount of RO 14.3 million out of which RO 9.8 million was paid to the beneficiary during April 2018 and August 2018 and recorded as loans and advances) towards performance and advance payment guarantees which have been invoked by the beneficiary. The bank, based on an independent legal advice obtained is confident of recovering the amount paid and payable to the beneficiary from its customer and has initiated a legal action against the customer and the guarantor.

**17 INTEREST INCOME**

Interest bearing assets earned interest at an overall rate of 5.32% for the nine month period ended 30 September 2018 (30 September 2017 – 5.20% and 31 December 2017 – 5.20%).

**18 INTEREST EXPENSE**

For the nine month period ended 30 September 2018, the average overall cost of funds was 2.19% (30 September 2017-1.91% and 31 December 2017 – 1.95%).

**19 OTHER OPERATING INCOME**

	<b>9 months ended</b>	<b>9 months ended</b>	<b>3 months ended</b>	<b>3 months ended</b>
	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>30/09/2018</b>	<b>30/09/2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
Net gains from foreign exchange dealings	<b>3,798</b>	3,566	<b>1,385</b>	1,204
Fees and commissions	<b>14,506</b>	14,696	<b>5,478</b>	4,605
Net income from sale of investments	<b>178</b>	235	<b>69</b>	88
Income from bonds	<b>5,486</b>	3,523	<b>1,913</b>	1,411
Dividend income	<b>991</b>	1,313	<b>214</b>	139
Service charges	<b>4,027</b>	3,499	<b>1,409</b>	1,302
Miscellaneous income	<b>847</b>	953	<b>262</b>	293
	<b>29,833</b>	27,785	<b>10,730</b>	9,042

**20 OTHER OPERATING EXPENSES**

	<b>9 months ended</b>	<b>9 months ended</b>	<b>3 months ended</b>	<b>3 months ended</b>
	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>30/09/2018</b>	<b>30/09/2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
Establishment costs	<b>4,196</b>	4,614	<b>1,600</b>	1,542
Operating and administration expenses	<b>10,167</b>	11,915	<b>3,129</b>	3,932
	<b>14,363</b>	16,529	<b>4,729</b>	5,474

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**21 BASIC AND DILUTED EARNINGS PER SHARE**

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	<u>Nine months ended 30 September</u>		<u>Three months ended 30 September</u>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
Profit after tax (RO'000s)	<b>38,052</b>	34,527	<b>12,633</b>	8,470
Less: Interest on tier 1 perpetual bond	<b>(4,548)</b>	(4,548)	-	-
Profit attributable to shareholders	<b>33,504</b>	29,979	<b>12,633</b>	8,470
Weighted average number of shares outstanding during the year (in '000s)	<b>1,625,950</b>	1,625,950	<b>1,625,950</b>	1,625,950
Earnings per share (RO)	<b>0.021</b>	0.018	<b>0.008</b>	0.005

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

Earnings per share (EPS) is stated after adjustment of interest paid to AT1 note holders.

**22 ASSET LIABILITY MISMATCH**

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

**30 September 2018**

<i>Maturities</i>	<b>Assets</b>	<b>Equity, subordinated funds and liabilities</b>	<b>Mismatch</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
0 - 3 month	<b>980,575</b>	<b>755,849</b>	<b>224,726</b>
3 - 12 month	<b>268,394</b>	<b>880,528</b>	<b>(612,134)</b>
1 - 5 years	<b>682,649</b>	<b>823,672</b>	<b>(141,023)</b>
More than 5 years	<b>1,535,930</b>	<b>1,007,499</b>	<b>528,431</b>
Total	<b>3,467,548</b>	<b>3,467,548</b>	-

30 September 2017

<i>Maturities</i>	<b>Assets</b>	<b>Equity, subordinated funds and liabilities</b>	<b>Mismatch</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
0 - 3 month	948,640	804,810	143,830
3 - 12 month	323,749	766,367	(442,618)
1 - 5 years	670,758	854,746	(183,988)
More than 5 years	1,502,259	1,019,483	482,776
Total	3,445,406	3,445,406	-

