

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2019 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

SR.NO	INDEX	PAGE NO
1	CHAIRMAN'S REPORT	1
2	INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION	2
3	INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME	3
4	INTERIM CONDENSED STATEMENT OF CASH FLOWS	4
5	INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY	5
6	NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS	6-28

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019 (unaudited)

		<i>30/06/2019</i>	<i>30/06/2018</i>	<i>Audited</i> <i>31/12/2018</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	234,761	317,975	315,055
Due from banks and other money market placements (net)	4	152,621	155,677	98,064
Loans, advances and financing activities for customers(net)	5	2,814,547	2,667,598	2,809,707
Financial investments	6	268,929	189,019	231,149
Premises and equipment	7	63,662	65,158	64,360
Other assets	8	49,675	53,482	54,587
Total assets		3,584,195	3,448,909	3,572,922
Liabilities				
Due to banks and other money market deposits		154,601	101,835	155,949
Customers' deposits and unrestricted investment accounts	9	2,489,065	2,487,325	2,452,382
Euro medium term notes	10	307,690	229,066	307,148
Other liabilities	11	91,789	81,374	93,534
Taxation	12	12,369	6,437	10,419
Subordinated debt	13	-	25,000	17,000
Total liabilities		3,055,514	2,931,037	3,036,432
Equity				
Share capital		162,595	162,595	162,595
Share premium		34,465	34,465	34,465
Legal reserve		54,198	51,617	54,198
Other non-distributable reserves	14	(2,986)	21,143	16,541
Proposed cash dividend		-	-	26,015
Retained earnings		164,909	132,552	127,176
Total shareholders' equity attributable to the equity holders of the bank		413,181	402,372	420,990
Tier 1 perpetual bond	15	115,500	115,500	115,500
Total equity		528,681	517,872	536,490
Total liabilities and equity		3,584,195	3,448,909	3,572,922
Contingent liabilities and commitments	16	713,778	645,367	589,320

The interim condensed financial statements were authorised for issue on 30th July 2019 in accordance with a resolution of the Board of Directors.


Chairperson




Acting Chief Executive Officer

The attached notes 1 to 28 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 30 June 2019 (Un-audited)

	Notes	Six months ended 30 June		Three months ended 30 June	
		2019 RO'000	2018 RO'000	2019 RO'000	2018 RO'000
Interest income	17	81,008	75,501	40,820	38,105
Interest expense	18	(36,341)	(29,118)	(18,350)	(15,531)
NET INTEREST INCOME		44,667	46,383	22,470	22,574
Income from Islamic financing and Investment activities		3,477	2,829	1,786	1,435
Unrestricted investment account holders' share of profit		(1,875)	(1,660)	(968)	(807)
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES		1,602	1,169	818	628
NET INTEREST INCOME AND NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES		46,269	47,552	23,288	23,202
Other operating income	19	18,079	16,006	8,723	8,234
OPERATING INCOME		64,348	63,558	32,011	31,436
Staff costs		(18,452)	(18,342)	(8,745)	(9,320)
Other operating expenses	20	(9,551)	(9,634)	(4,732)	(4,708)
Depreciation	7	(2,245)	(2,234)	(1,135)	(1,026)
OPERATING EXPENSES		(30,248)	(30,210)	(14,612)	(15,054)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		34,100	33,348	17,399	16,382
Credit loss expense – customer loans	5	(8,297)	(7,908)	(3,540)	(3,731)
Recoveries and releases from provision for credit losses		1,932	1,121	449	661
Recoveries and releases from loans and advances written off		2,146	3,211	877	1,670
Others		(30)	-	(37)	-
TOTAL IMPAIRMENT LOSSES (NET)		(4,249)	(3,576)	(2,251)	(1,400)
PROFIT BEFORE TAX		29,851	29,772	15,148	14,982
Taxation	12	(4,570)	(4,353)	(2,324)	(2,158)
PROFIT FOR THE PERIOD		25,281	25,419	12,824	12,824
OTHER COMPREHENSIVE EXPENSES					
Items that will not be reclassified subsequently to profit or loss					
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		(2,698)	(1,954)	(987)	(993)
Items that will be reclassified subsequently to profit or loss					
Debt instruments at fair value through other comprehensive income		283	(258)	220	(138)
Tax effect of net results on FVOCI financial investments		(112)	(64)	(112)	-
OTHER COMPREHENSIVE LOSS FOR THE PERIOD		(2,527)	(2,276)	(879)	(1,131)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		22,754	23,143	11,945	11,693
Earnings per share:					
Basic and diluted, profit for the period attributable to equity holders		0.013	0.013	0.005	0.005

