BANK MUSCAT SAOG

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Registered office

P.O Box 134
Ruwi 112
Sultanate of Oman

Principal place of business

Building No.120/4, Block No.311
Street No.62, Airport Heights
Seeb,
Sultanate of Oman

BANK MUSCAT SAOG

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

2017 US$ 000's	**2018 US$ 000's**		*Notes*	**2018 RO 000's**	2017 RO 000's
		ASSETS			
2,427,909	**3,394,172**	Cash and balances with Central Banks	5	**1,306,756**	934,745
1,537,730	**1,236,475**	Due from Banks	6	**476,043**	592,026
19,113,255	**20,333,727**	Loans and advances	7	**7,828,485**	7,358,603
2,519,775	**2,884,233**	Islamic financing receivables	7	**1,110,430**	970,113
		Investment securities:			
132,455	**78,231**	- Fair value through profit or loss	9	**30,119**	50,995
-	**401,184**	- Fair value through other comprehensive income	9	**154,456**	-
-	**2,818,200**	- Amortised cost	9	**1,085,007**	-
956,431	**-**	- Available-for-sale	9	**-**	368,226
1,579,104	**-**	- Held to maturity	9	**-**	607,955
505,039	**590,239**	Other assets	8	**227,242**	194,440
187,322	**180,522**	Property, equipment and software	12	**69,501**	72,119
28,959,020	**31,916,983**	**TOTAL ASSETS**		**12,288,039**	11,149,222
		LIABILITIES AND EQUITY			
		LIABILITIES			
2,363,961	**2,472,411**	Deposits from banks	14	**951,878**	910,125
16,777,688	**19,491,477**	Customers' deposits	15	**7,504,219**	6,459,410
2,493,253	**2,489,523**	Islamic customers' deposits	15	**958,466**	959,902
115,865	**115,865**	Sukuk	16	**44,608**	44,608
998,722	**1,000,000**	Euro Medium term notes	17	**385,000**	384,508
84,198	**-**	Mandatory convertible bonds	18	**-**	32,416
975,704	**1,125,581**	Other liabilities	19	**433,349**	375,646
111,465	**113,005**	Taxation	20	**43,507**	42,914
315,221	**102,000**	Subordinated liabilities	21	**39,270**	121,360
24,236,077	**26,909,862**	**Total liabilites**		**10,360,297**	9,330,889
		EQUITY			
		Equity attributable to equity holders of parent			
703,730	**765,561**	Share capital	22	**294,741**	270,936
1,323,057	**1,380,610**	Share premium	23	**531,535**	509,377
750,384	**963,605**	General reserve	24	**370,988**	288,898
234,577	**255,187**	Legal reserve	24	**98,247**	90,312
14,987	**14,987**	Revaluation reserve	12	**5,770**	5,770
213,221	**34,000**	Subordinated loan reserve	24	**13,090**	82,090
(483)	**1,135**	Cash flow hedge reserve	38	**437**	(186)
43,670	**(13,047)**	Cumulative changes in fair value		**(5,023)**	16,813
(3,436)	**(5,371)**	Foreign curency translation reserve		**(2,068)**	(1,323)
13,247	**12,008**	Impairment reserve / reserve for restructured loans	24	**4,623**	5,100
1,092,327	**1,260,784**	Retained profit		**485,402**	420,546
4,385,281	**4,669,459**	**Total equity attributable to the equity holders**		**1,797,742**	1,688,333
337,662	**337,662**	Perpetual Tier I capital	25	**130,000**	130,000
4,722,943	**5,007,121**	**Total equity**		**1,927,742**	1,818,333
28,959,020	**31,916,983**	**TOTAL LIABILITIES AND EQUITY**		**12,288,039**	11,149,222
US$ 1.62	**US$ 1.58**	Net assets per share	27	**RO 0.610**	RO 0.623
7,428,754	**6,951,780**	Contingent liabilities and commitments	28	**2,676,435**	2,860,070

These consolidated financial statements along with notes and other explanatory information on pages 12 to 126 were authorised for issue on 29 January 2019 in accordance with the resolution of the Board of Directors.

Chairman	**Director**	**Chief Executive**

The notes and other explanatory information on pages 11 to 125 form an integral part of these consolidated financial statements

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BANK MUSCAT SAOG

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

2017	**2018**			**2018**	2017
US$ 000's	**US$ 000's**		*Notes*	**RO 000's**	RO 000's
982,593	**1,091,006**	Interest income	29	**420,037**	378,298
(315,884)	**(372,229)**	Interest expense	30	**(143,308)**	(121,615)
666,709	**718,777**	**Net interest income**		**276,729**	256,683
119,732	**152,229**	Income from Islamic financing/investments	29	**58,608**	46,097
(55,673)	**(80,644)**	Distribution to depositors	30	**(31,048)**	(21,434)
64,059	**71,585**	**Net income from Islamic financing**		**27,560**	24,663
730,768	**790,362**	**Net interest income and income from Islamic financing**		**304,289**	281,346
241,730	**250,571**	Commission and fee income (net)	31	**96,470**	93,066
159,880	**119,421**	Other operating income	32	**45,977**	61,554
1,132,378	**1,160,354**	**OPERATING INCOME**		**446,736**	435,966
		OPERATING EXPENSES			
(443,785)	**(459,698)**	Other operating expenses	33	**(176,984)**	(170,857)
(34,343)	**(34,699)**	Depreciation	12	**(13,359)**	(13,222)
(478,128)	**(494,397)**			**(190,343)**	(184,079)
(112,413)	**(112,317)**	Net impairment losses on financial assets	42	**(43,242)**	(43,279)
6,332	**-**	Share of results from an associate	11	**-**	2,438
(584,209)	**(606,714)**			**(233,585)**	(224,920)
548,169	**553,640**	**PROFIT BEFORE TAXATION**		**213,151**	211,046
(88,904)	**(87,060)**	Tax expense	20	**(33,518)**	(34,228)
459,265	**466,580**	**PROFIT FOR THE YEAR**		**179,633**	176,818
		OTHER COMPREHENSIVE (EXPENSE) INCOME			
		Net other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods			
860	**-**	Transfer from foreign currency translation reserve on reclassification of investment in an associate	11	**-**	331
81	**-**	Transfer from cumulative changes in fair value on reclassification of an associate	11	**-**	31
810	**(1,935)**	Translation of net investments in foreign operations		**(745)**	312
(6,369)	**-**	Change in fair value of available for sale investments	20	**-**	(2,452)
-	**(4,322)**	Change in fair value of FVOCI Debt instruments	20	**(1,664)**	-
299	**1,618**	Change in fair value of cash flow hedge	20	**623**	115
(4,319)	**(4,639)**			**(1,786)**	(1,663)
		Net other comprehensive income (expense) not to be reclassified to profit or loss in subsequent periods			
-	**(22,719)**	Change in fair value of FVOCI Equity instruments	20	**(8,747)**	-
-	**(805)**	Realised gain / (loss) on FVOCI Equity instruments	20	**(310)**	-
1,623	**-**	Surplus on revaluation of land and building	12	**-**	625
(416)	**-**	Transfer from revaluation of land and building on reclassification of an associate	11	**-**	(160)
(3,112)	**(28,163)**	**OTHER COMPREHENSIVE (EXPENSE) FOR THE YEAR**		**(10,843)**	(1,198)
456,153	**438,417**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**168,790**	175,620
		Total comprehensive income attributable to:			
456,153	**438,417**	Equity holders of Parent Company		**168,790**	175,620
		Profit attributable to:			
459,265	**466,580**	Equity holders of Parent Company		**179,633**	176,818
		Earnings per share:			
US$ 0.16	**US$ 0.16**	Basic and diluted	35	**RO 0.061**	RO 0.061

Items in the other comprehensive income are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 20.

The notes and other explanatory information on pages 11 to 125 form an integral part of these consolidated financial statements.

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BANK MUSCAT SAOG

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

		Attributable to equity holders of parent													
2018	*Notes*	**Share capital RO 000's**	**Share premium RO 000's**	**General reserve RO 000's**	**Legal reserve RO 000's**	**Revaluation reserve RO 000's**	**Subordinated loan reserve RO 000's**	**Cash flow hedge reserve RO 000's**	**Cumulative changes in fair value RO 000's**	**Foreign currency translation reserve RO 000's**	**Impairment reserve / reserve for restructured loans RO 000's**	**Retained profit RO 000's**	**Total RO 000's**	**Perpetual Tier I capital RO 000's**	**Total RO 000's**
Balance at 1 January 2018		**270,936**	**509,377**	**288,898**	**90,312**	**5,770**	**82,090**	**(186)**	**16,813**	**(1,323)**	**5,100**	**420,546**	**1,688,333**	**130,000**	**1,818,333**
Impact of adopting IFRS 9 at 1 January 2018	44	-	-	-	-	-	-	-	(11,425)	-	-	8,059	(3,366)	-	**(3,366)**
Restated Balance as at 1 January 2018		**270,936**	**509,377**	**288,898**	**90,312**	**5,770**	**82,090**	**(186)**	**5,388**	**(1,323)**	**5,100**	**428,605**	**1,684,967**	**130,000**	**1,814,967**
Profit for the year		-	-	-	-	-	-	-	-	-	-	179,633	179,633	-	**179,633**
Transfer from restructured reserve to retained profit		-	-	-	-	-	-	-	-	-	(477)	477	-	-	-
Transfer within equity upon disposal of FVOCI equity instruments	20	-	-	-	-	-	-	-	310	-	-	(310)	-	-	-
Other comprenhensive (expense) income		-	-	-	-	-	-	623	(10,721)	(745)	-	-	(10,843)	-	**(10,843)**
Total comprehensive income		-	-	-	-	-	-	623	(10,411)	(745)	(477)	179,800	168,790	-	**168,790**
Dividends paid	26	-	-	-	-	-	-	-	-	-	-	(81,281)	(81,281)	-	**(81,281)**
Issue of bonus shares	26	13,547	-	-	-	-	-	-	-	-	-	(13,547)	-	-	-
Transfer to legal reserve	24	-	-	-	7,935	-	-	-	-	-	-	(7,935)	-	-	-
Conversion of mandatory convertible bonds	18	10,258	22,158	-	-	-	-	-	-	-	-	-	32,416	-	**32,416**
Transfer from subordinated loan reserve	24	-	-	82,090	-	-	(82,090)	-	-	-	-	-	-	-	-
Transfer to subordinated loan reserve	24	-	-	-	-	-	13,090	-	-	-	-	(13,090)	-	-	-
Interest on Perpetual Tier I capital	25	-	-	-	-	-	-	-	-	-	-	(7,150)	(7,150)	-	**(7,150)**
Balance at 31 December 2018		**294,741**	**531,535**	**370,988**	**98,247**	**5,770**	**13,090**	**437**	**(5,023)**	**(2,068)**	**4,623**	**485,402**	**1,797,742**	**130,000**	**1,927,742**
Balance at 31 December 2018 (US$' 000)		**765,561**	**1,380,610**	**963,605**	**255,187**	**14,987**	**34,000**	**1,135**	**(13,047)**	**(5,371)**	**12,008**	**1,260,784**	**4,669,459**	**337,662**	**5,007,121**

(Continued on page 10)

The notes and other explanatory information on pages 11 to 125 form an integral part of these consolidated financial statements.

BANK MUSCAT SAOG

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

		Attributable to equity holders of parent													
2017	Notes	Share capital RO 000's	Share premium RO 000's	General reserve RO 000's	Legal reserve RO 000's	Revaluation reserve RO 000's	Subordinated loan reserve RO 000's	Cash flow hedge reserve RO 000's	Cumulative changes in fair value RO 000's	Foreign currency translation reserve RO 000's	Reserve for restructured loans RO 000's	Retained profit RO 000's	Total RO 000's	Perpetual Tier I capital RO 000's	Total RO 000's
Balance at 1 January 2017		249,625	486,242	244,808	83,208	5,305	96,690	(301)	19,234	(1,966)	-	363,895	1,546,740	-	1,546,740
Profit for the year		-	-	-	-	-	-	-	-	-	-	176,818	176,818	-	176,818
Transfer of share of other comprehensive income (expense) on reclassification of an associate		-	-	-	-	(160)	-	-	31	331	-	-	202	-	202
Transfer from retained profits to restructured accounts reserve		-	-	-	-	-	-	-	-	-	5,100	(5,100)	-	-	-
Other comprenhensive (expense) income		-	-	-	-	625	-	115	(2,452)	312	-	-	(1,400)	-	(1,400)
Total comprehensive income		-	-	-	-	465	-	115	(2,421)	643	5,100	171,718	175,620	-	175,620
Dividends paid	26	-	-	-	-	-	-	-	-	-	-	(62,406)	(62,406)	-	(62,406)
Issue of bonus shares during the year	26	12,482	-	-	-	-	-	-	-	-	-	(12,482)	-	-	-
Transfer to legal reserve	24	-	-	-	7,104	-	-	-	-	-	-	(7,104)	-	-	-
Conversion of mandatory convertible Bonds	18	8,829	23,135	-	-	-	-	-	-	-	-	-	31,964	-	31,964
Transfer from subordinated loan reserve	24	-	-	44,090	-	-	(44,090)	-	-	-	-	-	-	-	-
Transfer to subordinated loan reserve	24	-	-	-	-	-	29,490	-	-	-	-	(29,490)	-	-	-
Issue of Perpetual Tier I capital	25	-	-	-	-	-	-	-	-	-	-	-	-	130,000	130,000
Interest on Perpetual Tier I capital	25	-	-	-	-	-	-	-	-	-	-	(3,585)	(3,585)	-	(3,585)
Balance at 31 December 2017		270,936	509,377	288,898	90,312	5,770	82,090	(186)	16,813	(1,323)	5,100	420,546	1,688,333	130,000	1,818,333
Balance at 31 December 2017 (US$' 000)		703,730	1,323,057	750,384	234,577	14,987	213,221	(483)	43,670	(3,436)	13,247	1,092,327	4,385,281	337,662	4,722,943

The notes and other explanatory information on pages 11 to 125 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