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
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**22 ASSET LIABILITY MISMATCH (continued)**

31 December 2017

<i>Maturities</i>	<i>Assets</i> RO'000	<i>Equity, subordinated funds and liabilities</i> RO'000	<i>Mismatch</i> RO'000
0 - 3 month	932,455	854,058	78,397
3 - 12 month	347,633	782,991	(435,358)
1 – 5 years	665,301	827,536	(162,235)
More than 5 years	1,524,963	1,005,767	519,196
<b>Total</b>	<b>3,470,352</b>	<b>3,470,352</b>	<b>-</b>

**23 RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the bank conducts transactions with certain of its Directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows

	<b>30/09/2018</b>			<b>31/12/2017</b>		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Loans and advances	-	100,742	100,742	-	138,697	138,697
Customers' deposits	30,416	47,376	77,792	2,730	38,548	41,278
Due from banks	237	9,625	9,862	156	9,625	9,781
Due to banks	102	-	102	427	-	427
Subordinated debt	14,500	3,000	17,500	14,500	3,000	17,500
Letters of credit, guarantees and acceptances	2,127	9,936	12,063	3,057	8,765	11,822
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Investments	1,981	-	1,981	1,981	-	1,981

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

	<b>30/09/2018</b>			<b>30/09/2017</b>		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Interest income	31	5,712	5,743	33	4,471	4,504
Commission income	74	72	146	79	50	129
Interest expense	1,514	840	2,354	2,304	853	3,157
Other expenses	-	590	590	-	238	238

Senior management compensation:

	<b>9 months ended 30/09/2018</b> RO'000	9 months ended 30/09/2017 RO'000
Salaries and other short term benefits		
- Fixed	2,155	2,444
- Discretionary	1,427	1,421
	<b>3,582</b>	<b>3,865</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
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**24 SHAREHOLDERS**

As of 30 September 2018, the shareholders of the bank who own 10% or more of the bank's shares:

	<i>Number of shares '000</i>	<i>% Holding</i>
The Commercial Bank of Qatar	<b>567,453</b>	<b>34.90%</b>
Suhail Bahwan Group (Holdings) LLC	<b>239,734</b>	<b>14.74%</b>
Civil Service Employees Pension Fund	<b>183,732</b>	<b>11.30%</b>

The percentage shareholding is calculated based on the total shares of the bank outstanding at the reporting date.

**25 SEGMENT REPORTING**

For management purposes, the bank is organised into four operating segments based on business units and are as follows:

- Retail banking offers various products and facilities to individual retail and high net worth customers to meet everyday banking needs. This includes asset products like Personal Loans, Housing Loan, Credit Cards and Term Loans and liability products like Savings account, Current account and Term Deposits.
- Wholesale banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes Investment banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- Commercial banking covers the mid-tier corporate and SME customers offering the entire spectrum of products to suit their business needs. It also includes international operations of UAE, Egypt and Islamic banking which offers products as per Sharia principles.
- Funding center is responsible for balancing and managing the liquidity of funds within the bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Segment information by business line is as follows:

	<i>Retail banking RO'000</i>	<i>Wholesale banking RO'000</i>	<i>Commercial banking RO'000</i>	<i>Funding center RO'000</i>	<i>Total RO'000</i>
<b>30-September-2018</b>					
Operating income	<b>40,981</b>	<b>34,274</b>	<b>11,863</b>	<b>8,055</b>	<b>95,173</b>
Net profit/(loss)	<b>12,736</b>	<b>31,713</b>	<b>(6,718)</b>	<b>321</b>	<b>38,052</b>
Total assets	<b>1,302,901</b>	<b>1,136,669</b>	<b>397,981</b>	<b>629,997</b>	<b>3,467,548</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**25 SEGMENT REPORTING (continued)**