The attached notes 1 to 28 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the period ended 30 June 2019 (Un-audited)

	Notes	Six months ended	
		30 June	
		2019	2018
		RO'000	RO'000
Profit before taxation		29,851	29,772
Adjustments for:			
Depreciation	7	2,245	2,234
Provision for credit losses (net)		8,297	7,908
Provision for credit loss Bank loans/Investments (Net)		30	-
Profit on sale of investments		(22)	(109)
Profit on sale of fixed assets		(7)	-
Investment income		(1,158)	(4,350)
Operating profit before changes in operating assets and liabilities		39,236	35,455
Due from and other money market deposits		(1,998)	5,195
Due to and other money market placements		13,782	(42,378)
Loans and advances to customers		(13,173)	(44,521)
Other assets		4,085	(7,761)
Customer deposits		36,683	26,058
Other liabilities		(1,203)	6,187
Cash from/(used in) operations		77,412	(21,765)
Tax paid		(1,900)	(5,740)
Net cash from/(used in) operating activities		75,512	(27,505)
Investing activities			
Purchase of investments		(40,183)	(8,244)
Proceeds from sale of investments		-	109
Purchase of premises and equipment	7	(1,562)	(1,612)
Disposal of premises and equipment		29	13
Translation difference in premises & equipment & Tax		4	9
Interest on Govt. Development Bond and T- Bills		-	3,573
Dividend income	19	1,158	777
Net cash used in investing activities		(40,554)	(5,375)
Financing activities			
Payment of dividend		(26,015)	(23,228)
Proceeds from Subordinated debt		(17,000)	-
Interest on Tier 1 perpetual bond		(4,548)	(4,548)
Net cash used in financing activities		(47,563)	(27,776)
Decrease in cash and cash equivalents		(12,605)	(60,656)
Cash and cash equivalents at the beginning of the period		255,486	406,563
Cash and cash equivalents at the end of the period		242,881	345,907
Representing:			
Cash and balances with Central Bank	3	234,261	317,475
Due from Bank (maturing within 3 months)		126,364	130,267
Due to Bank (maturing within 3 months)		(117,744)	(101,835)
		242,881	345,907

* Minimum cash reserve to be maintained with Central Bank of Oman as of 30 June 2019 amounted to RO 78 million (30 June 2018: RO 77 million).

The attached notes 1 to 28 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
For the period ended 30 June 2019 (Un-audited)

<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 2019	162,595	34,465	54,198	16,541	26,015	-	127,176	420,990	115,500	536,490
Total comprehensive income for the period	-	-	-	(2,527)	-	-	25,281	22,754	-	22,754
Dividend paid during the period	-	-	-	-	(26,015)	-	-	(26,015)	-	(26,015)
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Transfer to retained earnings	-	-	-	(17,000)	-	-	17,000	-	-	-
Balance at 30 June 2019	162,595	34,465	54,198	(2,986)	-	-	164,909	413,181	115,500	528,681
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	-	-	-	(70)	-	-	(23,684)	(23,754)	-	(23,754)
Restated opening balance under IFRS 9	154,852	34,465	51,617	23,419	23,228	7,743	111,681	407,005	115,500	522,505
Total comprehensive income for the period	-	-	-	(2,276)	-	-	25,419	23,143	-	23,143
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Issue of Shares	7,743	-	-	-	-	(7,743)	-	-	-	-
Dividend paid during the period	-	-	-	-	(23,228)	-	-	(23,228)	-	(23,228)
Balance at 30 June 2018	162,595	34,465	51,617	21,143	-	-	132,552	402,372	115,500	517,872
Balance at 1 July 2018	162,595	34,465	51,617	21,143	-	-	132,552	402,372	115,500	517,872
Total comprehensive income for the period	-	-	-	(2)	-	-	25,189	25,187	-	25,187
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Accrual of wht on tier 1 perpetual bond	-	-	-	-	-	-	(2,021)	(2,021)	-	(2,021)
Transfer to retained earnings	-	-	-	(8,000)	-	-	8,000	-	-	-
Transfer to subordinated funds reserve	-	-	-	3,400	-	-	(3,400)	-	-	-
Transfer to legal reserve	-	-	2,581	-	-	-	(2,581)	-	-	-
Proposed dividend	-	-	-	-	26,015	-	(26,015)	-	-	-
Balance at 31 December 2018	162,595	34,465	54,198	16,541	26,015	-	127,176	420,990	115,500	536,490

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

The attached notes 1 to 28 form part of the interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

As at 30 June 2019 (Un-audited)

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, investment and Islamic banking services within the Sultanate of Oman and overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a commercial bank licences given by the respective Central Banks. The bank is head quartered in Muscat, and 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 Securities Market. Its bonds and AT1 capital instruments are listed in the Euronext Dublin.