2017 US$ 000's	2018 US$ 000's		Notes	2018 RO 000's	2017 RO 000's
		CASH FLOWS FROM OPERATING ACTIVITIES			
548,169	**553,640**	**Profit for the year before taxation**		**213,151**	211,046
		Adjustments for :			
(6,332)	**-**	Share of results from an associate	11	**-**	(2,438)
34,343	**34,699**	Depreciation	12	**13,359**	13,222
112,413	**112,317**	Net impairment on financial assets	42	**43,242**	43,279
(20)	**-**	(Profit) / loss on sale of property and equipment		**-**	(8)
730	**-**	Loss on revaluation of property		**-**	281
(47,057)	**5,429**	Profit on sale of investments	32	**2,090**	(18,117)
(10,018)	**(18,190)**	Dividend income	32	**(7,003)**	(3,857)
632,228	**687,895**	**Operating profit before working capital changes**		**264,839**	243,408
(248,384)	**(17,613)**	Due from banks		**(6,781)**	(95,628)
(714,855)	**(1,230,691)**	Loans and advances		**(473,816)**	(275,219)
(306,855)	**(373,218)**	Islamic financing receivables		**(143,689)**	(118,139)
(69,009)	**(83,970)**	Other assets		**(32,328)**	(26,568)
207,873	**(184,361)**	Deposits from banks		**(70,979)**	80,031
(611,423)	**2,713,790**	Customers' deposits		**1,044,809**	(235,398)
511,644	**(3,730)**	Islamic Customer deposits		**(1,436)**	196,983
115,865	**-**	Sukuk		**-**	44,608
103,680	**58,947**	Other liabilities		**22,695**	39,917
(379,236)	**1,567,049**	Cash (used in) from operations		**603,314**	(146,005)
(62,265)	**(88,930)**	Income taxes paid		**(34,238)**	(23,972)
(441,501)	**1,478,119**	**Net cash (used in) from operating activities**		**569,076**	(169,977)
		CASH FLOWS FROM INVESTING ACTIVITIES			
4,184	**-**	Dividends from associate	11	**-**	1,611
10,018	**18,190**	Dividends received from investment securities		**7,003**	3,857
(398,214)	**(409,789)**	Purchase of investments		**(157,769)**	(153,313)
281,062	**55,151**	Proceeds from sale of investments		**21,233**	108,209
(27,958)	**(27,894)**	Purchase of property and equipment	12	**(10,739)**	(10,764)
26	**-**	Proceeds from sale of property and equipment		**-**	10
(130,882)	**(364,342)**	**Net cash used in investing activities**		**(140,272)**	(50,390)
		CASH FLOWS FROM FINANCING ACTIVITIES			
(162,091)	**(211,119)**	Dividends paid		**(81,281)**	(62,406)
337,662	**-**	Perpetual Tier I capital issued		**-**	130,000
(9,314)	**(18,571)**	Interest on Perpetual Tier I capital		**(7,150)**	(3,585)
(114,519)	**(213,221)**	Subordinated loan paid		**(82,090)**	(44,090)
51,738	**(442,911)**	**Net cash from/(used in) financing activities**		**(170,521)**	19,919
(520,645)	**670,866**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**258,283**	(200,448)
3,555,865	**3,035,220**	Cash and cash equivalents at 1 January		**1,168,560**	1,369,008
3,035,220	**3,706,086**	**CASH AND CASH EQUIVALENTS AT 31 DECEMBER**	34	**1,426,843**	1,168,560

The notes and other explanatory information on pages 11 to 125 form an integral part of these consolidated financial statements.

Independent auditor's report - pages 1 - 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. Legal status and principal activities

bank muscat SAOG (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of 169 branches (2017 - 166 branches) within the Sultanate of Oman and one branch each in Riyadh, Kingdom of Saudi Arabia and Kuwait. The Bank has representative offices in Dubai, United Arab Emirates, Singapore and Iran. The Bank has a subsidiary in Riyadh, Kingdom of Saudi Arabia. The Bank operates in Oman under a banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank has its primary listing on the Muscat Securities Market.

The Bank and its subsidiary (together, the Group) operate in six countries (2017 - six countries) and employed 3,779 employees as of 31 December 2018 (2017: 3,712).

During 2013, the Parent Company inaugurated "Meethaq Islamic banking window" (“Meethaq”) in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari’a rules and regulations. Meethaq operates under an Islamic banking license granted by the CBO on 13 January 2013. Meethaq’s Shari’a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari’a rules and principles in its transactions and activities. The principal activities of Meethaq include: accepting customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes and undertaking Shari'a compliant investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 31 December 2018, Meethaq has 20 branches (2017 - 19 branches) in the Sultanate of Oman.

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the applicable regulations of the CBO, the requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority of the Sultanate of Oman.

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

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, modified to include the application of fair value measurements thet are required or allowed by relevant accounting standards. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Group’s operations.

For the ease of users, relevant balances of Meethaq are separately presented in these consolidated financial statements wherever applicable. A complete set of carve out financial statements of Meethaq, prepared under AAOIFI, is included in the Group’s annual report.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Rial Omani, which is the entity’s functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these consolidated financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand, unless otherwise stated.

2. Basis of preparation (continued)

2.4 New Standards, implementations and amendments in existing standards

(a) New and amended standards and interpretations to IFRS relevant to the Group

For the year ended 31 December 2018, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2018.

The following new standards and amendments became effective as of 1 January 2018:

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

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The group will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The group intends to apply the short term leases and low value exemptions.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The group has set up a team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the group's operating leases.

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

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

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability. No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities as at 1 January 2019 in the financial statements. The Group estimates that the transition impact will result in an increase in total assets and total liabilities by approximately 0.1 per cent and 0.12 per cent respectively and a decrease in net profit of approximately 0.12 per cent.

2. Basis of preparation (continued)

2.5 Consolidation

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee that significantly affect their returns)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive
- income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an

2 Basis of preparation (continued)

2.5 Consolidation (continued)

equity transaction in accordance with IFRS 10. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interests is recognised in equity of the Group in transactions where the non-controlling interests are acquired or sold without loss of control.

When the Group ceases to have control or significant influence, any retained interest in the entity is measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment is recognised in the profit or loss.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

3. Significant accounting policies

Except for the Para 3.1 and 3.2 below, the Group has consistently applied the accounting policies as set out below to all periods presented in these consolidated financial statements.

3.1 IFRS 9 Financial Instruments

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

As permitted by the transitional provisions of IFRS 9, the Group 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 Group’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 Group’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 (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is 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. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section 3.4 to 3.6 below.

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 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.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see section 3.5 below.

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.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see section 3.6 below and note 42.2.

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 Group 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

3. Significant accounting policies (continued)

3.1 IFRS 9 Financial Instruments (continued)

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 Group may revoke the hedging relationship if it seems fit.

These changes have not had a material impact on the consolidated statement of comprehensive income of the Group. In addition, some of the basics of hedge accounting applicable to the Group 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 and financial liabilities as measured at FVTPL
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
  - 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.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 44 below.

Central Bank of Oman (CBO) circular BM 1149 dated 13th April 2017

CBO circular BM 1149 sets out Management's responsibilities both on and post implementation of IFRS 9, aims to promote consistency, comparability in reporting across Omani banks, provides a robust alternate while replacing existing prudential norms of the Central Bank, sets out requirements for board approved IFRS 9 policies, policy deviation reporting, norms for creating regulatory impairment reserve, enhanced disclosures etc.

In the year of adoption, if IFRS 9 based provision for impairment is lower than the provision for impairment as per regulatory guidelines, the excess, net of tax, shall be transferred as an appropriation from net profit after taxes to a regulatory reserve "Impairment reserve" under Parent Company's equity. In subsequent years, if IFRS 9 based provision for impairment (i.e. charge to the profit and loss) is lower than provision for impairment as per regulatory guidelines, the excess, net of tax, shall be transferred as an appropriation from net profit after taxes to aforementioned Impairment reserve.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

3. Significant accounting policies (continued)

3.2 IFRS 15 Revenue from Contracts with Customers

On 1 January 2018, the Group applied IFRS 15 “Revenue from Contracts with Customers” by adopting the cumulative effect method. This standard supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and their interpretations and sets out the new requirements for recognizing revenues earned from all types of contracts entered into with customers, with the exception of leases, insurance contracts, contracts in financial instruments and guarantees.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. Specifically, the standard introduces a 5 step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transitional impact to retained earnings. The impact of IFRS 15 was limited to the new disclosure requirements (see note 41).

The products and services of the Group covered under IFRS 15 along with its nature, timing of satisfaction of performance obligations and significant payment terms are as follows:

Products and services	**Nature, timing of satisfaction of performance obligations and significant payment terms**	**Revenue Recognition**
Transactional services	The services include opening, closing and maintenance of deposit accounts, cheque issuance, clearing, deposit and payments transactions, remittances, safe deposit lockers. It also include card and e-channel services like interchange and merchant services generated from card issuance and usage. Transaction-based fees are charged to the customer’s account when the transaction takes place.	The Group recognises revenue on completion of service or proportionate completion basis or satisfaction of performance obligation as per the terms of contract.
Trade services	The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions. Trade services fees are charged to the customer’s account when the services are provided or over the period of contract in line with the terms and conditions of contract.	Income is recognised on service completion basis or time proportionate basis over the period of contract.
Syndication and other loan related services	The services include processing for credit, setting up credit limits, documentation, security and agency services and prepayment and closure of credit facilities. Syndication and other loan related services charges are charged to the customer’s account when the services are provided or over the period of contract in line with the terms and conditions of contract.	The Group recognises revenue on completion of service basis or on time proportion basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

3. Significant accounting policies (continued)

3.2 IFRS 15 Revenue from Contracts with Customers (continued)

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms	Revenue Recognition
Advisory and asset management services	Advisory services include advising for debt syndications, fund raising, financial structuring etc. This also includes business restructuring services like advising for mergers and acquisitions, joint ventures, bid process etc. Advisory fees are charged to the customer's account on milestone completion basis or over the period of contract in line with the terms and conditions of contract. Asset management services cover: a) portfolio management services including managing investment portfolios primarily for institutional clients for investing into local, regional and international listed equities, fixed income securities, commodities, currencies, derivatives, structured products b) Fund Management includes structuring, setting up and ongoing management of fund and its investments either in Oman or in other jurisdictions as per business requirements and activities c) Ancilliary services including custody services, trade executions etc. Private Equity business cover structuring of funds, mobilization of capital for Funds and investment management of funds. Fees for asset management services and private equity are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	Advisory income is recognised on satisfaction of performance obligation at a point in time or over a period of time or on achievement of agreed milestones as per contract. Asset management income is recognised on time proportion basis or on completion of performance obligations as per the terms of the contract.

3.3 Foreign currency translation

(i) Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income.

(iv) On consolidation, the assets and liabilities of foreign operations are translated into Rial Omani at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in other operating expenses or other operating income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

3. Significant accounting policies (continued)

3.4 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

3.4.1 Interest

Policy applicable from 1 January 2018

Effective interest rate
Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount
The 'amortised cost' of a financial asset or a financial liability is the amount at which the financial asset or the financial liability is measured on initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance or impairment allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense
In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3.6.

Presentation
Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

3. Significant accounting policies (continued)

3.4 Revenue and expense recognition (continued)

3.4.1 Interest (continued)

Interest income and expense on all trading assets and liabilities are considered incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Policy applicable before 1 January 2018

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as "interest income" for financial assets and "interest expense" for financial liabilities. However, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Interest income, which is doubtful of recovery is adjusted in loan impairment and excluded from income, until it is received in cash.

3.4.2 Fees and commission

Fees integral to the effective interest rate (EIR) are included in the EIR calculation, and are recognised over the life of the financial instrument. This include fees integral to the origination of a financial instrument (fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability) and commitment fees (if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination). The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis or based on a right to receive. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

3.4.3 Dividends

Dividend income is recognised in the consolidated statement of comprehensive income in 'Other operating income', when the Group's right to receive the dividend is established.

3. Significant accounting policies (continued)

3.4.4 Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3.5 Financial assets and liabilities

3.5.1 Recognition and initial measurement

The Group 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 Group 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.

Transaction cost of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

3.5.2 Classification

Policies applicable from 1 January 2018
From 1 January 2018, the Group 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 (AC).

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 Group 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 Group 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.

3. Significant accounting policies (continued)

3.5 Financial assets and liabilities (continued)

3.5.2 Classification (continued)

Business model assessment

The Group 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 Group'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 Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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 Group 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group'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.

(a) Loans and advances
'Loans and advances' captions in the statement of financial position include:
- loans and advances 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 mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

When the Group 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 Group's financial statements.

3. Significant accounting policies (continued)

3.5 Financial assets and liabilities (continued)

3.5.2 Classification (continued)

(b) Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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 Group 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.

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 Group changes its business model for managing financial assets.

Policies applicable before 1 January 2018

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired, the intention of management and the contractual terms. Management determines the classification of its financial assets at initial recognition. The Group measures all financial liabilities at amortised cost, except for financial liabilities at fair value through profit or loss.

(a) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of trading i.e. are held for trading. Management may also only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

(i) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

(ii) The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

3.Significant accounting policies (continued)

3.5 Financial assets and liabilities (continued)

3.5.2 Classification (continued)

(iii) The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in other operating income. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the EIR, while dividend income is recorded in other operating income when the right to the payment has been established.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables in the statement of financial position includes 'cash and balances with central banks', 'due from banks', 'Loans and advances', Islamic financing receivables' and 'other assets except prepayments' and instruments for which the entity may not recover all of its initial investment other than because of credit deterioration.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the consolidated statement of comprehensive income and is reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the consolidated statement of comprehensive income as 'Impairment for credit losses'.

(c) Held to maturity

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the consolidated statement of comprehensive income and reported as 'interest income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the consolidated statement of comprehensive income as 'impairment for investments'. Held to maturity investments are corporate bonds and treasury bills.

(d) Available-for-sale financial assets

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

3. Significant accounting policies (continued)

3.5 Financial assets and liabilities (continued)

3.5.2 Classification (continued)

Unrealised gains and losses and foreign currency gains and losses are recognised directly in equity (other comprehensive income) in the change in fair value of investments available-for-sale. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss in other operating income. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss in impairment for investments and removed from the change in fair value of investments available-for-sale.

(e) 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in other operating income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statement of comprehensive income when the inputs become observable.

3.5.3 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

(ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge);or

(iii) hedges of a net investment in a foreign operation (net investment hedge).

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of comprehensive income within 'Other operating income'.

(a) Hedge documentation, effectiveness assessment, and discontinuation

Policies applicable from 1 January 2018

At the inception of the hedge, the Group formally designates and documents the hedging relationship to which the Group 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.

3. Significant accounting policies (continued)

3.5 Financial assets and liabilities (continued)

3.5.3 Derivative financial instruments and hedging activities (continued)

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.

Policies applicable before 1 January 2018

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the profit or loss in 'other operating income'. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and an exposure to variations in cash flows that could ultimately affect the profit or loss.

(i) Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss in other operating income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the consolidated statement of financial position and is also recognised in the profit or loss in other operating income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

(ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the Cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets 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.

3 Significant accounting policies (continued)

3.5 Financial assets and liabilities (continued)

3.5.4 Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

3.5.5 Derecognition

(i) 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 asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
  - The Group has transferred substantially all the risks and rewards of the asset; or
  - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group 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 Group has retained. 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 that the Group could be required to repay.