	<i>Retail banking RO'000</i>	<i>Wholesale banking RO'000</i>	<i>Commercial banking RO'000</i>	<i>Funding center RO'000</i>	<i>Total RO'000</i>
<i>30-September-2017</i>					
Operating income	41,841	32,879	15,427	8,377	98,524
Net profit/(loss)	13,086	25,411	(5,940)	1,970	34,527
Total assets	1,262,767	1,160,302	458,743	563,594	3,445,406

For management purposes the bank also reports the segment information of its operations by the following geographical locations:

- i) Oman
- ii) United Arab Emirates (UAE)
- iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis. Segment information by geography is as follows:

<b>For the period ended 30 September 2018</b>	<i>Oman RO'000</i>	<i>UAE RO'000</i>	<i>Egypt RO'000</i>	<i>Total RO'000</i>
Net interest income and net income from Islamic financing and investment activities	63,048	1,937	355	65,340
Other operating income	28,939	895	(1)	29,833
<b>Operating income</b>	<b>91,987</b>	<b>2,832</b>	<b>354</b>	<b>95,173</b>
Operating expenses	(42,320)	(2,812)	(167)	(45,299)
	49,667	20	187	49,874
Impairment losses (net) and taxation	(5,885)	(5,932)	(5)	(11,822)
<b>Segment profit/(loss) for the period</b>	<b>43,782</b>	<b>(5,912)</b>	<b>182</b>	<b>38,052</b>
<b>Other information</b>				
Segment assets	3,339,953	107,396	20,199	3,467,548
Segment capital expenses	2,370	140	2	2,512



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
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**25 SEGMENT REPORTING (continued)**

For the period ended 30 September 2017	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Net interest income and net income from Islamic financing and Investment activities	65,501	4,966	272	70,739
Other operating income	26,464	1,313	8	27,785
Operating income	91,965	6,279	280	98,524
Operating expenses	(42,022)	(3,304)	(158)	(45,484)
	49,943	2,975	122	53,040
Impairment losses (net) and taxation	(8,858)	(9,723)	68	(18,513)
Segment profit/(loss) for the period	41,085	(6,748)	190	34,527
<b>Other information</b>				
Segment assets	3,261,784	163,693	19,929	3,445,406
Segment capital expenses	18,891	183	-	19,074

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## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 September 2018 (unaudited)

### 26 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

#### Estimation of fair values

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

#### Loans and advances

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

#### Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

#### Current account balances due to and due from banks

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

#### Bank and customer deposits

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

#### Other financial instruments

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

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

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

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

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**Valuation models**

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

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

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

The following table shows an analysis of financial instruments other than derivatives instruments recorded at fair value by level of the fair value hierarchy:

<b>30 September 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
<b>Investment measured at FVTPL</b>			
Quoted equities	5,420	-	5,420
Unquoted equities	-	2,547	2,547
<b>Total</b>	<b>5,420</b>	<b>2,547</b>	<b>7,967</b>
<b>Investment measured at FVOCI</b>			
Quoted equities	29,314	-	29,314
Unquoted equities	-	331	331
<b>Total</b>	<b>29,314</b>	<b>331</b>	<b>29,645</b>
<b>TOTAL</b>	<b>34,734</b>	<b>2,878</b>	<b>37,612</b>

Financial instruments at level 2 are valued based on counter party valuation, quoted forward rates and yield curves. Details regarding derivative financial instruments are set out in note 27.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<i>30 September 2017</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investments – held for trading:			
Government development bonds	75,622	-	75,622
Government Sukuk	3,000	-	3,000
Quoted bond	550	-	550
Quoted equities	19	-	19
<b>Total</b>	<b>79,191</b>	<b>-</b>	<b>79,191</b>
Investments - available for sale:			
Quoted equities	26,995	-	26,995
Other unquoted equities	-	11,350	11,350
<b>Total</b>	<b>26,995</b>	<b>11,350</b>	<b>38,345</b>
<b>Total financial assets</b>	<b>106,186</b>	<b>11,350</b>	<b>117,536</b>