The bank employed 1,564 employees as of 30 June 2019 (30 June 2018 – 1,511 employees / 31 December 2018 - 1,563).

2 SIGNIFICANT ACCOUNTING POLICIES

The condensed interim 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 2018, results of the six months period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

The condensed interim 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 currencies of the bank's operations are as follows:

Sultanate of Oman:	Rial Omani
United Arab Emirates:	UAE Dirham
Egypt:	US Dollar

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 and certain investments, either through profit and loss account or through other comprehensive Income, at fair value.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/06/2019</i>	<i>30/06/2018</i>	<i>31/12/2018</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	49,464	55,275	57,039
Treasury bills	161	194	2,193
Certificate of Deposit with Central Banks	17,819	-	-
Other balances with Central Banks	166,817	262,006	255,323
Cash and cash equivalents	234,261	317,475	314,555
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	234,761	317,975	315,055

- (i) At 30 June 2019, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (30 June 2018: 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 June 2019 amounted to RO 78 million (30 June 2018: RO 77 million).
- (iii) ECL on the cash and balances with Central Banks is not material and accordingly no adjustment has been accounted by the Bank.

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

	<i>30/06/2019</i>	<i>30/06/2018</i>	<i>31/12/2018</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	12,666	20,790	13,090
Placements with banks	99,749	98,244	51,534
Demand balances	40,592	37,104	33,819
Due from banks and other money market placements	153,007	156,138	98,443
Less: allowance for the credit losses	(386)	(461)	(379)
Net due from banks and other money market placements	152,621	155,677	98,064

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

	<i>6 months</i>	<i>6 months</i>	<i>12 months</i>
	<i>Ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/06/2019</i>	<i>30/06/2018</i>	<i>31/12/2018</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	379	94	94
Impact of adopting IFRS 9	-	367	367
Restated opening balance under IFRS 9	379	461	461
Released/provided during the period / year	7	-	(82)
Balance at end of period / year	386	461	379

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

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

	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
Overdrafts	98,669	93,060	99,724
Personal loans	1,460,821	1,372,983	1,401,890
Other loans	1,393,917	1,338,970	1,438,471
Gross loans, advances and financing activities for customers	2,953,407	2,805,013	2,940,085
Less: allowance for credit losses	(138,860)	(137,415)	(130,378)
Net loans and advances	2,814,547	2,667,598	2,809,707

Gross loans, advances and financing activities for customers include RO 127 million due from related parties at 30 June 2019 (30 June 2018 – RO 138 million, 31 December 2018 – RO 115 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

	6 months ended	6 months ended	12 months ended
	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
Balance at beginning of period / year	130,378	116,531	116,531
Impact of adopting IFRS 9	-	13,791	13,791
Restated opening balance under IFRS 9	130,378	130,322	130,322
Provided during the period / year	15,055	13,161	27,701
Recovered/ released during the period / year	(1,932)	(1,121)	(4,524)
Written off during the period / year	(4,645)	(4,947)	(23,117)
Translation difference	4	-	(4)
Balance at end of period / year	138,860	137,415	130,378

Provided during the period includes contractual interest reserved for RO 5,321 thousands.

Recovered/released during the period includes recovery of reserved interest for RO 851 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 June 2019 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 157 million (30 June 2018 – RO 124 million and 31 December 2018 – RO 141 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

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

5.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2019:

Impairment charge and provision held as of 30 June 2019

Amounts in RO'000

	As per CBO Norms	As per IFRS 9	Difference
Impairment Loss charged to profit and loss	6,395	6,395	-
Provisions required as per CBO norms/ held as per IFRS 9	125,592	147,643	21,664
Gross non-performing loan ratio (percentage)	3.53	3.53	-
Net non-performing loan ratio (percentage)	1.24	0.96	(0.28)

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	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	2,294,324	32,466	13,925	18,541	2,280,399	-
	Stage 2	371,838	4,222	11,354	(7,132)	360,484	-
	Stage 3	-	-	-	-	-	-
Subtotal		2,666,162	36,688	25,279	11,409	2,640,883	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	134,804	1,126	15,256	(14,130)	119,548	-
	Stage 3	-	-	-	-	-	-
Subtotal		134,804	1,126	15,256	(14,130)	119,548	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	15,616	3,835	4,258	(169)	11,358	254
Subtotal		15,616	3,835	4,258	(169)	11,358	254
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	14,868	5,972	6,692	(230)	8,176	490
Subtotal		14,868	5,972	6,692	(230)	8,176	490
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	121,960	77,970	87,370	9,271	34,590	18,671
Subtotal		121,960	77,970	87,370	9,271	34,590	18,671
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	696,751	-	1,920	(1,920)	694,831	-
	Stage 2	140,420	-	6,481	(6,481)	133,939	-
	Stage 3	-	-	-	-	-	-
Subtotal		837,171	-	8,401	(8,401)	828,770	-
Total	Stage 1	2,991,075	32,466	15,845	16,621	2,975,230	-
	Stage 2	647,062	5,348	33,091	(27,743)	613,971	-
	Stage 3	152,444	87,777	98,320	8,872	54,124	19,415
	Total	3,790,581	125,591	147,256	(2,250)	3,643,325	19,415