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. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.5.6 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 Group 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.

3 Significant accounting policies (continued)

3.5 Financial assets and liabilities (continued)

3.5.6 Modifications of financial assets and financial liabilities (continued)

If the terms of a financial asset are modified, the Group 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.

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.

3.5.7 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a Group of similar transactions.

3.5.8 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.5.9 Fair value measurement

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 43.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3 Significant accounting policies (continued)

3.5 Financial assets and liabilities (continued)

3.5.9 Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

The Group also compares each of the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.5.10 Investment in equity and debt securities

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the reporting date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

3.5.11 Fair value measurement of derivatives

The fair value of forward contracts/options and others are estimated based on observable market inputs for such contracts as on the reporting date.

The fair value of interest rate/cross currency swaps are arrived at by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instrument at measurement date.

The fair value of options is determined based on its intrinsic values, term to maturity and implied volatility.

3 Significant accounting policies (continued)

3.6 Identification and measurement of impairment of financial assets

Policies applicable from 1 January 2018

Loss allowances are recognised 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. Loss allowances are measured at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

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 Group 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 Group 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.

See also Credit risk Note 42.2

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 derecognised 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 Group 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.

3 Significant accounting policies (continued)

3.6 Identification and measurement of impairment of financial assets (continued)

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 Group on terms that the Group 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, any loan that is overdue for 90 days or more is considered impaired.

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 under other liabilities;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group 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 Group 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, certain financial assets that are technically written off and held through memorandum accounts could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policies applicable before 1 January 2018

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. Objective evidence that a financial asset or Group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events as well as considering the guidelines issued by the Central Bank of Oman.

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3 Significant accounting policies (continued)

3.6 Identification and measurement of impairment of financial assets (continued)

- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a Group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including adverse changes in the payment status of borrowers in the Group, or national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a Group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. For debt securities, the Group uses the criteria referred to at (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the profit or loss. Impairment losses on equity instruments recognised in the profit or loss are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

3 Significant accounting policies (continued)

3.6 Identification and measurement of impairment of financial assets (continued)

(c) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The restructured or rescheduled loans are upgraded only after satisfactory performance of a minimum period defined in the Group's policy from the date of the first payment of interest or principal, whichever is earlier, under the rescheduled/ renegotiated terms and regulatory guidelines. Management continuously reviews renegotiated loans to ensure that all renegotiation criteria such as cash flows, collateral and tenor are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3.7 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and bank balances, treasury bills and money market placements and deposits maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.8 Due from banks

These are stated at amortised cost, less any amounts written off and provisions for impairment. Due from banks include Nostro balances, placements and loans to banks.

3.9 Property, equipment and software

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Computer software costs that are directly associated with identifiable and unique software products controlled by the Group and have probable economic benefit exceeding the costs beyond one year are recognised as an intangible asset. Computer software costs recognised as an asset are amortised using the straight-line method over the estimated useful life of 5-10 years.

Revaluations of freehold land and buildings are carried out every five years on an open market value for existing use basis, by an independent valuer. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of comprehensive income. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Freehold and leasehold buildings	20 - 50
Leased hold improvements	5 - 10
Furniture, fixtures and equipment	5 - 10
Motor vehicles	3 - 5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the sale proceeds with the carrying amount and are recognised within 'Other operating income' in the statement of comprehensive income.

3 Significant accounting policies (continued)

3.9 Property, equipment and software (continued)

Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

3.10 Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the outstanding amount of the related loans and advances or the fair value of the collateral held. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income.

3.11 Business combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date at fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments,* is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

3.12 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Group's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the EIR.

3.13 Income tax

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax assets/liabilities are calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

3 Significant accounting policies (continued)

3.13 Income tax (continued)

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3.14 Fiduciary assets

The Group provides trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

3.15 Acceptances

Acceptances are disclosed on the consolidated statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

3.16 Repurchase and resale agreements

Securities sold subject to repurchase agreements (‘repos’) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the consolidated financial statements.

3.17 Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

3.18 Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

3.19 Employee end of service benefits

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of comprehensive income when accrued.

The Group’s obligation in respect of non-Omani end of service benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods.

3 Significant accounting policies (continued)

3.20 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

3.21 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

3.22 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.23 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Parent Company's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the balance sheet date.

3.24 Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman. These costs are recorded as expenses in the period in which they are incurred.

3.25 Share Capital

Ordinary shares with discretionary dividends and other eligible shares / instruments are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

4. Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in this note. Specific fair value estimates are disclosed in note 43.

The Group's significant accounting estimates were on:

(a) Measurement of expected credit loss allowance (applicable to 2018)

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 42.2.8.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:.

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2018 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

Sensitivity of impairment estimates	**ECL RO 000's**	**Impact on ECL RO 000's**
ECL on non-impaired loans under IFRS9	157,252	
Simulations		
Upside case - 100% weighted	139,103	(18,149)
Base case - 100% weighted	158,116	864
Downside scenario - 100% weighted	174,248	16,996

For computation of ECL, the Group considers three scenario viz. base case, upside case and downside case with weightage of 40%, 30% & 30% respectively. For further information on the key indicators, refer to note 42.2.8.

4 Critical accounting estimates and judgements (continued)

(b) Impairment losses on loans and advances (applicable to 2017)

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in Groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Group takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro economic conditions.

The table below shows the sensitivity analysis and its impact of increase or decrease in the net credit loss percentages of loans and advances and Islamic financing receivables compared to the loss estimates on the impairment losses as follows:

	At 31 December 2017	
Sensitivity of impairment estimates	% of change in net credit losses (+/-)	Change in impairment for credit losses (+\-) RO 000's
Carrying of loans and advances	10 bps	8,657
Carrying of loans and advances	20 bps	17,313

(c) Impairment on due from banks (applicable for 2017)

The Group reviews its portfolio of due from banks on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating an impairment. For individually impaired placements, the Group considers the necessary impairment loss based on the expected cash flows and borrower's financial position. In addition, the Group assesses the portfolio on a collective basis and estimates the collective impairment loss if any. The judgements and estimates used for impairment assessment depend on a number of parameters which include the borrower's financial condition, local and international economic conditions and economic outlook.

The table below shows the sensitivity analysis and its impact of increase or decrease in the net credit loss percentages of due from banks compared to the loss estimates on the impairment losses as follows:

	At 31 December 2017	
Sensitivity of impairment estimates	% of change in net cash flows (+/-)	Change in impairment for credit losses (+\-) RO 000's
Due from banks	5 bps	297
Due from banks	10 bps	595

4 Critical accounting estimates and judgements (continued)

(d) Fair value of derivatives and other financial instruments (applicable to 2018 and 2017)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group uses expected cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

The sensitivity analysis of the fair value of derivatives and other financial instruments is shown in note 43, fair value information.

(e) Impairment of available-for-sale equity investments (applicable to 2017)

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Group evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance. A decline in value of security below its cost over twenty percent is considered as significant. Further, a decline in value of any security below its cost for a continuous period of twelve months is considered prolonged.

The sensitivity analysis and its impact of impairment of available-for-sale equity investments is shown in note 43, fair value information.

(f) Impairment loss on investment in associate (applicable to 2017)

The Group reviews its investment in associate periodically and evaluates the objective evidence of impairment. Objective evidence includes the performance of associate, the future business model, local economic conditions and other relevant factors. Based on the objective evidence, the Group determines the need for impairment loss on investment in associate using the higher of the value in use and fair value.

(g) Taxes (applicable to 2018 and 2017)

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Group. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

A table showing the impact of change in tax is as follows:

	At 31 December 2018		At 31 December 2017	
Sensitivity of assumptions used in the tax calculations	**% of change (+/-)**	**Change (+/-) RO 000's**	% of change (+/-)	Change (+/-) RO 000's
Change in tax expense	**5%**	**1,676**	5%	1,711

Accordingly, the table showing the impact of change in deferred tax by 5 per cent is as follows:

	At 31 December 2018		At 31 December 2017	
Deferred tax asset/ liability (net)	**% of change (+/-)**	**Change (+/-) RO 000's**	% of change (+/-)	Change (+/-) RO 000's
Impact of change	**5%**	**387**	5%	238

5. Cash and balances with Central Banks

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
476,597	**405,626**	Cash	**156,166**	183,490
1,299	**1,299**	Capital deposit with Central Banks	**500**	500
467,003	**2,009,044**	Certificate of deposits with Central Banks	**773,482**	179,796
1,483,010	**978,203**	Other balances with Central Banks	**376,608**	570,959
2,427,909	**3,394,172**		**1,306,756**	934,745

The capital deposit with the Central Banks cannot be withdrawn without the approval of the respective Central Bank. During the year, the average minimum balance to be kept with Central Banks as statutory reserves is RO 256.0 million (2017: RO 251.9 million).

6. Due from banks

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
		At Amortised cost / FVOCI		
365,157	**294,800**	Nostro balances	**113,498**	140,586
764,652	**687,966**	Inter-bank placements	**264,867**	294,391
414,543	**205,392**	Loans to banks	**79,076**	159,599
1,544,352	**1,188,158**		**457,441**	594,576
(6,622)	**(1,683)**	Less: impairment loss allowance	**(648)**	(2,550)
1,537,730	**1,186,475**		**456,793**	592,026
		At FVTPL		
-	**50,000**	Inter-bank placements	**19,250**	-
1,537,730	**1,236,475**		**476,043**	592,026

The movement in impairment loss allowance is analysed below:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
15,973	**6,622**	At 1 January	**2,550**	6,150
-	**622**	Remeasurement on transition to IFRS9	**239**	-
15,973	**7,244**	At 1 January (post transition)	**2,789**	6,150
(9,351)	**(5,561)**	Reversal during the year	**(2,141)**	(3,600)
6,622	**1,683**	At 31 December	**648**	2,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

7. Loans and advances/ Islamic financing receivables

Loans and advances - conventional

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
17,610,152	**18,781,167**	Loans	**7,230,749**	6,779,908
700,914	**726,317**	Overdrafts and credit cards	**279,632**	269,852
594,914	**570,171**	Loans against trust receipts	**219,516**	229,042
137,470	**162,875**	Bills purchased and discounted	**62,707**	52,926
874,930	**892,501**	Other advances	**343,613**	336,848
19,918,380	**21,133,031**		**8,136,217**	7,668,576
(805,125)	**(799,304)**	Less: impairment loss allowance	**(307,732)**	(309,973)
19,113,255	**20,333,727**		**7,828,485**	7,358,603

Islamic financing receivables

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
1,185,943	**1,258,974**	Housing finance	**484,705**	456,588
116,777	**113,506**	Consumer finance	**43,700**	44,959
1,263,317	**1,567,283**	Corporate finance	**603,404**	486,377
2,566,037	**2,939,763**		**1,131,809**	987,924
(46,262)	**(55,530)**	Less: impairment loss allowance	**(21,379)**	(17,811)
2,519,775	**2,884,233**		**1,110,430**	970,113

The movement in impairment loss allowance is analysed below:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
815,299	**851,387**	At 1 January	**327,784**	313,890
-	**(85,317)**	Remeasurement on transition to IFRS 9	**(32,847)**	-
815,299	**766,070**	At 1 January (post transition)	**294,937**	313,890
164,016	**204,842**	Impairment for credit losses	**78,864**	63,146
33,252	**26,130**	Interest reserved during the year	**10,060**	12,802
(100,400)	**(95,340)**	Recoveries from impairment for credit losses	**(36,706)**	(38,654)
(15,491)	**(14,481)**	Reserve interest recovered during the year	**(5,575)**	(5,964)
(10,353)	**(19,778)**	Written off during the year	**(7,614)**	(3,986)
(34,699)	**(12,171)**	Transfer from / (to) memorandum portfolio	**(4,686)**	(13,359)
205	**(75)**	Foreign currency translation difference	**(29)**	79
(442)	**(49)**	Transfer to collateral pending sale	**(19)**	(170)
-	**(314)**	Other movements	**(121)**	-
851,387	**854,834**	At 31 December	**329,111**	327,784

As of 31 December 2018, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 286.8 million (2017: RO 254.2 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

8. Other assets

2017 US$ 000's	2018 US$ 000's		2018 RO 000's	2017 RO 000's
228,210	**279,190**	Acceptances	**107,488**	87,861
-	**(236)**	Less: impairment loss allowance	**(91)**	-
228,210	**278,954**	Net Acceptances	**107,397**	87,861
102,219	**97,425**	Other debtors and prepaid expenses	**37,509**	39,354
71,031	**47,873**	Positive fair value of derivatives (Note 38)	**18,431**	27,347
62,330	**88,413**	Accrued interest	**34,039**	23,997
15,865	**20,086**	Deferred tax asset (Note 20)	**7,733**	6,108
6,106	**52,787**	Others	**20,323**	2,351
19,278	**4,701**	Collateral pending sale (net of provisions)	**1,810**	7,422
505,039	**590,239**		**227,242**	194,440

During 2018, the Parent company acquired collateral amounting to nil; net of provisions nil (2017: nil; net of provisions nil) towards loan settlement. A portion of collateral amounting to RO 5.59 million (2017: nil) was also disposed. In accordance with the CBO requirements, the bank has retained the existing impairment provision of RO 4.84 million (2017: RO 4.82 million) till all the properties are disposed.

9. Investment securities

As at 31 Dec 2018	FVTPL RO 000's	FVOCI RO 000's	Amortised Cost RO 000's	Total RO 000's
Quoted Equities:				
Foreign securities	**9,347**	**61,977**	**-**	**71,324**
Other services sector	**-**	**10,293**	**-**	**10,293**
Unit funds	**11,350**	**-**	**-**	**11,350**
Financial services sector	**610**	**7,408**	**-**	**8,018**
Industrial sector	**-**	**2,069**	**-**	**2,069**
Unquoted Equities:				
Foreign securities	**1,155**	**1,615**	**-**	**2,770**
Local securities	**7,232**	**9,147**	**-**	**16,379**
Unit funds	**425**	**-**	**-**	**425**
Equity investments	**30,119**	**92,509**	**-**	**122,628**
Quoted Debt:				
Government Bonds	**-**	**-**	**501,241**	**501,241**
Foreign Bonds	**-**	**34,036**	**2,018**	**36,054**
Local Bonds	**-**	**20,143**	**71,896**	**92,039**
Unquoted Debt:				
Treasury Bills	**-**	**-**	**495,677**	**495,677**
Local Bonds	**-**	**8,700**	**14,356**	**23,056**
Gross debt investments	**-**	**62,879**	**1,085,188**	**1,148,067**
Less: impairment loss allowance	**-**	**(932)**	**(181)**	**(1,113)**
Debt investments	**-**	**61,947**	**1,085,007**	**1,146,954**
Investments securities	**30,119**	**154,456**	**1,085,007**	**1,269,582**
US$'000	**78,231**	**401,184**	**2,818,200**	**3,297,615**

The Group has designated some investments in equity instruments at FVOCI as these are investments that the Group plans to hold in the long-term for strategic reasons.