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<i>31 December 2017</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investments – held for trading:			
Government development bonds	55,221	-	55,221
Quoted bond	550	-	550
<b>Total</b>	<b>55,771</b>	<b>-</b>	<b>55,771</b>
Investments - available for sale:			
Government development bonds	3,895	-	3,895
Quoted equities	25,876	-	25,876
Other unquoted equities	-	7,789	7,789
<b>Total</b>	<b>29,771</b>	<b>7,789</b>	<b>37,560</b>
<b>Total financial assets</b>	<b>85,542</b>	<b>7,789</b>	<b>93,331</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 September 2018 (unaudited)**

**27 DERIVATIVES**

	<i>Positive fair value (Note 8) RO'000</i>	<i>Negative fair value (Note 11) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 – 12 months RO'000</i>	<i>Above 1 Year RO'000</i>
<i>30 September 2018</i>						
<i>Derivatives</i>						
Fair value hedge	-	(539)	115,500	-	-	115,500
Interest rate swaps	530	(530)	92,169	10,331	20,480	61,358
Forward foreign exchange purchase contracts	213	(67)	153,268	109,303	20,433	23,532
Forward foreign exchange sales contracts	663	(77)	153,268	108,814	20,207	24,247
Currency options	27	(27)	2,431	2,431	-	-
<b>Total</b>	<b>1,433</b>	<b>(1,240)</b>	<b>516,636</b>	<b>230,879</b>	<b>61,120</b>	<b>224,637</b>

*30 September 2017*

*Derivatives*

Fair value hedge	1,962	-	192,500	-	-	192,500
Interest rate swaps	2,154	(2,154)	97,288	2,658	12,835	81,795
Forward foreign exchange purchase contracts	17	(525)	173,568	147,232	26,035	301
Forward foreign exchange sales contracts	344	(1,240)	173,568	147,232	26,035	301
Currency Options	28	(28)	18,563	9,143	9,420	-
<b>Total</b>	<b>4,505</b>	<b>(3,947)</b>	<b>655,487</b>	<b>306,265</b>	<b>74,325</b>	<b>274,897</b>

*31 December 2017*

*Derivatives*

Fair value hedge	-	(94)	192,500	-	-	192,500
Interest rate swaps	1,842	(1,842)	95,238	6,285	13,971	74,982
Forward foreign exchange purchase contracts	508	(122)	212,849	175,508	13,879	23,462
Forward foreign exchange sales contracts	345	(910)	212,849	168,623	20,710	23,516
Currency options	6	(6)	13,193	8,579	4,614	-
<b>Total</b>	<b>2,701</b>	<b>(2,974)</b>	<b>726,629</b>	<b>358,995</b>	<b>53,174</b>	<b>314,460</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**28 LIQUIDITY COVERAGE RATIO**

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on 1 January, 2019.

	September 2018		September 2017	
	Total unweighted value (average) RO'000	Total weighted value (average) RO'000	Total unweighted value (average) RO'000	Total weighted value (average) RO'000
<b>High quality liquid assets</b>				
<b>Total High Quality Liquid Assets (HQLA)</b>	-	<b>437,722</b>	-	498,558
<b>Cash outflows</b>				
Stable deposits	<b>583,559</b>	<b>29,178</b>	607,456	30,373
Less stable deposits	<b>120,396</b>	<b>12,040</b>	116,129	11,613
<b>Retail deposits and deposits from small business customers</b>	<b>703,955</b>	<b>41,218</b>	723,585	41,986
Unsecured wholesale funding, of which:				
Operational deposits (all counterparties) and deposits in networks of cooperative banks	<b>940,332</b>	<b>324,531</b>	930,488	336,826
Additional requirements, of which	<b>40,129</b>	<b>4,013</b>	33,217	3,322
Credit and liquidity facilities	<b>505,632</b>	<b>29,781</b>	85,253	6,851
Other contingent funding obligations				
<b>Total cash outflows</b>		<b>399,543</b>		388,985
<b>Cash inflows</b>				
Inflows from fully performing exposures	<b>428,387</b>	<b>344,581</b>	317,041	235,634
Other cash inflows	<b>9,469</b>	<b>9,469</b>	14,565	14,565
<b>Total cash inflows</b>	<b>437,856</b>	<b>354,050</b>	331,606	250,199
<b>Total high quality liquid assets</b>		<b>437,722</b>		498,558
<b>Total net cash outflows</b>		<b>99,886</b>		138,786
<b>Liquidity coverage ratio (%)</b>		<b>438.22</b>		359.23