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

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

5.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 30 June 2019:

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	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	77,559	1,001	580	421	76,979	
	Stage 2	25,022	1,022	6,947	(5,925)	18,075	
	Stage 3				-	-	
Subtotal		102,581	2,023	7,527	(5,504)	95,054	-
Classified as non-performing	Stage 1				-	-	
	Stage 2				-	-	
	Stage 3	29,334	10,568	13,258	455	16,076	3,145
Sub total		29,334	10,568	13,258	455	16,076	3,145
Total	Stage 1	77,559	1,001	580	421	76,979	-
	Stage 2	25,022	1,022	6,947	(5,925)	18,075	-
	Stage 3	29,334	10,568	13,258	455	16,076	3,145
	Total	131,915	12,591	20,785	(5,049)	111,130	3,145

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

5.3 Movement in ECL

	<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>
Exposure subject to ECL				
- Loans and Advances to Customers	2,294,321	506,642	152,444	2,953,407
- Investment Securities (Debt)	268,929			268,929
- Loan Commitments and Financial Guarantees	573,358	140,420		713,778
- Due from Banks, Central Banks and Other Financial Assets	153,007			153,007
	3,289,615	647,062	152,444	4,089,121
Opening Balance - as at 1 January 2019				
- Loans and Advances to Customers	14,542	25,868	89,968	130,378
- Investment Securities (Debt)	591			591
- Loan Commitments and Financial Guarantees	1,432	7,791		9,223
- Due from Banks, Central Banks and Other Financial Assets	379			379
	16,944	33,659	89,968	140,571
Net transfer between stages				
- Loans and Advances to Customers	1,235	(4,234)	2,999	-
- Investment Securities (Debt)				-
- Loan Commitments and Financial Guarantees	495	(495)		-
- Due from Banks, Central Banks and Other Financial Assets				-
	1,730	(4,729)	2,999	-
Charge for the Period (net)				
- Loans and Advances to Customers	(1,847)	4,976	9,998	13,127
- Investment Securities (Debt)	24	-	-	24
- Loan Commitments and Financial Guarantees	(622)	(815)	-	(1,437)
- Due from Banks, Central Banks and Other Financial Assets	7	-	-	7
	(2,438)	4,161	9,998	11,721
Write off for the period				
- Loans and Advances to Customers	-	-	(4,645)	(4,645)
	-	-	(4,645)	(4,645)
Closing Balance - as at 30 June 2019				
- Loans and Advances to Customers	13,930	26,610	98,320	138,860
- Investment Securities (Debt)	615	-	-	615
- Loan Commitments and Financial Guarantees	1,305	6,481	-	7,786
- Due from Banks, Central Banks and Other Financial Assets	386	-	-	386
	16,236	33,091	98,320	147,647

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

6 FINANCIAL INVESTMENTS

	Carrying value 30/06/2019 RO'000	Carrying value 30/06/2018 RO'000	Carrying value 31/12/2018 RO'000
Investment measured at FVPL			
Quoted investments- Oman			
Banking and investment sector	4,779	5,128	4,874
	4,779	5,128	4,874
Quoted investments- Foreign			
Banking and investment sector	406	351	402
	406	351	402
Unquoted investments			
Banking and investment sector	2,253	2,144	2,166
Service sector	275	252	249
	2,528	2,396	2,415
Total FVPL	7,713	7,875	7,691
Investment measured at FVOCI			
Quoted investments- Oman			
Manufacturing sector	1,829	2,051	2,033
Service sector	17,201	20,016	19,862
	19,030	22,067	21,895
Quoted investments- Foreign			
Banking and investment sector	7,262	2,625	3,059
	7,262	2,625	3,059
Unquoted investments			
Banking and investment sector	295	295	295
Service sector	36	36	36
	331	331	331
Total FVOCI – Equity instruments	26,623	25,023	25,285
Debt instruments measured at FVOCI			
Quoted investments- Oman			
Government Development Bonds	3,623	3,631	3,391
Total FVOCI – Debt instruments	3,623	3,631	3,391
Total FVOCI	30,246	28,654	28,676