9. Investment securities (continued)

	FVTPL	Available for Sale	Held To Maturity	Total
	RO 000's	RO 000's	RO 000's	RO 000's
As at 31 Dec 2017				
Quoted Equities:				
Foreign securities	-	65,190	-	65,190
Other services sector	-	17,448	-	17,448
Unit funds	-	10,827	-	10,827
Financial services sector	-	5,817	-	5,817
Industrial sector	-	3,217	-	3,217
Unquoted Equities:				
Foreign securities	-	6,455	-	6,455
Local securities	-	19,253	-	19,253
Unit funds	-	760	-	760
Gross equity investments	-	128,967	-	128,967
Less: impairment loss allowance	-	(14,143)	-	(14,143)
Net equity investments	-	114,824	-	114,824
Quoted Debt:				
Government Bonds	49,995	206,807	172,084	428,886
Foreign Bonds	1,000	32,819	2,008	35,827
Local Bonds	-	1,556	45,282	46,838
Unquoted Debt:				
Treasury Bills	-	-	372,012	372,012
Local Bonds	-	13,050	16,569	29,619
Gross debt investments	50,995	254,232	607,955	913,182
Less: impairment loss allowance	-	(830)	-	(830)
Net debt investments	50,995	253,402	607,955	912,352
Investment securities	50,995	368,226	607,955	1,027,176
US$'000	132,455	956,431	1,579,104	2,667,990

The movement in impairment of FVOCI debt / available for sale investment securities is summarised as follows:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
34,857	**38,891**	At 1 January	**14,973**	13,420
-	**(34,408)**	Reclassification on transition to IFRS 9	**(13,247)**	-
34,857	**4,483**	At 1 January (post transition)	**1,726**	13,420
19,148	**(1,592)**	Provided / (Reversed) during the year	**(613)**	7,372
(15,114)	**-**	Recoveries from impairment losses on disposal	**-**	(5,819)
38,891	**2,891**	At 31 December	**1,113**	14,973

9. Investment securities (continued)

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	FVOCI Equity investments RO 000's	Amortised cost RO 000's	FVTPL RO 000's	Total RO 000's
At 1 January 2018	**253,404**	**114,822**	**607,955**	**50,995**	**1,027,176**
Reclassification on transition to IFRS 9	**(207,734)**	**(28,834)**	**256,838**	**(23,149)**	**(2,879)**
At 1 January (reclassified)	**45,670**	**85,988**	**864,793**	**27,846**	**1,024,297**
Exchange differences	**(1)**	**(727)**	**(6,367)**	**(36)**	**(7,131)**
Additions	**26,987**	**18,137**	**3,361,494**	**16,615**	**3,423,233**
Disposals and redemption	**(8,685)**	**(332)**	**(3,135,128)**	**(12,216)**	**(3,156,361)**
Loss from change in fair value	**(2,143)**	**(10,247)**	**-**	**(2,159)**	**(14,549)**
Reversal of impairment losses	**162**	**-**	**451**	**-**	**613**
Amortisation of discount / premium	**(43)**	**-**	**(236)**	**-**	**(279)**
Realised gains on sale	**-**	**(310)**	**-**	**69**	**(241)**
At 31 December 2018	**61,947**	**92,509**	**1,085,007**	**30,119**	**1,269,582**
US$'000	**160,901**	**240,283**	**2,818,200**	**78,231**	**3,297,615**

	Available-for - sale RO 000's	Held to maturity RO 000's	Fair value through profit or loss RO 000's	Total RO 000's
At 1 January 2017	395,327	563,601	50,996	1,009,924
Exchange differences	(178)	569	-	391
Additions	49,165	3,585,365	-	3,634,530
Transfer from investment in associate	49,103	-	-	49,103
Disposals and redemption	(108,209)	(3,542,187)	-	(3,650,396)
Loss from change in fair value	(8,651)	-	(1)	(8,652)
Impairment losses	(7,372)	-	-	(7,372)
Loss on reclassification of investment in an associate	(17,535)	-	-	(17,535)
Amortisation of discount / premium	(1,542)	607	-	(935)
Realised gains on sale	18,118	-	-	18,118
At 31 December 2017	368,226	607,955	50,995	1,027,176
US$'000	956,431	1,579,104	132,455	2,667,990

10. Investment in a subsidiary

Details regarding the Parent company's investment in a significant subsidiary are set out below:

Company name	**Country of incorporation**	**Proportion held**	
		2018	2017
Muscat Capital LLC	Kingdom of Saudi Arabia (KSA)	**100%**	100%

As at 31 December 2018, the authorised and issued share capital of Muscat Capital LLC was SAR 60 million (2017: SAR 60 million).

11. Investment in an associate

On January 1, 2005, the Parent Company acquired 26,681,345 shares representing 49 percent of the issued and paid up share capital of BMI Bank ("BMI"), a closely held company engaged in banking services in Bahrain. It was a strategic investment and was accounted as an 'Equity associate' under IAS 28.

In March 2014, BMI was acquired by Al Salam Bank ("ASB"), Bahrain under a share swap agreement. As per the agreement, ASB issued 11 shares to the Parent Company for every 1 share held in BMI. The Parent Company thus received 315,494,795 shares in ASB resulting into a 14.74 percent stake in the merged entity. These shares had a lock in period of 3 years. The Parent Company held two directorship positions and exercised significant influence on the financial and operating policies of ASB and thus continued to account for it as an 'Equity associate' under IAS 28.

On 19 December 2017, one of the two directors representing the Parent Company on the board of ASB resigned from his position, thereby substantially reducing the influence of the Parent Company on ASB from that date. Post this event, the Parent Company lost its significant influence in ASB through policy making processes, material transactions or by any other means. Given the change in the board composition and the parent company's inability to appoint two directors in ASB, the Parent Company reassessed its previous classification of the investment under IAS 28 as an 'Equity associate' and concluded that the change in the circumstances results in the investment in ASB being reclassified to 'Available-for-sale' investment under IAS 39 and carry the same at its fair market value. The difference in the carrying value and the fair value as on this date of RO 17.535 million was recognised in the income statement.

The movement in carrying value of the investment in ASB for 2017 was as follows:

	2017 RO 000's
Carrying value of the Investment at 1 January	48,074
Share of results for the period	2,438
Share of other comprehensive income	202
Dividends received	(1,611)
Transferred to available for sale investments	(49,103)
At 31 December	-

On 1 January 2018, during transition from IAS 39 to IFRS 9, the Parent Company reclassified its investment in ASB from "Available-for-sale" category under IAS 39 and holds it as "FVOCI Equity investment" under IFRS 9.

12.Property, equipment and software

	Land and buildings RO 000's	Furniture, fixtures and equipment RO 000's	Motor vehicles RO 000's	Total RO 000's
Cost or valuation:				
At 1 January 2018	**50,452**	**138,802**	**1,173**	**190,427**
Additions during the year	**4**	**10,714**	**21**	**10,739**
Disposals	**-**	**(142)**	**-**	**(142)**
Translation Adjustment	**(1)**	**(4)**	**-**	**(5)**
At 31 December 2018	**50,455**	**149,370**	**1,194**	**201,019**
Accumulated Depreciation:				
At 1 January 2018	**11,992**	**105,498**	**818**	**118,308**
Charge for the year	**785**	**12,440**	**134**	**13,359**
Relating to disposals	**-**	**(142)**	**-**	**(142)**
Translation Adjustment	**(1)**	**(6)**	**-**	**(7)**
At 31 December 2018	**12,776**	**117,790**	**952**	**131,518**
Net book value:				
At 31 December 2018	**37,679**	**31,580**	**242**	**69,501**
At 31 December 2018 (US$)	**97,867**	**82,026**	**629**	**180,522**

12.Property, equipment and software (continued)

	Land and buildings RO 000's	Furniture, fixtures and equipment RO 000's	Motor vehicles RO 000's	Total RO 000's
Cost or valuation:				
At 1 January 2017	50,082	128,152	1,120	179,354
Additions during the year	23	10,651	90	10,764
Disposals during the year	-	(15)	(37)	(52)
Surplus on revaluation	625	-	-	625
Loss on revaluation	(281)	-	-	(281)
Translation Adjustment	3	14	-	17
At 31 December 2017	50,452	138,802	1,173	190,427
Accumulated Depreciation:				
At 1 January 2017	10,967	93,438	717	105,122
Charge for the year	1,023	12,061	138	13,222
Relating to disposals	-	(13)	(37)	(50)
Translation Adjustment	2	12	-	14
At 31 December 2017	11,992	105,498	818	118,308
Net book value:				
At 31 December 2017	38,460	33,304	355	72,119
At 31 December 2017 (US$)	99,896	86,504	922	187,322

Cost of furniture, fixtures and equipment above includes acquired software of RO 56.666 million (2017: RO 49.987 million). Accumulated depreciation of the same is RO 37.948 million (2017: RO 31.488 million).

Land and buildings above includes leasehold land and buildings of RO 31.905 million (2017: RO 32.670 million). The Group has a policy to revalue its owned land and buildings at the end of every five years. In accordance with the Group's policy, the owned land and buildings were revalued during 2017 by independent professional valuers on an open market basis.

Had the freehold land and buildings been carried at cost less depreciation, the carrying amount would have been RO 2.891 million (2017: RO 2.921 million)

The revaluation reserve is not available for distribution until the related asset is disposed.

13. Finance lease liabilities

The Group had entered into a lease agreement with a third party (a quasi government entity) to lease a purpose built head office which was constructed for exclusive use of the Group. The construction of building was completed in 2009. The lease is for a period of 50 years. The annual lease payment of building for the initial 25 years is RO 2.7 million. Subsequently, for the next 10 years, the annual rent will increase by 25% to RO 3.4 million. From 36th year onwards, the annual rent will further increase by 10% to RO 3.7 million. Due to this the minimum lease payments in the first 25 years of the lease period are less than the finance charges payable every year.

13. Finance lease liabilities (continued)

The minimum lease payments and total liability in respect of these leases relating to future periods are as follows:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
(140)	**(148)**	Current	**(57)**	(54)
100,062	**100,208**	Non-current	**38,580**	38,524
99,922	**100,060**	Total (note 19)	**38,523**	38,470
		Represented by:		
356,969	**349,961**	Gross finance lease payment due	**134,735**	137,433
(257,047)	**(249,901)**	Less: future finance charges	**(96,212)**	(98,963)
99,922	**100,060**	Net lease liability/ present value recognised as property	**38,523**	38,470

The following tables show the maturity analysis of finance lease payable:

	Less than 1 year RO 000's	**Between 1 and 2 years RO 000's**	**Between 2 and 5 years RO 000's**	**More than 5 years RO 000's**	**Total RO 000's**
As at 31 December 2018					
Total minimum lease payments	**2,697**	**2,697**	**8,091**	**121,250**	**134,735**
Less: Amounts representing finance charges	**(2,754)**	**(2,758)**	**(8,303)**	**(82,397)**	**(96,212)**
Net finance lease liability	**(57)**	**(61)**	**(212)**	**38,853**	**38,523**

	Less than 1 year US$ 000's	**Between 1 and 2 years US$ 000's**	**Between 2 and 5 years US$ 000's**	**More than 5 years US$ 000's**	**Total US$ 000's**
As at 31 December 2018					
Total minimum lease payments	**7,005**	**7,005**	**21,016**	**314,935**	**349,961**
Less: Amounts representing finance charges	**(7,153)**	**(7,164)**	**(21,566)**	**(214,018)**	**(249,901)**
Net finance lease liability	**(148)**	**(159)**	**(550)**	**100,917**	**100,060**

The following table shows the maturity analysis of finance lease payable:

	Less than 1 year RO 000's	Between 1 and 2 years RO 000's	Between 2 and 5 years RO 000's	More than 5 years RO 000's	Total RO 000's
As at 31 December 2017					
Total minimum lease payments	2,697	2,697	8,091	123,948	137,433
Less: Amounts representing finance charges	(2,751)	(2,754)	(8,289)	(85,169)	(98,963)
Net finance lease liability	(54)	(57)	(198)	38,779	38,470

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13. Finance lease liabilities (continued)

	Less than 1 year US$ 000's	Between 1 and 2 years US$ 000's	Between 2 and 5 years US$ 000's	More than 5 years US$ 000's	Total US$ 000's
As at 31 December 2017					
Total minimum lease payments	7,005	7,005	21,016	321,943	356,969
Less: Amounts representing finance charges	(7,145)	(7,153)	(21,530)	(221,219)	(257,047)
Net finance lease liability	(140)	(148)	(514)	100,724	99,922

14. Deposits from banks

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
1,501,774	**1,654,915**	Inter bank borrowings	**637,142**	578,183
137,187	**292,496**	Vostro balances	**112,611**	52,817
725,000	**525,000**	Other money market deposits	**202,125**	279,125
2,363,961	**2,472,411**		**951,878**	910,125

15. Customers' deposits

Customers' deposits - Conventional

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
4,915,265	**8,005,352**	Deposit accounts	**3,082,061**	1,892,377
6,241,852	**6,322,094**	Savings accounts	**2,434,006**	2,403,113
4,676,117	**4,286,756**	Current accounts	**1,650,401**	1,800,305
797,158	**732,584**	Call accounts	**282,045**	306,906
147,296	**144,691**	Margin accounts	**55,706**	56,709
16,777,688	**19,491,477**		**7,504,219**	6,459,410

Customers' deposits - Islamic

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
1,553,591	**1,534,377**	Deposit accounts	**590,735**	598,132
294,234	**377,756**	Savings accounts	**145,436**	113,280
324,231	**258,865**	Current accounts	**99,663**	124,829
321,197	**318,525**	Margin accounts	**122,632**	123,661
2,493,253	**2,489,523**		**958,466**	959,902

16. Sukuk

In June 2017, the Parent Company issued Sukuk Al Musharaka Certificates. A special purpose vehicle (SPV) was formed for this purpose (Meethaq Sukuk Company LLC) which is the issuer and trustee of Sukuk program.

As part of the program, first series of certificates was issued amounting to RO 44.6 million (face value RO 1.000 per certificate) through a Shari'a compliant financing arrangement and approved by the Board of Directors of the bank.

The Sukuk has an indicative profit rate of 5 percent per annum, has a tenor of five years and is to be redeemed at face value subject to the terms and conditions given in the issuing documents. The profit on Sukuk is payable semi-annually in arrears in the month of June and December. The Sukuk is listed in Muscat Security Market ("MSM").