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES**

**29.1 Impact of adopting IFRS 9**

Set out below is the impact of initial application of IFRS 9 on the Bank's financial statements:

	<b>Retained earnings RO'000</b>	<b>Fair value reserve RO'000</b>
<b>Closing balance under IAS 39 (31 December 2017)</b>	135,365	(2,496)
<b><i>Impact on reclassification and remeasurements :</i></b>		
Investment securities (debt and puttable instruments) from available-for-sale to those measured at fair value through profit or loss	(276)	276
Investment securities (equity) from available-for-sale to those measured at fair value through other comprehensive income	346	(346)
<b><i>Impact on recognition of Expected Credit Losses</i></b>		
Due from banks	(367)	-
Expected credit losses under IFRS 9 for loan and advances at amortised cost including loan commitments and financial guarantees	(22,885)	-
Expected credit losses under IFRS 9 for debt securities at fair value through other comprehensive income and amortised cost	(502)	-
<b>Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018</b>	<b>111,681</b>	<b>(2,566)</b>

**Expected credit loss / Impairment allowances**

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018:

	31 December 2017 RO'000	Re-measure ment RO'000	1 January 2018 RO'000
Loans and advances to customers	<b>116,531</b>	<b>13,791</b>	<b>130,322</b>
Due from banks	-	<b>367</b>	<b>367</b>
Available-for-sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	-	<b>502</b>	<b>502</b>
Loan Commitments and Financial Guarantees	-	<b>9,094</b>	<b>9,094</b>
	<b>116,531</b>	<b>23,754</b>	<b>140,285</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.1 Classification and Measurement of Financial Instruments**

The Bank performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 31 December 2017.

*Amounts in RO'000*

					<b>Impact of IFRS 9</b>	
	<i>Original classification under IAS 39</i>	<i>New classification under IFRS 9</i>	<i>Original carrying amount</i>	<i>Re-measurement</i>	<i>Re-classification</i>	<i>New carrying amount</i>
			<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Financial assets</b>						
Cash and balances with central banks	Loans and receivables	Amortised cost	383,111	-	-	383,111
Due from banks	Loans and receivables	Amortised cost	138,670	(367)	-	138,303
Loans and advances to customers	Loans and receivables	Amortised cost	2,653,871	(13,791)	-	2,640,080
Investment securities – debt	Available-for-sale	FVOCI	3,895	-	-	3,895
Investment securities – debt	Available-for-sale	FVTPL	7,767	-	-	7,767
Investment securities – debt	Held-for-trading	Amortised cost	55,771	(98)	-	55,673
Investment securities – debt	Held-to-maturity	Amortised cost	89,789	(404)	-	89,385
Investment securities – equity	Available-for-sale	FVOCI	25,898	-	-	25,898

Opening ECL allowance determined in accordance with IFRS 9 for the loan commitments and financial guarantees is amounted to RO 9,094 thousands.

**Financial Liabilities**

There were no changes to the classification and measurement of financial liabilities.