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

6 FINANCIAL INVESTMENTS (continued)

Investment measured at amortised cost	Carrying value 30/06/2019	Carrying value 30/06/2018	Carrying value 31/12/2018
Quoted investments- Oman			
Government Development Bonds	204,219	132,909	167,964
Government Sukuk	3,000	3,000	3,000
Banking and investment sector	4,347	4,334	4,340
Manufacturing sector	5,775	5,775	5,775
Service sector	9,344	-	9,340
	226,685	146,018	190,419
Quoted investments- Foreign			
Government Development Bonds	4,900	5,008	4,954
Banking and investment sector	-	1,966	-
	4,900	6,974	4,954
Total amortised cost	231,585	152,992	195,373
TOTAL FINANCIAL INVESTMENTS	269,544	189,521	231,740
Less: impairment	(615)	(502)	(591)
NET FINANCIAL INVESTMENTS	268,929	189,019	231,149

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

	6 months ended 30/06/2019 RO'000	6 months ended 30/06/2018 RO'000	12 months ended 31/12/2018 RO'000
Balance at the beginning of the period/year	591	-	-
Impact of adopting IFRS 9	-	502	502
Restated opening balance under IFRS 9	591	502	502
Provided during the period/year	24	-	89
Balance at the end of the period/year	615	502	591

Details of significant investments

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

	Bank's portfolio %	Carrying value RO'000
<u>30 June 2019</u>		
Government Development Bonds and sukus	78.3	211,014
<u>30 June 2018</u>		
Government Development Bonds and sukus	76.3	144,548
<u>31 December 2018</u>		
Government Development Bonds and sukus	79.2	183,100

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

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>
Reconciliation of carrying amount:				
Balance at 1 January 2018, net of accumulated depreciation	50,054	12,040	2,266	64,360
Additions	13	544	1,005	1,562
Disposals	-	(23)	-	(23)
Transfers	-	802	(802)	-
Translation difference	8	-	-	8
Depreciation	(906)	(1,339)	-	(2,245)
Balance at 30 June 2019, net of accumulated depreciation	49,169	12,024	2,469	63,662
At cost / valuation	65,164	41,957	2,469	109,590
Accumulated depreciation	(15,995)	(29,933)	-	(45,928)
Net carrying value at 30 June 2019	49,169	12,024	2,469	63,662
Net carrying value at 30 June 2018	50,468	12,333	2,357	65,158
Net carrying value at 31 December 2018	50,054	12,040	2,266	64,360

8 OTHER ASSETS

	<i>30/06/2019 RO'000</i>	<i>30/06/2018 RO'000</i>	<i>31/12/2018 RO'000</i>
Interest receivable and others	25,341	22,399	25,464
Positive fair value of derivatives (note 27)	1,801	2,376	450
Customers' indebtedness for acceptances (note 11)	22,533	27,213	27,939
Deferred tax (note 12)	-	1,494	734
	49,675	53,482	54,587

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	<i>30/06/2019 RO'000</i>	<i>30/06/2018 RO'000</i>	<i>31/12/2018 RO'000</i>
Current accounts	926,846	931,568	870,896
Savings accounts	585,827	577,272	583,489
Term deposits	976,392	978,485	997,997
	2,489,065	2,487,325	2,452,382

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

10 EURO MEDIUM TERM NOTES

The bank issued a 5-year, USD 600 million Regulation S in October 2014. These notes mature in October 2019.

Subsequently during 2018 the bank concluded a further issuance of USD 500 million and simultaneously increased the programme size to USD 1,500 million. The bank also bought back USD 300 million from the issuance made in year 2014.

As a result of the above fresh issuance and buyback the amounts disclosed in the balance sheet comprise the following:

Particular	Amount
Issuance made in year 2014 maturing in 2019	300 million
Issuance made in year 2018 maturing in 2023	500 million
Total	800 million

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

	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
Interest payable and other accruals	59,817	41,726	55,101
Allowances for credit losses for loan Commitments and Financial Guarantees	7,786	8,528	9,223
Negative fair value of derivatives (note 27)	1,560	3,907	1,271
Liabilities under acceptances (note 8)	22,533	27,213	27,939
Deferred tax liability (note 12)	93	-	-
	91,789	81,374	93,534

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

	6 months	6 months	12 months
	Ended	ended	ended
	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
Balance at beginning of period / year	9,223	-	-
Impact of adopting IFRS 9	-	9,094	9,094
Restated opening balance under IFRS 9	9,223	9,094	9,094
Released/provided during the period / year	(1,437)	(566)	129
Balance at end of period / year	7,786	8,528	9,223

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

12 TAXATION

	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
Statement of comprehensive income			
Current period/year	3,854	4,353	8,538
Deferred tax adjustment	716	-	730
	4,570	4,353	9,268

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:

	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
Accounting profit	29,851	29,772	59,876
Tax at applicable rate	4,478	4,466	8,981
Non-deductible expenses	358	85	688
Tax exempt revenues	(440)	(908)	(979)
Others	(542)	710	(152)
	3,854	4,353	8,538

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2013.