17. Euro medium term notes

Euro medium term notes are issued by the Parent Company under its Euro Medium Term Note programme and are denominated in US Dollars. These are non-convertible, unsecured and listed on Irish stock exchange. During 2018, notes amounting to RO 192.5 million (2017: nil) were issued and RO 192.5 million (2017: nil) matured. The maturity profile and interest rates of floating rate notes are disclosed in notes 42.3.2 and 42.4.4 respectively.The notes that matured in 2018 were listed in Luxemberg stock exchange.

18. Mandatory convertible bonds

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
167,221	**84,198**	At 1 January	**32,416**	64,380
(83,023)	**(84,198)**	Conversion during the year	**(32,416)**	(31,964)
84,198	**-**	At 31 December	**-**	32,416

The maturity profile and interest rate of mandatory convertible bonds are disclosed in notes 42.3.2 and 42.4.4 respectively. Mandatory convertible bonds were issued by the Parent Company as part of its dividend distribution. On maturity, the bonds were converted to ordinary shares of the Parent Company by using a "conversion price" which will be calculated by applying 20 percent discount to 3 month average share price of the Parent Company on the Muscat Securities Market prior to the conversion.

During March 2018, the Bank converted its mandatory convertible bonds (MCBs) issued in 2015 into shares as per the terms of MCBs. The conversion amounting to RO 32.416 million was credited to the share capital and share premium amounting to RO 10.258 million and RO 22.158 million, respectively.

Based on the terms of prospectus, conversion price was calculated at RO 0.316 which represented a 20% discount to average closing market price over the preceding 90 calendar day period prior to the conversion date after adjusting for the impact of bonus shares issued in Q1-2018. The Bank issued 102,582,789 shares on account of conversion.

19. Other liabilities

2017 US$ 000's	2018 US$ 000's		2018 RO 000's	2017 RO 000's
354,705	**357,583**	Other liabilities and accrued expenses	**137,670**	136,561
228,210	**279,190**	Acceptances (note 8)	**107,488**	87,861
-	**77,455**	Impairment on financial guarantees	**29,820**	-
-	**26,543**	Impairment on undrawn commitments and unutilised limits	**10,219**	-
185,727	**192,105**	Accrued interest	**73,961**	71,505
99,922	**100,060**	Finance lease (note 13)	**38,523**	38,470
67,106	**50,535**	Negative fair value of derivatives (note 38)	**19,456**	25,836
20,982	**25,029**	Unearned discount and interest	**9,636**	8,078
15,558	**17,081**	Employees' end of service benefits	**6,576**	5,990
3,494	**-**	Deferred tax liability (note 20)	**-**	1,345
975,704	**1,125,581**		**433,349**	375,646

The charge for the year and amounts paid in respect of employee end of service benefits were RO 1.058 million (2017: RO 1.232 million) and RO 0.470 million (2017: RO 2.072 million), respectively.

The movements in impairment loss allowance on financial guarantees / undrawn commitments and unutilised limits are analysed below:

2018 Impairment on financial guarantees US$ 000's	**2018 Undrawn commitments and utilized limits US$ 000's**		**2018 Impairment on financial guarantees RO 000's**	**2018 Undrawn commitments and utilized limits RO 000's**
-	**-**	At 1 January	**-**	**-**
52,450	**33,343**	Remeasurement on transition to IFRS9	**20,193**	**12,837**
52,450	**33,343**	At 1 January (post transition)	**20,193**	**12,837**
25,010	**(6,800)**	Provided (reversed) during the year	**9,629**	**(2,618)**
(5)	**-**	Exchange differences	**(2)**	**-**
77,455	**26,543**	At 31 December	**29,820**	**10,219**

20. Taxation

2017 US$ 000's	2018 US$ 000's		2018 RO 000's	2017 RO 000's
		Current liability:		
92,399	**91,028**	Current year	**35,046**	35,573
19,066	**21,977**	Prior years	**8,461**	7,341
111,465	**113,005**		**43,507**	42,914

2017 US$ 000's	2018 US$ 000's		2018 RO 000's	2017 RO 000's
		Consolidated statement of comprehensive income:		
92,399	**91,029**	Current year	**35,046**	35,573
(3,495)	**(1,023)**	Prior years	**(394)**	(1,345)
88,904	**90,006**		**34,652**	34,228
-	**(2,946)**	Relating to origination and reversal of temporary differences	**(1,134)**	-
88,904	**87,060**		**33,518**	34,228

(i) The tax rate applicable to the Parent Company is 15% (2017: 15%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 15.73% (2017: 16.22 %).

20. Taxation (continued)

The difference between the applicable tax rate of 15% (2017: 15%) and effective tax rate of 15.73% (2017: 16.22%) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(ii) The reconciliation of taxation on the accounting profit before tax for the year at RO 213.2 million (2017: RO 211.0 million) and the taxation charge in the consolidated financial statements is as follows:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
82,226	**83,047**	Tax charge at 15% (2017:15%) on accounting profit before tax	**31,973**	31,657
		Add tax effect of:		
(2,538)	**(511)**	Income not taxable	**(197)**	(977)
11,494	**7,849**	Expenses not deductible or deferred	**3,022**	4,425
1,029	**514**	Foreign taxes on foreign-sourced income	**198**	396
187	**130**	Tax relating to subsidiary	**50**	72
-	**(2,946)**	Relating to origination and reversal of temporary differences	**(1,134)**	-
(3,494)	**(1,023)**	Reversal of provision for prior years	**(394)**	(1,345)
88,904	**87,060**	Tax charge as per consolidated statement of comprehensive income	**33,518**	34,228

(iii) The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2017 - 15%).

Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, change in fair value of FVOCI investment, accelerated depreciation and changes in fair value hedge.

	At 1 January 2018 RO 000's	**Reversal/ (charged) to consolidated statement of comprehensive income RO 000's**	**Reversal/ (charged) to consolidated statement of other comprehensive income RO 000's**	**31 December 2018 RO 000's**
Asset:				
Tax effect of provisions	**1,713**	**1,392**	**-**	**3,105**
Change in fair value of hedge	**32**	**-**	**(109)**	**(77)**
Change in fair value of investments	**5,613**	**-**	**600**	**6,213**
Liability:				
Tax effect of accelerated tax depreciation	**(1,250)**	**(258)**	**-**	**(1,508)**
	6,108	**1,134**	**491**	**7,733**

During the year, the Group charged deferred tax asset of RO 0.491 million (2017: RO 5.604 million) relating to fair value changes of FVOCI investments and changes in fair value of hedge. The deferred tax charge / (reversal) is disclosed under other comprehensive income.

20. Taxation (continued)

	At 1 January 2017 RO 000's	Reversal/ (charged) to consolidated statement of comprehensive income RO 000's	Reversal/ (charged) to consolidated statement of other comprehensive income RO 000's	31 December 2017 RO 000's
Asset:				
Tax effect of provisions	1,713	-	-	1,713
Change in fair value of hedge	41	-	(9)	32
Change in fair value of investment available for sale	-	-	5,613	5,613
Liability:				
Tax effect of accelerated tax depreciation	(1,250)	-	-	(1,250)
	504	-	5,604	6,108

	1 January 2018 RO 000's	**Tax (charge)/ credit RO 000's**	**31 December 2018 RO 000's**	1 January 2017 RO 000's	Tax (charge)/ credit RO 000's	31 December 2017 RO 000's
Deferred tax liability	**1,345**	**(1,345)**	**-**	1,944	(599)	1,345

	1 January 2018 US$ 000's	**Tax charge/ (credit) US$ 000's**	**31 December 2018 US$ 000's**	1 January 2017 US$ 000's	Tax charge/ (credit) US$ 000's	31 December 2017 US$ 000's
Deferred tax liability	**3,494**	**(3,494)**	**-**	5,049	(1,555)	3,494

During the year, the Group debited deferred tax liability of RO 1.345 million (2017: RO 0.599 million tax credit) relating to fair value changes of FVOCI investments, which may be taxable in the future. The deferred tax credit is disclosed under other comprehensive income.

The tax (charge) / credit relating to components of other comprehensive income is as follows:

	31 December 2018			31 December 2017		
	Before Tax RO 000's	**Tax (charge)/ credit RO 000's**	**After Tax RO 000's**	Before tax RO 000's	Tax (charge)/ credit RO 000's	After tax RO 000's
Transfer from foreign currency translation reserve on reclassification of investment in an associate	**-**	**-**	**-**	331	-	331
Translation of net investments in foreign operations	**(745)**	**-**	**(745)**	312	-	312
Transfer from cumulative changes in fair value on reclassification of an associate	**-**	**-**	**-**	31	-	31
Change in fair value of investments	**(9,976)**	**(435)**	**(10,411)**	2,562	(5,014)	(2,452)
Change in fair value of hedge	**732**	**(109)**	**623**	106	9	115
Transfer from revaluation of land and building on reclassification of an associate	**-**	**-**	**-**	(160)	-	(160)
Realised gain or loss on FVOCI equity investments	**(310)**	**-**	**(310)**	-	-	-
Surplus on revaluation of land and building	**-**	**-**	**-**	625	-	625
Total	**(10,299)**	**(544)**	**(10,843)**	3,807	(5,005)	(1,198)

20. Taxation (continued)

	31 December 2018			31 December 2017		
	Before Tax RO 000's	Tax (charge)/ credit RO 000's	After Tax RO 000's	Before tax RO 000's	Tax (charge)/ credit RO 000's	After tax RO 000's
Transfer from foreign currency translation reserve on reclassification of investment in an associate	-	-	-	860	-	860
Translation of net investments in foreign operations	(1,935)	-	(1,935)	810	-	810
Transfer from cumulative changes in fair value on reclassification of an associate	-	-	-	81	-	81
Change in fair value of investments	(25,912)	(1,130)	(27,042)	6,655	(13,023)	(6,368)
Change in fair value of hedge	1,901	(283)	1,618	275	23	298
Transfer from revaluation of land and building on reclassification of an associate	-	-	-	(416)	-	(416)
Realised gain or loss on FVOCI equity investments	(805)	-	(805)	-	-	-
Surplus on revaluation of land and building	-	-	-	1,623	-	1,623
Total	(26,751)	(1,413)	(28,164)	9,888	(13,000)	(3,112)

The Group's tax assessments have been completed by the tax authorities up to tax year 2014.

21. Subordinated liabilities

In accordance with the Central Bank of Oman's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes. During the year the Parent Company repaid RO 82.090 million (2017: RO 44.090 million).

2017 US$ 000's	2018 US$ 000's		2018 RO 000's	2017 RO 000's
179,221	-	Fixed rate Rial Omani subordinated loans	-	69,000
136,000	102,000	Floating rate US$ subordinated loans	39,270	52,360
315,221	102,000		39,270	121,360

Subordinated loans are repayable at par on maturity. The maturity profile and interest rate of subordinated liabilities are disclosed in notes 42.3.2 and 42.4.4 respectively.

22. Share capital

Share capital

The authorised share capital of the Parent Company is 3,500,000,000 shares of RO 0.100 each (2017 - 3,500,000,000 of RO 0.100 each). At 31 December 2018, 2,947,412,735 shares of RO 0.100 each (2017 - 2,709,361,854 shares of RO 0.100 each) have been issued and fully paid. The Bank's shares are listed in Muscat Securities Market, Bahrain stock exchange and London stock exchange. Listing in London stock exchange is through Global Depository Receipts issued by the Bank.

During March 2018, the bank converted the mandatory convertible bonds issued in 2015 into shares (refer note 18).

22. Share capital (continued)

Significant shareholders

The following shareholders held 10 percent or more of the Parent Company's capital, either individually or together with other Group companies:

2017			2018	
No.of shares	% holding		**No.of shares**	**% holding**
640,144,235	23.63%	Royal Court Affairs	**696,343,070**	**23.63%**
335,147,759	12.37%	Dubai Financial Group	**346,807,639**	**11.77%**

23. Share Premium

During March 2018, the Bank converted a portion of its mandatory convertible bonds issued in 2015 into shares. (refer note 18). The conversion amounting to RO 32.416 million was credited to the share capital and share premium amounting to RO 10.258 million and RO 22.158 million, respectively.

24. Legal and general reserves

(i) Legal reserve

In accordance with the Omani Commercial Companies Law of 1974, the Parent Company is required to transfer 10 percent of its profit for the year to legal reserve until the accumulated balance of the reserve equals one third of the Parent Company's paid up share capital. During the year RO 7.935 million (2017: RO 7.104 million) was transferred from profits to legal reserve. After this transfer the Parent Company's legal reserve is equal to one third of its share capital.

(ii) General reserve

The general reserve is established to support the operations and the capital structure of the Group.

(iii) Impairment reserve / reserve for restructured loans

a) Impairment Reserve:

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

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

b) Reserve for restructured loans:

The Parent Company has created a reserve for restructured accounts in accordance with the regulations of the Central Bank of Oman (CBO). This reserve represents provisions on performing but restructured. This reserve is not available for regulatory capital or distribution of dividends. The reserve will be released to retained earnings on satisfactory performance of these accounts as per regulatory guidelines.

(iv) Subordinated loan reserve

The subordinated loan reserve is created in accordance with the guidelines given by the BIS and the Central Bank of Oman. During the year, the Parent Company transferred RO 13.090 million (2017: RO 29.490 million) to subordinated loan reserve from retained profit.

A subordinated loan of RO 82.090 million was repaid during the year (2017: RO 44.090 million). On maturity, the reserve of RO 82.090 million (2017: RO 44.090 million) related to this loan was thus transferred to general reserve.

25. Perpetual Tier I Capital

In April 2017, the Bank issued Additional Equity Tier 1 (AET1) capital deposit amounting to RO 130 million. The AET1 capital constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The AET 1 capital do not have a fixed or final redemption date. They are first callable by the Bank after a minimum of 5 years from the instrument date and thereafter in accordance with the terms of the agreement and subject to prior approval of Central Bank of Oman.

The AET1 capital bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 5.5 percent. Thereafter the interest rate will be reset as per the terms of the agreement. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest will be paid exclusively out of the distributable items of the Bank, and shall not be cumulative, and any interest which is not paid will not accumulate or compound. The depositor will have no right to receive such unpaid interest in the future, even if interest is paid

25. Perpetual Tier I Capital (continued)

in respect of any subsequent period. The Instrument meets all the requirements of AET 1 issuance as mandated by Basel and Central Bank of Oman norms.

26. Proposed dividends

For 2018, the Board of Directors have proposed a dividend of 35%, 30% in the form of cash and 5% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.030 per ordinary share of RO 0.100 each aggregating to RO 88.422 million on Bank's existing share capital. In addition, they would receive bonus shares in the proportion of 1 share for every 20 ordinary shares aggregating to 147,370,636 shares of RO 0.100 each amounting to RO 14.737 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the Annual General Meeting of the shareholders and regulatory authorities.