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.2 Movement in ECL**

*Amounts in RO'000*

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Exposure subject to ECL</b>				
- Loans and advances and financing activities for customers	1,890,148	748,652	137,097	2,775,897
- Investment securities (debt)	238,674	-	-	238,674
- Loan commitments and financial guarantees	662,431	-	-	662,431
- Due from banks, central banks and other financial assets	182,476	-	-	182,476
	<b>2,973,729</b>	<b>748,652</b>	<b>137,097</b>	<b>3,859,478</b>
<b>Opening Balance - as at 1 January 2018</b>				
- Loans and advances and financing activities for customers	12,475	44,394	73,454	130,322
- Investment securities (debt)	502	-	-	502
- Loan commitments and financial guarantees	1,423	7,672	-	9,095
- Due from banks, central banks and other financial assets	461	-	-	461
	<b>14,861</b>	<b>52,065</b>	<b>73,454</b>	<b>140,380</b>
<b>Net transfer between stages</b>				
- Loans and advances and financing activities for customers	2,968	(9,285)	6,317	-
- Investment securities (debt)	-	-	-	-
- Loan commitments and financial guarantees	(954)	954	-	-
- Due from banks, central banks and other financial assets	-	-	-	-
	<b>2,013</b>	<b>(8,331)</b>	<b>6,317</b>	<b>-</b>
<b>Charge for the Period (net)</b>				
- Loans and advances and financing activities for customers	(3,279)	837	13,281	10,839
- Investment securities (debt)	108	-	-	108
- Loan commitments and financial guarantees	591	(1,002)	-	(411)
- Due from banks, central banks and other financial assets	(40)	-	-	(40)
	<b>(2,620)</b>	<b>(165)</b>	<b>13,281</b>	<b>10,496</b>
<b>Closing Balance - as at 30 September 2018</b>				
- Loans and advances and financing activities for customers	12,163	35,946	93,052	141,161
- Investment securities (debt)	610	-	-	610
- Loan commitments and financial guarantees	1,060	7,624	-	8,684
- Due from banks, central banks and other financial assets	421	-	-	421
	<b>14,255</b>	<b>43,570</b>	<b>93,052</b>	<b>150,876</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.3 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 September 2018:**

**1. Impairment charge and provision held as of 30 September 2018**

*Amounts in RO'000*

	As per CBO Norms	As per IFRS 9	Difference
Impairment Loss charged to profit and loss	5,104	5,104	-
Provisions required as per CBO norms/ held as per IFRS 9	113,676	129,635	15,959
Gross non-performing loan ratio (percentage)	3.25	3.25	-
Net non-performing loan ratio (percentage)	1.19	1.28	0.09

**2. Mapping of IFRS 9 and CBO norms**

*Amounts in RO'000*

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 under IFRS 9	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(5)	(8)	(9)
Standard	Stage 1	2,040,659	30,126	12,163	17,963	2,028,496		
	Stage 2	460,707	5,042	17,250	(12,207)	443,458		
	Stage 3				-	-		
Subtotal		2,501,366	35,168	29,413	5,756	2,471,954	-	-
Special Mention	Stage 1				-	-		
	Stage 2	137,434	3,537	18,726	(15,189)	118,708		
	Stage 3				-	-		
Subtotal		137,434	3,537	18,726	(15,189)	118,708	-	-
Substandard	Stage 1				-	-		
	Stage 2				-	-		
	Stage 3	13,187	3,197	3,197	-	9,990		221
Subtotal		13,187	3,197	3,197	-	9,990	-	221
Doubtful	Stage 1				-	-		
	Stage 2				-	-		
	Stage 3	18,414	4,794	4,400	394	14,014		705
Subtotal		18,414	4,794	4,400	394	14,014	-	705
Loss	Stage 1				-	-		
	Stage 2				-	-		
	Stage 3	105,496	66,980	64,184	2,797	41,312		20,319
Subtotal		105,496	66,980	64,184	2,797	41,312	-	20,319
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	657,457		2,091	(2,091)	655,366		
	Stage 2	150,511		7,624	(7,624)	142,887		
	Stage 3				-	-		
Subtotal		807,968	-	9,715	(9,715)	798,253	-	-
Total	Stage 1	2,698,116	30,126	14,255	15,872	2,683,861	-	-
	Stage 2	748,652	8,579	43,600	(35,020)	705,052	-	-
	Stage 3	137,097	74,971	71,780	3,190	65,317	-	21,245
	Total	3,583,865	113,676	129,635	(15,958)	3,454,230	-	21,245