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 2017.

	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
Tax liability			
Income tax and other taxes – Current period/year	3,854	4,353	8,538
Income tax and other taxes – Prior years	8,515	2,084	1,881
	12,369	6,437	10,419

	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
Recognised deferred tax assets (note 8)/(liabilities) (note 11)			
Deferred tax assets/(Liabilities) are attributable to the following:			
Provisions	734	1,480	750
FVOCI	(827)	14	(16)
	(93)	1,494	734

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

12 TAXATION (continued)

Movement of deferred tax asset/ (liability)

	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
Balance at the beginning of the year	734	1,558	1,558
Created during the year	(716)	-	(730)
Tax effect of movement in FVOCI investments	(111)	(64)	(94)
	(93)	1,494	734

13 SUBORDINATED DEBT

	30/06/2019	30/06/2018	31/12/2018
	RO'000	RO'000	RO'000
At 1 January	17,000	25,000	25,000
Redeemed during the period/year	(17,000)	-	(8,000)
	-	25,000	17,000

14 OTHER NON-DISTRIBUTABLE RESERVES

	<i>Available for sale reserve RO '000</i>	<i>Revaluation reserve RO '000</i>	<i>Subordinated debt reserve RO '000</i>	<i>Total RO '000</i>
At 1 January 2019	(4,844)	4,385	17,000	16,541
Net movement on available for sale investments	(2,415)	-	-	(2,415)
Tax effect of net losses on available for sale financial investments	(112)	-	-	(112)
Transfer to retain earnings	-	-	(17,000)	(17,000)
At 30 June 2019	(7,371)	4,385	-	(2,986)
At 30 June 2018	(4,842)	4,385	21,600	21,143
At 31 December 2018	(4,844)	4,385	17,000	16,541

- (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.

15 TIER 1 PERPETUAL BOND

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

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 is 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
As at 30 June 2019 (Un-audited)

16 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30/06/2019</i> <i>RO'000</i>	<i>30/06/2018</i> <i>RO'000</i>	<i>31/12/2018</i> <i>RO'000</i>
Guarantees	379,725	353,528	368,865
Documentary letters of credit	121,342	101,649	100,836
Undrawn commitment to lend	212,711	190,190	119,619
	713,778	645,367	589,320

(i) The allowances for credit losses for commitments and financial guarantees amounts to RO 7,786 thousands and is included under note 11.

(ii) Contingent liabilities include RO 1.57 million (30 June 2018 – RO 1.54 million and 31 December 2018– RO 1.58 million) relating to non-performing loans.

17 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 5.43% for the six months period ended 30 June 2019 (30 June 2018 – 5.33% and 31 December 2018 – 5.29%).

18 INTEREST EXPENSE

For the six months period ended 30 June 2019, the average overall cost of funds was 2.61% (30 June 2018-2.14% and 31 December 2018 – 2.32%).

19 OTHER OPERATING INCOME

	<i>6 months ended</i> <i>30/06/2019</i> <i>RO'000</i>	<i>6 months ended</i> <i>30/06/2018</i> <i>RO'000</i>	<i>3 months ended</i> <i>30/06/2019</i> <i>RO'000</i>	<i>3 months ended</i> <i>30/06/2018</i> <i>RO'000</i>
Net gains from foreign exchange dealings	3,276	2,889	1,614	1,504
Net fees and commissions	10,370	9,028	5,354	4,927
Income on trading investments	22	109	110	109
Dividend income	1,158	777	58	96
Service charges	2,629	2,618	1,279	1,287
Miscellaneous income	624	585	308	311
	18,079	16,006	8,723	8,234

20 OTHER OPERATING EXPENSES

	<i>6 months ended</i> <i>30/06/2019</i> <i>RO'000</i>	<i>6 months ended</i> <i>30/06/2018</i> <i>RO'000</i>	<i>3 months ended</i> <i>30/06/2019</i> <i>RO'000</i>	<i>3 months ended</i> <i>30/06/2018</i> <i>RO'000</i>
Establishment costs	3,014	2,596	1,526	1,414
Operating and administration expenses	6,537	7,038	3,206	3,294
	9,551	9,634	4,732	4,708

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

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:

	<i>Six months ended 30 June</i>		<i>Three months ended 30 June</i>	
	2019 RO'000	2018 RO'000	2019 RO'000	2018 RO'000
Profit after tax (RO'000s)	25,281	25,419	12,824	12,824
Less: Interest on tier 1 perpetual bond	(4,548)	(4,548)	(4,548)	(4,548)
Profit attributable to shareholders	20,733	20,871	8,276	8,276
Weighted average number of shares outstanding during the year (in '000s)	1,625,950	1,625,950	1,625,950	1,625,950
Earnings per share (RO)	0.013	0.013	0.005	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.