For 2017, the Board of Directors had proposed a dividend of 35%, 30% in the form of cash and 5% in the form of bonus shares which was approved by the Parent Company shareholders in its Annual General Meeting held on 18 March 2018. Thus shareholders received cash dividend of RO 0.030 per ordinary share of RO 0.100 each aggregating to RO 81.281 million on Bank's existing share capital. In addition, they received bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 135,468,092 shares of RO 0.100 each amounting to RO 13.547 million.

27. Net assets per share

The calculation of net assets per share is based on net assets as at 31 December 2018 attributable to ordinary shareholders of RO 1,797.742 million (2017: RO 1,688.333 million) and on 2,947,412,735 ordinary shares (2017: 2,709,361,854 ordinary shares) being the number of shares outstanding as at 31 December 2018.

28. Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Parent Company at 31 December 2018. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Credit related commitments

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the requirements of the Parent Company's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash obligations.

Standby letters of credit and guarantees commit the Parent Company to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Irrevocable commitments to extend credit at the reporting date amounted to RO 561.9 million (2017: RO 564.7 million).

28. Contingent liabilities and commitments (continued)

As of the reporting date, commitments on behalf of customers, for which there were corresponding customer liabilities consisted of the following:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
1,330,053	**1,035,193**	Letters of credit	**398,549**	512,070
6,098,701	**5,916,587**	Guarantees	**2,277,886**	2,348,000
7,428,754	**6,951,780**		**2,676,435**	2,860,070

(c) Capital commitments

As of the reporting date, capital commitments were as follows:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
2,352	**2,499**	Purchase of property and equipment	**962**	905

(d) As of the reporting date, the Group has not pledged any of its assets as security (2017: no assets were pledged).

(e) As of the reporting date, the amount payable on partly paid investments in shares held by the Group was RO 1.8 million (2017: RO 2.1 million).

29. Interest income / income from Islamic financing / investments

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
895,515	**975,801**	Loans and advances	**375,683**	344,773
31,816	**50,187**	Due from banks	**19,322**	12,249
55,262	**65,018**	Investments	**25,032**	21,276
982,593	**1,091,006**		**420,037**	378,298
113,075	**143,231**	Islamic financing receivable	**55,144**	43,534
792	**2,242**	Islamic due from banks	**863**	305
5,865	**6,756**	Islamic investment	**2,601**	2,258
119,732	**152,229**		**58,608**	46,097
1,102,325	**1,243,235**		**478,645**	424,395

Effective annual rates on yielding assets are provided in note 42.4.4.

30. Interest expense / distribution to depositors

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
216,541	**247,609**	Customers' deposits	**95,329**	83,368
24,042	**17,332**	Subordinated liabilities / mandatory convertible bonds	**6,673**	9,256
36,766	**58,031**	Bank borrowings	**22,342**	14,155
38,535	**49,257**	Euro medium term notes	**18,964**	14,836
315,884	**372,229**		**143,308**	121,615
45,766	**65,735**	Islamic customers' deposits	**25,308**	17,620
3,304	**6,018**	Sukuk	**2,317**	1,272
6,603	**8,891**	Islamic bank borrowings	**3,423**	2,542
55,673	**80,644**		**31,048**	21,434
371,557	**452,873**		**174,356**	143,049

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

30. Interest expense / distribution to depositors (continued)

Interest expense on customers deposits include cost of prize schemes of RO 10 million (2017: RO 10 million) offered by the Bank to its saving deposit holders.

Effective annual rate of interest bearing liabilities are provided in note 42.4.4.

31. Commission and fee income (net)

The commission and fee income shown in the statement of consolidated comprehensive income is net of commission and fee paid of RO 1.277 million (2017: RO 1.702 million).

32. Other operating income

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
83,623	**93,366**	Foreign exchange	**35,946**	32,195
(3)	**(5,608)**	Changes in fair value of financial assets	**(2,159)**	(1)
47,060	**179**	Net realised gain / loss on sale of investments measured at fair value	**69**	18,118
10,018	**18,190**	Dividend income	**7,003**	3,857
19,182	**13,294**	Other income	**5,118**	7,385
159,880	**119,421**		**45,977**	61,554

Dividend income recognised on FVOCI investments during the year 2018 is RO 5.845 million, out of which RO 17 thousands pertains to investments sold during the year.

33. Other operating expenses

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
174,562	**174,838**	Employees' salaries	**67,313**	67,206
68,045	**77,857**	Other staff costs	**29,975**	26,197
13,694	**14,151**	Contribution to social insurance schemes	**5,448**	5,272
3,200	**2,748**	Employees end of service benefits	**1,058**	1,232
259,501	**269,594**		**103,794**	99,907
143,061	**144,660**	Administrative expenses	**55,694**	55,079
40,704	**44,925**	Occupancy costs	**17,296**	15,671
519	**519**	Directors' remuneration	**200**	200
443,785	**459,698**		**176,984**	170,857

34. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
1,008,992	**685,197**	Due from banks	**263,801**	388,462
2,426,610	**3,392,873**	Cash and balances with Central Banks	**1,306,256**	934,245
966,265	**1,287,473**	Treasury bills	**495,677**	372,012
(1,366,647)	**(1,659,457)**	Deposits from banks	**(638,891)**	(526,159)
3,035,220	**3,706,086**		**1,426,843**	1,168,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

35. Earnings per share

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

	2018	2017
Profit attributable to ordinary shareholders of parent company for basic earnings per share (RO 000's)	**179,633**	176,818
Interest on convertible bonds, net of taxation (RO 000's)	**206**	1,229
	179,839	178,047
Weighted average number of ordinary shares adjusted for effect of dilution (in 000's)	**2,925,210**	2,928,562
Basic earnings per share (RO)	**0.061**	0.061
Basic earnings per share (US$)	**0.16**	0.16

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

The weighted number of ordinary shares (in 000's) have been calculated as follows:

	2018	2017
At 1 January	**2,709,362**	2,496,250
Effect of shares issued in conversion of convertible bonds	**80,380**	69,188
Effect of bonus shares issued in 2018	**135,468**	135,468
Effect of bonus shares issued in 2017	**-**	124,813
Estimated effect of dilution from convertible bonds on conversion	**-**	102,843
Weighted average number of ordinary shares	**2,925,210**	2,928,562

36. Related party transactions

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

2017 US$ 000's	2018 US$ 000's		2018 RO 000's	2017 RO 000's
		a) Directors and senior management		
11,847	**6,642**	Loans and advances (gross)	**2,557**	4,561
2,532	**4,374**	Current, deposit and other accounts	**1,684**	975
		b) Major shareholders and others		
141,782	**171,491**	Loans and advances (gross)	**66,024**	54,586
(22,629)	**-**	Specific provisions	**-**	(8,712)
119,153	**171,491**	Loans and advances (net)	**66,024**	45,874
130,013	**147,392**	Current, deposit and other accounts	**56,746**	50,055
17,545	**18,278**	Customers' liabilities under documentary credits, guarantees and other commitments	**7,037**	6,755

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

2017 US$ 000's	2018 US$ 000's		2018 RO 000's	2017 RO 000's
		a) Directors and senior management		
366	**387**	Interest income	**149**	141
39	**52**	Interest expenditure	**20**	15
319	**299**	Directors' remuneration	**115**	123
200	**221**	Directors' sitting fees	**85**	77
		b) Major shareholders and others		
3,753	**7,112**	Interest income	**2,738**	1,445
4,787	**4,447**	Interest expenditure	**1,712**	1,843

36.Related party transactions (continued)

Loans, advances or receivables and non-funded exposure due from related parties or holders of 10 percent or more of Banks shares, or their family members, less all provisions and write-offs, are further analysed as follows:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
87,623	**102,473**	Royal Court Affairs	**39,452**	33,735
		Dubai Group (Ex. Dubai Financial Group)		
22,629	**-**	Gross	**-**	8,712
(22,629)	**-**	Less: specific provisions	**-**	(8,712)
		H.E.Sheikh Mustahail Ahmed Al Mashani		
49,140	**87,403**	group companies	**33,650**	18,919
11,782	**6,535**	Others	**2,516**	4,536
148,545	**196,411**		**75,618**	57,190

During 2017, the Group entered into a settlement agreement with its related party Dubai Group LLC ('the borrower') on their exposure with the bank. As on 31 December 2017, the Group carried 100% provision towards this exposure. Under the agreement, the Group received RO 2.520 million as full and final settlement from the borrower in March 2018 against an exposure of RO 8.755 million. The settlement and the balance write-off is approved by the Board of directors and has necessary regulatory approval. Accordingly, in 2018, the Group has recovered RO 2.520 million and has written off RO 6.235 million in the books of account.

Interest expense incurred on deposits:

Items of expense which were paid to related parties or holders of 10 percent or more of the Bank's shares, or their family members, during the year can be further analysed as follows:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
2,548	**2,839**	Royal Court Affairs	**1,093**	981
		H.E. Sheikh Mustahail Ahmed Al Mashani group		
2,255	**1,608**	companies	**619**	868
23	**52**	Others	**20**	9
4,826	**4,499**		**1,732**	1,858

Key management compensation

Key management comprises of 5 members (2017 : 5 members) of the management executive committee in the year 2018. The Bank considers the members of Management Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

In the ordinary course of business, the Group conducts transactions with certain of its key management personnel and companies in which they have a significant interest. The balances in respect of these related parties included in the consolidated statement of financial position as at the reporting date are as follows:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
7,686	**2,714**	Loans and advances	**1,045**	2,959
784	**3,260**	Current, deposit and other accounts	**1,255**	302

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

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
286	**234**	Interest income	**90**	110
16	**44**	Interest expenditure	**17**	6
10,758	**15,044**	Salaries and other short-term benefits	**5,792**	4,142
143	**143**	Post-employment benefits	**55**	55

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

36. Related party transactions (continued)

The amounts disclosed in the table are the amounts accrued / paid recognised as an expense during the reporting period related to key management personnel. Certain components of key management compensation are on deferral basis and are disclosed accordingly. The previous year figures are revised considering the actual payment wherever applicable.

37. Fiduciary activities

The Group's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals. The aggregate amounts of funds managed, which are not included in the Group's statement of financial position, are as follows:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
2,586,434	**2,897,286**	Funds under management	**1,115,455**	995,777

38. Derivatives

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses on derivatives classified as held for trading and fair value hedges are included in the statement of comprehensive income. The Group uses the following derivative financial instruments:

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Interest rate swaps are contractual agreements between two parties to exchange interest differentials based on a specific notional amount. Counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

The Group uses forward foreign exchange contracts, currency options and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the changes in the cash flow arising from certain fixed interest rate loans and deposits.

For interest rate risks strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

The Parent Company has entered into interest rate swaps that are designated as fair value hedges, for hedging the interest rate risk movement on Euro medium term notes and certain of its customer deposits and as cash flow hedges for hedging the cash flow volatility risk on its subordinated liabilities. The cumulative change in the fair value of the hedged liabilities attributable to the risk hedged is recorded as part of their respective carrying values and are accordingly presented in statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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38. Derivatives (continued)

Derivatives held or issued for hedging purposes (continued)

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2018						**RO 000's**
	Positive fair value	**Negative Fair value**	**Notional amount total**	**Notional amounts by term to maturity**		
				within 3 months	**4-12 months**	**> 12 months**
Derivatives:	*(Note 8)*	*(Note 19)*				
Fair value hedge	**-**	**301**	**29,637**	**-**	-	**29,637**
Cash flow hedge	**514**	**-**	**39,270**	-	-	**39,270**
Interest rate swaps	**6,553**	**6,533**	**701,597**	**8,767**	**-**	**692,830**
Currency options bought	**3**	**-**	**321**	**321**	**-**	**-**
Currency options sold	**-**	**3**	**321**	**321**	**-**	**-**
Commodities purchase contracts	**758**	**5,187**	**115,315**	**64,965**	**45,905**	**4,445**
Commodities sale contracts	**5,333**	**738**	**115,315**	**64,965**	**45,905**	**4,445**
Forward purchase contracts	**434**	**1,830**	**1,661,242**	**1,058,525**	**491,319**	**111,398**
Forward sales contracts	**4,836**	**4,864**	**1,658,214**	**1,060,506**	**487,200**	**110,508**
Total	**18,431**	**19,456**	**4,321,232**	**2,258,370**	**1,070,329**	**992,533**
Total US$	**47,873**	**50,535**	**11,223,979**	**5,865,896**	**2,780,075**	**2,578,008**

						RO 000's
	Positive	Negative	Notional	Notional amounts by term to maturity		
31 December 2017	fair value	Fair value	amount total	within 3 months	4-12 months	> 12 months
Derivatives:	*(Note 8)*	*(Note 19)*				
Fair value hedge	-	1,353	312,309	192,500	-	119,809
Cash flow hedge	-	214	52,360	-	-	52,360
Interest rate swaps	9,398	9,398	458,154	7,700	11,534	438,920
Currency options bought	157	-	48,214	35,472	12,742	-
Currency options sold	-	157	48,214	35,472	12,742	-
Commodity options bought	5	-	2,562	854	1,708	-
Commodity options sold	-	5	2,562	854	1,708	-
Commodities purchase contracts	8,775	158	106,350	82,373	15,499	8,478
Commodities sale contracts	2	8,687	106,350	82,373	15,499	8,478
Forward purchase contracts	2,903	1,857	1,307,672	802,705	398,321	106,646
Forward sales contracts	6,107	4,007	1,301,071	797,094	399,928	104,049
Total	27,347	25,836	3,745,818	2,037,397	869,681	838,740
Total US$	71,031	67,106	9,729,397	5,291,940	2,258,912	2,178,545

39. Repurchase agreements

The Group did not have any repurchase transactions outstanding as of the reporting date (2017: nil).