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.3 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 September 2018:**

**3. Restructured loans**

*Amounts in RO'000*

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(5)	(8)	(9)
Classified as performing	Stage 1	25,153	445	211	234	24,942		
	Stage 2	37,798	2,999	6,457	(3,458)	31,341		
	Stage 3				-	-		
<b>Subtotal</b>		<b>62,951</b>	<b>3,444</b>	<b>6,668</b>	<b>(3,224)</b>	<b>56,283</b>	-	-
Classified as non-performing	Stage 1				-	-		
	Stage 2				-	-		
	Stage 3	25,955	11,697	13,991	(2,294)	10,406	1,558	1,558
<b>Sub total</b>		<b>25,955</b>	<b>11,697</b>	<b>13,991</b>	<b>(2,294)</b>	<b>10,406</b>	<b>1,558</b>	<b>1,558</b>
<b>Total</b>	Stage 1	<b>25,153</b>	<b>445</b>	<b>211</b>	<b>234</b>	<b>24,942</b>	-	-
	Stage 2	<b>37,798</b>	<b>2,999</b>	<b>6,457</b>	<b>(3,458)</b>	<b>31,341</b>	-	-
	Stage 3	<b>25,955</b>	<b>11,697</b>	<b>13,991</b>	<b>(2,294)</b>	<b>10,406</b>	<b>1,558</b>	<b>1,558</b>
	<b>Total</b>	<b>88,906</b>	<b>15,141</b>	<b>20,659</b>	<b>(5,518)</b>	<b>66,689</b>	<b>1,558</b>	<b>1,558</b>

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## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS 30 September 2018 (unaudited)

### 29 IFRS 9 DISCLOSURES (continued)

#### 29.4 IFRS 9 accounting policies

##### A. IFRS 9 Financial Instruments

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

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have been applied only to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

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

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

##### ***Classification of financial assets and financial liabilities***

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

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

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

There were no changes to the classification and measurement of financial liabilities.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.4 IFRS 9 accounting policies (continued)**

***Impairment of financial assets***

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

***Hedge accounting***

IFRS 9 introduced a new hedge accounting model to simplify hedge accounting outcomes and provide a better linkage between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Some of the key improvements in the standard impacting the Bank include:

1. Hedge effectiveness – IFRS 9 standard requires that the hedge effectiveness assessment be forward-looking and does not prescribe defined effectiveness parameters. Under IAS 39, an entity had to test effectiveness both retrospectively and prospectively subject to 80 to 125 percent effectiveness requirement.
2. Hedge discontinuation. IFRS 9 standard provides that discontinuation of hedge accounting will only happen under specified circumstances. Under IAS 39, the Bank may revoke the hedging relationship if it seems fit.

These changes have not had a material impact on the Interim condensed statement of comprehensive income of the Bank. In addition, some of the basics of hedge accounting applicable to the Bank under IAS 39 do not change as a result of IFRS 9 adoption.

***Transition***

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

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets as measured at FVTPL
  - For hedging relationships under IAS 39, determination of whether these qualify for hedge accounting in accordance with the criteria of IFRS 9, after taking into account any rebalancing of the hedging relationship on transition, shall be regarded as continuing hedging relationships.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.4 IFRS 9 accounting policies (continued)**

**B. Financial assets and liabilities**

**Recognition and initial measurement**

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

**Classification**

***Policies applicable from 1 January 2018***

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.
- 

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

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

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.4 IFRS 9 accounting policies (continued)**

***Business model assessment***

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

***Assessment whether contractual cash flows are solely payments of principal and interest ('SPPI')***

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

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## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

### 30 September 2018 (unaudited)

#### 29 IFRS 9 DISCLOSURES (continued)

##### 29.4 IFRS 9 accounting policies (continued)

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

##### *(a) Loans and advances and financing activities for customers*

'Loans and advances and financing activities for customers' captions in the statement of financial position include:

- loans and advances and financing activities for customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances and financing activities for customers mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.