22 ASSET LIABILITY MISMATCH

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

30 June 2019

<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	772,438	842,379	(69,941)
3 - 12 month	335,600	901,673	(566,073)
1 - 5 years	746,872	824,775	(77,903)
More than 5 years	1,729,285	1,015,368	713,917
Total	3,584,195	3,584,195	-

30 June 2018

<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	992,868	801,908	190,960
3 - 12 month	302,700	897,866	(595,166)
1 - 5 years	645,403	753,836	(108,433)
More than 5 years	1,507,938	995,299	512,639
Total	3,448,909	3,448,909	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

22 ASSET LIABILITY MISMATCH (continued)

31 December 2018

<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	928,721	842,618	86,103
3 - 12 month	283,223	974,234	(691,011)
1 – 5 years	691,305	748,870	(57,565)
More than 5 years	1,669,673	1,007,200	662,473
Total	3,572,922	3,572,922	-

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

	30/06/2019			31/12/2018		
	<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	-	127,400	127,400	-	115,139	115,139
Customers' deposits	522	48,817	49,339	32,263	52,757	85,020
Due from banks	17,434	9,625	27,059	84	9,625	9,709
Due to banks	141	-	141	109	-	109
Subordinated debt	-	-	-	14,500	-	14,500
Letters of credit, guarantees and acceptances	645	39,971	40,616	523	45,152	45,675
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Investments	2,014	-	2,014	2,031	-	2,031

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

	30/06/2019			30/06/2018		
	<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	24	3,407	3,431	16	4,149	4,165
Commission income	2	963	965	73	69	142
Interest expense	847	563	1,410	876	498	1,374
Other expenses	-	186	186	-	227	227
Senior management compensation:				6 months ended		6 months ended
Salaries and other short term benefits				30/06/2019		30/06/2018
				RO'000		RO'000
- Fixed				1,365		1,509
- Discretionary				1,289		1,342
				2,654		2,851

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS As at 30 June 2019 (Un-audited)

24 SHAREHOLDERS

As of 30 June 2019, 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	567,453	34.90%
Suhail Bahwan Group (Holdings) LLC	239,734	14.74%
Civil Service Employees Pension Fund	183,918	11.31%

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>
30 June 2019					
Operating income/(loss)	30,888	28,737	7,812	(3,089)	64,348
Net profit/(loss)	14,301	20,279	(1,749)	(7,550)	25,281
Total assets	1,296,969	1,282,127	380,037	625,062	3,584,195

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

25 SEGMENT REPORTING (continued)

	<i>Retail banking RO'000</i>	<i>Wholesale banking RO'000</i>	<i>Commerci al banking RO'000</i>	<i>Funding center RO'000</i>	<i>Total RO'000</i>
<i>30 June 2018</i>					
Operating income	26,972	22,883	8,117	5,586	63,558
Net profit/(loss)	10,629	21,713	(8,265)	1,342	25,419
Total assets	1,281,654	1,167,712	408,050	591,493	3,448,909

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:

For the period ended 30 June 2019	<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	45,033	978	258	46,269
Other operating income	17,303	770	6	18,079
Operating income	62,336	1,748	264	64,348
Operating expenses	(28,128)	(1,916)	(204)	(30,248)
	34,208	(168)	60	34,100
Impairment losses (net) and taxation	(5,265)	(3,547)	(7)	(8,819)
Segment profit/(loss) for the period	28,943	(3,715)	53	25,281
Other information				
Segment assets	3,466,753	97,912	19,530	3,584,195
Segment capital expenses	1,483	77	2	1,562

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

25 SEGMENT REPORTING (continued)

For the period ended 30 June 2018	<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	45,915	1,412	225	47,552
Other operating income	15,472	533	1	16,006
Operating income	61,387	1,945	226	63,558
Operating expenses	(28,172)	(1,919)	(119)	(30,210)
Operating profit	33,215	26	107	33,348
Impairment losses (net) and taxation	(968)	(6,957)	(4)	(7,929)
Segment profit/(loss) for the period	32,247	(6,931)	103	25,419
Other information				
Segment assets	3,321,993	106,856	20,060	3,448,909
Segment capital expenses	1,516	93	2	1,611

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS As at 30 June 2019 (Un-audited)

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 June 2019 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
As at 30 June 2019 (Un-audited)

26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation models

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.