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40. Geographical distribution of assets and liabilities

The geographical distribution of assets and liabilities was as follows:

At 31 December 2018	Sultanate of Oman RO000's	Other GCC countries RO000's	Europe RO000's	United States of America RO000's	Others RO000's	Total RO000's
Cash and balances with Central Banks	1,207,473	99,283	-	-	-	1,306,756
Due from banks	5,497	154,140	124,240	57,742	134,424	476,043
Loans and advances	8,484,035	403,619	2,701	-	48,560	8,938,915
Investments	759,478	128,827	114,139	-	267,138	1,269,582
Property and equipment and other assets	287,401	9,342	-	-	-	296,743
Total assets	10,743,884	795,211	241,080	57,742	450,122	12,288,039
Deposits from banks	19,421	485,502	48,608	7	398,340	951,878
Customers' deposits	7,882,522	549,985	3,766	971	25,441	8,462,685
Euro medium term notes/ Sukuk	44,608	-	385,000	-	-	429,608
Other liabilities and taxation	455,201	21,578	-	-	77	476,856
Subordinated liabilities	-	-	-	39,270	-	39,270
Shareholders' funds	1,927,742	-	-	-	-	1,927,742
Total liabilities and equity	10,329,494	1,057,065	437,374	40,248	423,858	12,288,039

At 31 December 2018	Sultanate of Oman US$ 000's	Other GCC countries US$ 000's	Europe US$ 000's	United States of America US$ 000's	Others US$ 000's	Total US$ 000's
Cash and balances with Central Banks	3,136,294	257,878	-	-	-	3,394,172
Placements with banks	14,278	400,364	322,701	149,979	349,153	1,236,475
Loans and advances	22,036,454	1,048,360	7,016	-	126,130	23,217,960
Investments	1,972,669	334,616	296,465	-	693,865	3,297,615
Property and equipment and other assets	746,496	24,265	-	-	-	770,761
Total assets	27,906,191	2,065,483	626,182	149,979	1,169,148	31,916,983
Deposits from banks	50,445	1,261,044	126,255	18	1,034,649	2,472,411
Customers' deposits	20,474,083	1,428,532	9,782	2,522	66,081	21,981,000
Euro medium term notes and Sukuk	115,865	-	1,000,000	-	-	1,115,865
Other liabilities and taxation	1,182,339	56,047	-	-	200	1,238,586
Subordinated liabilities	-	-	-	102,000	-	102,000
Shareholders' funds	5,007,121	-	-	-	-	5,007,121
Total liabilities and equity	26,829,853	2,745,623	1,136,037	104,540	1,100,930	31,916,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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40. Geographical distribution of assets and liabilities (continued)

At 31 December 2017	Sultanate of Oman RO 000's	Other GCC countries RO 000's	Europe RO 000's	United States of America RO 000's	Others RO 000's	Total RO 000's
Cash and balances with Central Banks	778,704	156,041	-	-	-	934,745
Due from banks	25,632	175,314	96,331	10,446	284,303	592,026
Loans and advances	7,926,163	361,549	10,138	14	30,852	8,328,716
Investments	740,632	131,219	133,207	29	22,089	1,027,176
Property and equipment and other assets	259,658	6,901	-	-	-	266,559
Total assets	9,730,789	831,024	239,676	10,489	337,244	11,149,222
Deposits from banks	650	466,866	51,403	554	390,652	910,125
Customers' deposits	6,978,822	414,398	3,115	365	22,612	7,419,312
Euro medium term notes/ Sukuk	44,608	-	384,508	-	-	429,116
Other liabilities and taxation	399,128	19,317	-	-	115	418,560
Subordinated liabilities / mandatory convertible bonds	101,416	-	-	52,360	-	153,776
Shareholders' funds	1,818,333	-	-	-	-	1,818,333
Total liabilities and equity	9,342,957	900,581	439,026	53,279	413,379	11,149,222

At 31 December 2017	Sultanate of Oman US$ 000's	Other GCC countries US$ 000's	Europe US$ 000's	United States of America US$ 000's	Others US$ 000's	Total US$ 000's
Cash and balances with Central Banks	2,022,608	405,301	-	-	-	2,427,909
Due from banks	66,578	455,361	250,210	27,132	738,449	1,537,730
Loans and advances	20,587,437	939,089	26,333	36	80,135	21,633,030
Investments	1,923,720	340,829	345,992	75	57,374	2,667,990
Property and equipment and other assets	674,436	17,925	-	-	-	692,361
Total assets	25,274,779	2,158,505	622,535	27,243	875,958	28,959,020
Deposits from banks	1,688	1,212,639	133,514	1,439	1,014,681	2,363,961
Customers' deposits	18,126,811	1,076,359	8,091	948	58,732	19,270,941
Euro medium term notes/ Sukuk	115,865	-	998,722	-	-	1,114,587
Other liabilities and taxation	1,036,696	50,174	-	-	299	1,087,169
Subordinated liabilities / mandatory convertible bonds	263,419	-	-	136,000	-	399,419
Shareholders' funds	4,722,943	-	-	-	-	4,722,943
Total liabilities and equity	24,267,422	2,339,172	1,140,327	138,387	1,073,712	28,959,020

41. Segmental information

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

For the year ended 31 December 2018:

Total US$ 000's	International US$ 000's	Oman US$ 000's	Segment revenue	Oman RO 000's	International RO 000's	Total RO 000's
1,091,006	51,662	1,039,344	Interest income	400,147	19,890	420,037
(372,229)	(29,366)	(342,863)	Interest expense	(132,002)	(11,306)	(143,308)
152,229	-	152,229	Income from Islamic financing	58,608	-	58,608
(80,644)	-	(80,644)	Distribution to depositors	(31,048)	-	(31,048)
250,571	16,694	233,877	Commission and fee income (net)	90,043	6,427	96,470
119,421	8,301	111,120	Other operating income	42,781	3,196	45,977
1,160,354	**47,291**	**1,113,063**		**428,529**	**18,207**	**446,736**
			Segment costs			
(459,698)	(21,372)	(438,326)	Other operating expenses	(168,756)	(8,228)	(176,984)
(34,699)	(656)	(34,043)	Depreciation	(13,106)	(253)	(13,359)
(112,317)	(44,538)	(67,779)	Net impairment losses on financial assets	(26,095)	(17,147)	(43,242)
(87,060)	(131)	(86,929)	Tax expense	(33,468)	(50)	(33,518)
(693,774)	**(66,697)**	**(627,077)**		**(241,425)**	**(25,678)**	**(267,103)**
466,580	**(19,406)**	**485,986**	**Segment profit/ (loss) for the year**	**187,104**	**(7,471)**	**179,633**
			Other information			
31,916,983	1,428,855	30,488,128	Segment assets	11,737,930	550,109	12,288,039
27,894	364	27,530	Segment capital expenses	10,599	140	10,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

41. Segmental information (continued)

For the year ended 31 December 2017:

Total US$ 000's	International US$ 000's	Oman US$ 000's	Segment revenue	Oman RO 000's	International RO 000's	Total RO 000's
982,593	57,161	925,432	Interest income	356,291	22,007	378,298
(315,884)	(30,761)	(285,123)	Interest expense	(109,772)	(11,843)	(121,615)
119,732	-	119,732	Income from Islamic financing	46,097	-	46,097
(55,673)	-	(55,673)	Distribution to depositors	(21,434)	-	(21,434)
241,730	16,784	224,946	Commission and fee income (net)	86,604	6,462	93,066
159,880	2,158	157,722	Other operating income	60,723	831	61,554
1,132,378	45,342	1,087,036		418,509	17,457	435,966
			Segment costs			
(443,785)	(22,967)	(420,818)	Other operating expenses	(162,015)	(8,842)	(170,857)
(34,343)	(685)	(33,658)	Depreciation	(12,958)	(264)	(13,222)
(112,413)	(57,849)	(54,564)	Net impairment losses on financial assets	(21,007)	(22,272)	(43,279)
6,332	6,332	-	Share of profit from an associate	-	2,438	2,438
(88,904)	(1,217)	(87,687)	Tax expense	(33,760)	(468)	(34,228)
(673,113)	(76,386)	(596,727)		(229,740)	(29,408)	(259,148)
459,265	(31,044)	490,309	Segment profit/ (loss) for the year	188,769	(11,951)	176,818
			Other information			
28,959,020	1,605,818	27,353,202	Segment assets	10,530,982	618,240	11,149,222
27,959	208	27,751	Segment capital expenses	10,684	80	10,764

41. Segmental information (continued)

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

31 December 2018	Conventional banking						
	Corporate Banking RO 000's	Consumer Banking RO 000's	Wholesale Banking RO 000's	International Banking * RO 000's	Subtotal RO 000's	Islamic Banking RO 000's	Total RO 000's
Segment revenue							
Net interest income	117,833	124,709	25,520	8,667	276,729	-	276,729
Net income from Islamic financing	-	-	-	-	-	27,560	27,560
Commission, fees and other income (net)	25,616	63,589	40,747	9,683	139,635	2,812	142,447
Operating income	143,449	188,298	66,267	18,350	416,364	30,372	446,736
Segment costs							
Operating expenses (incl. depreciation)	(29,974)	(118,992)	(17,428)	(10,411)	(176,805)	(13,538)	(190,343)
Net impairment losses on financial assets	(19,925)	(4,898)	2,771	(17,147)	(39,199)	(4,043)	(43,242)
Tax expense	(14,099)	(9,702)	(7,551)	(120)	(31,472)	(2,046)	(33,518)
	(63,998)	(133,592)	(22,208)	(27,678)	(247,476)	(19,627)	(267,103)
Segment profit (loss) for the year	79,451	54,706	44,059	(9,328)	168,888	10,745	179,633
Segment assets	4,464,602	3,292,808	2,570,947	584,098	10,912,455	1,375,584	12,288,039
Operating income (US $ 000's)	372,596	489,086	172,122	47,662	1,081,466	78,888	1,160,354
Net profit (US $ 000's)	206,367	142,094	114,439	(24,229)	438,671	27,909	466,580
Segment assets (US $ 000's)	11,596,368	8,552,748	6,677,784	1,517,138	28,344,038	3,572,945	31,916,983

* International banking includes overseas operations and cost allocations from Oman operations.

41. Segmental information (continued)

	------Conventional banking------						
As at 31 December 2017	Corporate banking RO 000's	Consumer banking RO 000's	Wholesale banking RO 000's	International banking * RO 000's	Subtotal RO 000's	Islamic banking RO 000's	Total RO 000's
Segment revenue							
Net interest income	106,653	122,242	17,372	10,416	256,683	-	256,683
Net income from Islamic financing	-	-	-	-	-	24,663	24,663
Commission, fees and other income (net)	25,643	74,023	45,105	7,548	152,319	2,301	154,620
Operating income	132,296	196,265	62,477	17,964	409,002	26,964	435,966
Segment costs							
Operating expenses (including depreciation)	(29,011)	(113,394)	(17,404)	(11,347)	(171,156)	(12,923)	(184,079)
Net impairment losses on financial assets	(9,813)	(5,588)	(1,393)	(22,268)	(39,062)	(4,217)	(43,279)
Share of results from an associate	-	-	-	2,438	2,438	-	2,438
Tax expense	(13,998)	(11,550)	(6,640)	(468)	(32,656)	(1,572)	(34,228)
	(52,822)	(130,532)	(25,437)	(31,645)	(240,436)	(18,712)	(259,148)
Segment profit/ (loss) for the year	79,474	65,733	37,040	(13,681)	168,566	8,252	176,818
Segment assets	4,175,628	3,137,442	1,990,085	648,400	9,951,555	1,197,667	11,149,222
Operating income (US $ 000's)	343,625	509,779	162,278	46,660	1,062,342	70,036	1,132,378
Segment profit/ (loss) for the year (US $ 000's)	206,425	170,734	96,207	(35,535)	437,831	21,434	459,265
Segment assets (US $ 000's)	10,845,788	8,149,201	5,169,052	1,684,156	25,848,197	3,110,823	28,959,020

41. Segmental information (continued)

IFRS15 reqiures the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below tablen provides disaggregation of the total commission, fees and other income into contract revenues and non-contract revenues within Group’s business segments, which are the reportable segments. Contract revenue is further segregated based on the products and services:

Disaggregated revenues	Corporate Banking RO 000’s	Consumer banking RO 000’s	Wholesale Banking RO 000’s	International Banking RO 000’s	Subtotal RO 000’s	Islamic Banking RO 000’s	Total RO 000’s
Contract revenue							
Transactional income	**4,142**	**54,190**	**1,048**	**113**	**59,493**	**875**	**60,368**
Trade income	**11,518**	**-**	**3,754**	**3,264**	**18,536**	**439**	**18,975**
Syndication and other loan related income	**8,104**	**1,172**	**1,237**	**644**	**11,157**	**368**	**11,525**
Advisory, Asset Management and Private Equity services related income	**4**	**107**	**8,390**	**2,454**	**10,955**	**44**	**10,999**
Total contract revenue	**23,768**	**55,469**	**14,429**	**6,475**	**100,141**	**1,726**	**101,867**
Non contract revenue	**1,848**	**8,120**	**26,318**	**3,208**	**39,494**	**1,086**	**40,580**
Commission, fees and other income (net)	**25,616**	**63,589**	**40,747**	**9,683**	**139,635**	**2,812**	**142,447**
US $ 000’s	**66,535**	**165,166**	**105,836**	**25,151**	**362,688**	**7,304**	**369,992**

The group has contract assets and contract liabilities amounting to RO 4.213 million (2017: RO 2.169 million) and RO 4.430 million (2017: RO 5.623 million) respectively.

No impairment losses have been recognised relating to the contract assets. Further, the contracts do not have a significant financing component.

The contract liabilities primarily relate to the non-refundable fees received from customers where revenue is recognised over a period of time as mentioned in note 3.2. The amount of RO 1.193 million recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2018. Management expects that 22% of revenue for the remaining performance obligations will be recognised every year for the next three years.

The revenue from contracts with customers does not include revenue recognised from performance obligations satisfied in previous periods.

42. Financial risk management

42.1 Introduction and overview

Risk Management is a process by which the Group identifies key risks, applies consistent, understandable risk measures, and chooses which risks to reduce and which to hold and by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that the Group operates within the risk appetite levels set by its Board of Directors while various business functions pursue their objective of maximizing the risk adjusted returns. The Group has exposure to the following core risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk management is the overall responsibility of the Group's Board of Directors and managed through the Board Risk Committee (BRC). BRC provides recommendations to the Board of Directors on the risk-reward strategy, risk appetite and policies and framework for managing different types of risks. The Board reviews and approves the risk management strategy of the Group and defines the risk appetite of the Group. The Board approved strategy is implemented at management level through management committees. For the purpose of day-to-day management of risks, the Group has created an independent Risk Management department (RMD). Risk Management department objectively reviews and ensures that the various functions of the Group operate in compliance with the risk parameters set by the Board of Directors. Risk Management department has a direct reporting line to the Board of Directors of the Group. The risk appetite, approved by the Board of Directors, in various business areas is defined and communicated through an enterprise-wide risk policy. The Group's risk policy, approved by the Board of Directors, analyses and sets risk limits for core risks - Credit risk, Liquidity risk, Market risk and Operational risk. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels reported on a quarterly basis. This ensures prudent management of the risks assumed by the Group in its normal course of business. The risk policy is updated regularly, based on an analysis of the economic trends and the operating environment in the countries where the Group operates.

Group's Board of Directors have remained closely involved with key risk management initiatives, in ensuring the Group's risks are effectively managed, appropriate levels of liquidity are maintained and adequate capital is held in line with the requirements.