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## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS 30 September 2018 (unaudited)

### 29 IFRS 9 DISCLOSURES (continued)

#### 29.4 IFRS 9 accounting policies (continued)

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

#### **Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

#### **Financial liabilities**

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

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

The amount presented separately in OCI related to changes in own credit risk of a designated financial liability at FVTPL are not recycled to profit or loss, even when the liability is derecognised and the amounts are paid. Instead, own credit gains and losses should be reclassified to retained earnings within equity upon derecognition of the relevant liability.

#### **Derecognition**

##### ***Policy applicable from 1 January 2018***

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

##### ***De-recognition due to substantial modification of terms and conditions***

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchased or originated credit impaired ("POCI").

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.4 IFRS 9 accounting policies (continued)**

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

*De-recognition other than for substantial modification*

*Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.4 IFRS 9 accounting policies (continued)**

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**Modifications of financial assets and financial liabilities**

***Policies applicable from 1 January 2018***

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

**Impairment**

***Policies applicable from 01 January 2018***

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

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

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

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

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## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

### 30 September 2018 (unaudited)

#### 29 IFRS 9 DISCLOSURES (continued)

##### 29.4 IFRS 9 accounting policies (continued)

###### **Measurement of ECL**

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

###### **Overview of the ECL principles**

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL)), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).

The 12 month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

###### **Stage 1**

When financing are first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

###### **Stage 2**

When a financing exposure has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.4 IFRS 9 accounting policies (continued)**

**Stage 3**

Financing exposure considered credit-impaired. The bank records an allowance for the LTECLs.

At initial recognition of a financial asset, the Bank recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

**Stage 1**

Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses

**Stage 2**

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset

**Stage 3**

There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

**Purchased or originated credit impaired (POCI)** assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective interest rate (EIR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

**The calculation of ECLs**

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.4 IFRS 9 accounting policies (continued)**

***Restructured financial assets***

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

***Credit-impaired financial assets***

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.4 IFRS 9 accounting policies (continued)**

***Presentation of allowance for ECL in the statement of financial position***

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

***Write-off***

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

**Derivative financial instruments and hedging activities**

***Policies applicable from 1 January 2018***

**(a) *Hedge documentation, effectiveness assessment, and discontinuation***

At the inception of the hedge, the Bank formally designates and documents the hedging relationship to which the Bank wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio). Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

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## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS 30 September 2018 (unaudited)

### 29 IFRS 9 DISCLOSURES (continued)

#### 29.4 IFRS 9 accounting policies (continued)

##### Derivative financial instruments and hedging activities

###### *Policies applicable from 01 January 2018*

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

When the hedging instrument or instruments have been sold or terminated, or when a hedging relationship no longer meets the risk management objective or the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

The Bank performs a hedge effectiveness assessment in a similar manner as at the inception of the hedging relationship and subsequently on every reporting period.

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation any subsequent changes in fair value of the hedging instrument are recognised in profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

###### ***Embedded derivatives***

###### ***Policies applicable from 1 January 2018***

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.



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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**  
**30 September 2018 (unaudited)**

**29 IFRS 9 DISCLOSURES (continued)**

**29.4 IFRS 9 accounting policies (continued)**

**Use of estimates and judgements**

The preparation of the Interim Condensed Financial Information in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgements, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In preparing this Interim Condensed Financial Information, the significant judgments made by management in applying the Group's accounting policies were the same as those applied to the Financial Statements as at and for the year ended 31 December 2017, except for the following:

**(i) Critical accounting judgements in applying the Group's accounting policies**

**(A) Financial asset and liability classification**

Policy applicable from 1 January 2018

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

**(B) Impairment of investments in equity and debt securities**

Policy applicable from 1 January 2018

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.