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:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<i>30 June 2019</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investment measured at FVTPL			
Quoted equities	5,185	-	5,185
Unquoted equities	-	2,528	2,528
Total	5,185	2,528	7,713
Investment measured at FVOCI			
Quoted equities	29,915	-	29,915
Unquoted equities	-	331	331
Total	29,915	331	30,246
Total financial assets	35,100	2,859	37,959
<i>30 June 2018</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investment measured at FVTPL			
Quoted equities	5,479	-	5,479
Unquoted equities	-	2,396	2,396
Total	5,479	2,396	7,875
Investment measured at FVOCI			
Quoted equities	25,698	-	25,698
Unquoted equities	-	2,956	2,956
Total	25,698	2,956	28,654
Total financial assets	31,177	5,352	36,529

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

26 FAIR VALUE OF FINANCIAL INSTRUMENTS (Un-audited)

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
	RO'000	RO'000	RO'000
31 December 2018			
Investment measured at FVTPL			
Quoted equities	5,276	-	5,276
Unquoted equities	-	2,415	2,415
Total	5,276	2,415	7,691
Investment measured at FVOCI			
Quoted equities	28,345	-	28,345
Unquoted equities	-	331	331
Total	28,345	331	28,676
Total financial assets	33,621	2,746	36,367

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

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 27).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

As at 30 June 2019 (Un-audited)

27 DERIVATIVES

	Positive fair value (Note 8) RO'000	Negative fair value (Note 11) RO'000	Notional amount total RO'000	Notional amounts by term to maturity		
				Within 3 months RO'000	3 – 12 months RO'000	Above 1 Year RO'000
30 June 2019						
<i>Derivatives</i>						
Fair value hedge	-	(310)	115,500	-	115,500	-
Interest rate swaps	1,094	(1,094)	135,269	8,199	20,969	106,101
Forward foreign exchange purchase contracts	76	(66)	175,786	112,879	62,791	116
Forward foreign exchange sales contracts	631	(90)	175,786	112,620	62,425	741
Total	1,801	(1,560)	602,341	233,698	261,685	106,958
30 June 2018						
<i>Derivatives</i>						
Fair value hedge	-	(1,934)	192,500	-	-	192,500
Interest rate swaps	946	(946)	99,196	10,668	19,590	68,938
Forward foreign exchange purchase contracts	86	(917)	173,513	133,087	16,595	23,831
Forward foreign exchange sales contracts	1,312	(78)	173,513	133,094	16,121	24,298
Currency Options	32	(32)	5,755	3,955	1,760	-
Total	2,376	(3,907)	644,477	280,844	54,066	309,567
31 December 2018						
<i>Derivatives</i>						
Fair value hedge	-	(852)	115,500	-	115,500	-
Interest rate swaps	126	(126)	39,138	6,998	12,280	19,860
Forward foreign exchange purchase contracts	101	(224)	180,987	144,358	36,408	221
Forward foreign exchange sales contracts	219	(65)	180,987	144,249	36,375	363
Currency options	4	(4)	533	206	-	327
Total	450	(1,271)	517,145	295,811	200,563	20,771

Derivatives are valued at level 2 based on quoted forward rates.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
As at 30 June 2019 (Un-audited)

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.

	June 2019		June 2018	
	Total Unweighted Value (average) RO'000	Total Weighted Value (average) RO'000	Total Unweighted Value (average) RO'000	Total Weighted Value (average) RO'000
High quality liquid assets				
Total High Quality Liquid Assets (HQLA)	-	492,318	-	448,494
Cash outflows				
Stable deposits	601,736	30,087	590,993	29,550
Less stable deposits	119,005	11,901	121,444	12,144
Retail deposits and deposits from small business customers	720,741	41,987	712,437	41,694
Unsecured wholesale funding, of which:				
Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,020,119	389,416	934,998	356,929
Additional requirements, of which				
Credit and liquidity facilities	31,767	3,177	28,639	2,864
Other contingent funding obligations	510,928	30,846	515,427	39,495
Total cash outflows		465,425		440,982
Cash inflows				
Inflows from fully performing exposures	304,763	228,374	370,705	247,145
Other cash inflows	9,877	9,877	12,288	12,288
Total cash inflows	314,640	238,251	382,993	259,433
Total high-quality liquid assets		492,318		448,494
Total net cash outflows		227,174		181,549
Liquidity coverage ratio (%)		216.71		247.04