The Group recognises that an effective risk management process is key to its objective of enhancing shareholder value and is committed to developing risk management as an area of core competence. It continues in investing in its risk management capabilities so as to ensure that it is able to deliver on its growth plans while managing the underlying risks in an effective manner.

42.2 Credit risk

42.2.1 Management of credit risk

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. It includes the below sub types:

- Cross border risk
- Counterparty Risk
- Settlement risk

The function of credit risk management is to maximise the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Group's risk exposure. Credit risk management process of the Group begins with the risk policy, updated regularly, which clearly defines parameters for each type of risks assumed by the Group.

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.1 Management of credit risk (continued)

Risk limit control and mitigation policies

The Group has set for itself clear and well defined limits to address different dimensions of credit risk including concentration risk. Compliance with the various parameters set in the risk policy, is reviewed on a regular basis and exceptions are reported to enable remedial actions.

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off – all are governed by the Group's credit manual which is reviewed by Risk Management department and approved by appropriate approval authorities. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'.

- All Corporate lending proposals, where the proposed credit limit for a borrower or related Group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.

- All Corporate relationships are reviewed at least once a year. Retail portfolio, including credit cards and mortgage portfolio, is reviewed on a portfolio basis at a product level at least once a year.

- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Group's risk policy.

- Credit exposures are risk rated to provide support for credit decisions. The portfolio is analysed based on risk grades and risk grade migration to focus on management of prevalent credit risk.

- Retail portfolio is rated using an application score card.

A robust collateral management system is in place to mitigate any credit risk. The Group has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collateral. While securities such as listed equities are valued regularly, credit policy mandates securities obtained by way of legal mortgage over real estate to be valued at least once in 3 years or more frequently if situation warrants.

The Group executes Credit Support annex to the International Swaps and Derivatives Association (ISDA) document with major counterparty banks to mitigate credit risk arising out of change in the value of underlying for the derivative exposures. The Treasury Middle office undertakes daily valuation of all the derivative deals and raises appropriate margin calls.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

42.Financial risk management (continued)

42.2 Credit risk (continued)

42.2.2 Credit quality analysis

All loans and advances of the Group are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

As required under IFRS 9, the Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: Financial instruments which are not credit impaired and for which the credit risk has not increased significantly since initial recognition are classified as Stage 1. When a Credit Facility is first recognised, the Group recognises a loss allowance based on 12 month ECL.

- Stage 2: Financial instruments having Significant Increase in Credit Risk ("SICR") since origination will be classified under Stage 2 (if not impaired). When a Credit Facility has shown a significant increase in credit risk since origination, the Group records a loss allowance for the life time (LT) ECL; and

- Stage 3: All Credit Facilities that are credit impaired either at origination or at reporting date (for e.g. in default stage) i.e. having objective evidence of default / credit impaired, shall be classified under Stage 3. Credit Facilities, considered as credit-impaired, are those facilities where any payment of principal or interest is overdue by more than 89 days. Besides quantitative and qualitative criteria are also applied for assigning Stage 3. In such cases, the Group records a loss allowance for the LTECL.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

42.Financial risk management (continued)

42.2 Credit risk (continued)

42.2.2 Credit quality analysis (continued)

31 December 2018	**Stage 1 RO 000's**	**Stage 2 RO 000's**	**Stage 3 RO 000's**	**Total RO 000's**
Gross exposure				
Central Bank balances	773,482	-	-	773,482
Due from banks	457,106	335	-	457,441
Loans and advances	6,595,413	2,385,829	286,784	9,268,026
Investment securities at FVOCI	51,440	11,439	-	62,879
Investment securities at Amortised cost	1,076,278	8,910	-	1,085,188
Total funded gross exposure	**8,953,719**	**2,406,513**	**286,784**	**11,647,016**
Financial guarantee contracts	1,694,294	967,009	15,132	2,676,435
Acceptances	42,871	64,561	56	107,488
Loan commitment/unutilised limits	1,212,384	1,088,437	-	2,300,821
Total non-funded gross exposure	**2,949,549**	**2,120,007**	**15,188**	**5,084,744**
Total gross exposure	**11,903,268**	**4,526,520**	**301,972**	**16,731,760**
US$'000	**30,917,579**	**11,757,195**	**784,343**	**43,459,117**
Impairment				
Central Bank balances	-	-	-	-
Due from Banks	645	3	-	648
Loans and advances	14,942	107,679	206,490	329,111
Investment securities at FVOCI	84	848	-	932
Investment securities at Amortised cost	89	92	-	181
Total funded impairment	**15,760**	**108,622**	**206,490**	**330,872**
Financial guarantee contracts	1,330	21,257	7,233	29,820
Acceptances	16	48	27	91
Loan commitment/unutilised limits	2,246	7,973	-	10,219
Total non-funded impairment	**3,592**	**29,278**	**7,260**	**40,130**
Total impairment	**19,352**	**137,900**	**213,750**	**371,002**
US$'000	**50,265**	**358,182**	**555,195**	**963,642**
Net exposure				
Central Bank balances	773,482	-	-	773,482
Due from Banks	456,461	332	-	456,793
Loans and advances	6,580,471	2,278,150	80,294	8,938,915
Investment securities at FVOCI	51,356	10,591	-	61,947
Investment securities at Amortised cost	1,076,189	8,818	-	1,085,007
Total funded net exposure	**8,937,959**	**2,297,891**	**80,294**	**11,316,144**
Financial guarantee contracts	1,692,964	945,752	7,899	2,646,615
Acceptances	42,855	64,513	29	107,397
Loan commitment/unutilised limits	1,210,138	1,080,464	-	2,290,602
Total net non-funded exposure	**2,945,957**	**2,090,729**	**7,928**	**5,044,614**
Total net exposure	**11,883,916**	**4,388,620**	**88,222**	**16,360,758**
US$'000	**30,867,314**	**11,399,013**	**229,148**	**42,495,475**

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

Stage 2: 27.1% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets are the key driver of increase in impairment allowances under IFRS 9.

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

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.2 Credit quality analysis (continued)

Net impairment losses on financial assets

Details of net impairment losses on financial assets charged in income statement is set out as follows :

2017 US $ 000's	**2018 US $ 000's**		**2018 RO 000's**	2017 RO 000's
		(Impairment) / reversal of impairment for credit losses:		
9,351	**5,561**	- Due from banks	**2,141**	3,600
(164,016)	**(204,842)**	- Loans and advances to customers	**(78,864)**	(63,146)
-	**(25,010)**	- Financial guarantees	**(9,629)**	-
-	**(73)**	- Acceptances	**(28)**	-
-	**6,800**	- Loan commitments	**2,618**	-
(19,148)	**1,592**	- Investments	**613**	(7,372)
(173,813)	**(215,972)**		**(83,149)**	(66,918)
100,400	**95,341**	Recoveries from impairment for credit losses	**36,706**	38,654
6,545	**8,314**	Recoveries from loans written off earlier	**3,201**	2,520
106,945	**103,655**		**39,907**	41,174
(45,545)	**-**	Loss on reclassification of investment in an associate	**-**	(17,535)
(112,413)	**(112,317)**		**(43,242)**	(43,279)

Cash and cash equivalents

The Group held cash and cash equivalents of RO 1,427 million at 31 December 2018 (2017: RO 1,169 million). The cash and cash equivalents are held with central banks and financial institutions counterparties that are rated at least Baa3, based on Moody's ratings.

Impaired financial assets – Comparative information under IAS 39

As at 31 December 2017	Loans and advances and Islamic financing to customers RO 000's	Due from banks RO 000's
Individually impaired		
Sub-Standard	38,019	-
Doubtful	15,896	-
Loss	131,957	-
Gross amount	185,872	-
Allowance for impairment	(131,310)	-
Carrying amount	54,562	-
Collectively impaired		
Sub-Standard	11,210	-
Doubtful	14,487	-
Loss	42,601	-
Gross amount	68,298	-
Allowance for impairment	(51,652)	-
Carrying amount	16,646	-
Past due but not impaired		
Standard	116,289	-
Carrying amount	116,289	-
Past due but not impaired		
1-30 days	53,343	-
30-60 days	47,712	-
60-90 days	15,234	-
	116,289	-

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42.Financial risk management (continued)

42.2 Credit risk (continued)

42.2.2 Credit quality analysis (continued)

As at 31 December 2017	Loans and advances and Islamic financing to customers RO 000's	Due from banks RO 000's
Neither past due nor impaired		
Standard	7,572,592	594,576
Special mention	713,449	-
Gross amount	8,286,041	594,576
Allowance for impairment	(144,822)	(2,550)
Carrying amount	8,141,219	592,026
Total carrying amount	8,328,716	592,026
Carrying amount in USD'000	21,633,029	1,537,730
Total allowances for impairment	(327,784)	(2,550)
US$ 000's	(851,387)	(6,623)

Total impairment above includes impairment for off-balance sheet exposures as well.

Restructured loans on standard and special mentioned portfolio as at 31 December 2018 : RO 64.964 million (2017 - RO 71.649 million). Restructured loans on classified portfolio as at 31 December 2017: RO 89.751million (2017 - RO 89.107 million).

Other assets, excluding acceptances, as outlined in note 8 includes elements of credit risk for which the Group does not hold any impairment provision.

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk equivalents relating to off-balance sheet items calculated as per Basel II guidelines are as follows:

2017 US$ 000's	**2018 US$ 000's**		**2018 RO 000's**	2017 RO 000's
854,351	**953,675**	Financial guarantees	**367,165**	328,925
2,415,914	**2,396,701**	Other credit related liabilities	**922,730**	930,127
487,294	**386,769**	Loan commitments	**148,906**	187,608
3,757,559	**3,737,145**		**1,438,801**	1,446,660

The above table represents a worst case scenario of credit risk exposure as of 31 December 2018 and 2017, without taking into account of any collateral held or other credit enhancements attached.

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.3 Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and security agreements. Those loans are categorised either as Sub-standard, Doubtful or Loss in the internal credit risk system.

42.2.4 Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

42.2.5 Allowances for impairment

Refer note 42.2.8.

42.2.6 Write-off policy

The Group writes off a loan or security and any related allowances for impairment when the Group determines that the loan or security is uncollectible. This determination is reached after considering factors such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure or legal measures to recover the dues. For smaller balance standardised loans, charge off decisions generally based on a product specific past due status and borrower's capacity to repay the loan.

42.2.7 Analysis of impairment and collateral

(a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances and Islamic financing to customers			Loans and advances and Islamic financing to customers	
2017	**2018**		**2018**	2017
US$ 000's	**US$ 000's**		**RO 000's**	RO 000's
		Against individually impaired		
660,662	**520,896**	Property	**200,545**	254,355
16,156	**86**	Equities	**33**	6,220
22,795	**1,049**	Others	**404**	8,776
699,613	**522,031**		**200,982**	269,351
		Against past due but not impaired		
921,055	**727,460**	Property	**280,072**	354,606
37,590	**272,870**	Equities	**105,055**	14,472
96,966	**68,348**	Others	**26,314**	37,332
1,055,611	**1,068,678**		**411,441**	406,410
		Against neither past due nor impaired		
10,103,075	**10,959,639**	Property	**4,219,461**	3,889,684
2,101,894	**1,926,182**	Equities	**741,580**	809,229
523,509	**545,036**	Others	**209,839**	201,551
12,728,478	**13,430,857**		**5,170,880**	4,900,464
14,483,702	**15,021,566**		**5,783,303**	5,576,225

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.7 Analysis of impairment and collateral (continued)

(b) Repossessed collateral

The Group obtains assets by taking possession of collateral held as security. The carrying value of collateral held for sale as at 31 December 2018 is as follows:

	Carrying Amount	
	2018	2017
	RO 000's	RO 000's
Nature of assets		
Residential/commercial property	**1,810**	7,422
US$ 000's	**4,701**	19,278

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position within other assets.

42.2.8 Exposures and ECL of financial assets

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.6.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, reasonable and supportable information that is relevant and available without undue cost or effort is considered. This includes both quantitative and qualitative information and analysis, based on the historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

Each exposure is allocated to a rating scale for individual risk assessment based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Further, a master scale is employed across all different rating scales used by the Group. Its main purpose is to make risk assessment comparable across various segments or products.

A master scale is a scale of credit risk grades, typically denominated by a combination of numbers, letters or both, which represent the relative credit risk assigned to each class or grade. It typically composed of a quantitative and a qualitative component that are indicative of risk of default.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves the periodic review of customers' files, status of the industry, press articles, economic condition, changes in external credit ratings, and other internal and external information.

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Performance and default information about its credit risk exposures is collected and analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used. Statistical models are employed to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP, unemployment rate, oil prices, equity index, etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Determining whether credit risk has increased significantly

Significant Increase in Credit Risk (SICR) Criteria

Under IFRS 9, Stage 2 consists of facilities that have undergone SICR since initial recognition (unless they are classified under low credit risk at reporting date). For these exposures, Lifetime ECL is recognised.

Non-Retail Portfolio

Qualitative Criteria

- Individual Assessment of any Non Retail exposure belonging to list of Top 20 borrowers
- Special Mention accounts, contracts having specific provision and not in Stage 3 & contracts having interest in suspense and not in Stage 3
- Qualitative criteria as prescribed by Central Bank of Oman vide circular BM1149 dated 13th April 2017

Quantitative Criteria

- Rating Degradation based: Rating downgrade that remains within investment grade requires a drop of at least 4 rating grades. Rating degradation that transitions to sub investment grade from investment grade or degradation within sub investment grade requires a drop of at least 1 rating grade. Highest risk rating grades require fewer than 4 notches to trigger SICR.
- Days past due based: Any facility which has been more than 30 days delinquent & restructured accounts would be assigned to Stage 2

Retail Portfolio

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

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Loans to customers in financial difficulties are renegotiated to maximise collection opportunities and minimise the risk of default. Loan modification is granted on a selective basis, if the debtor is currently in default on its debt, or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The policy applies to retail and corporate portfolios. The Audit Committee regularly reviews reports on modification activities.

For financial assets modified as part of policy, the estimate of PD reflects whether the modification has improved or restored ability to collect interest and principal and the Group's previous experience of similar modification action. As part of this process, the borrower's payment performance is evaluated against the modified contractual terms and considers various behavioural indicators.

Generally, modification is a qualitative indicator of a significant increase in credit risk and an expectation of modification may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12 month ECL.

Definition of default

A financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 89 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, indicators like the following are considered:

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

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

The definition of default largely aligns with that applied for regulatory capital purposes.

Incorporation of forward-looking information

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

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. For computation of ECL, the Group considers three scenario viz. base case, upside case and downside case with weightage of 40%, 30% & 30% respectively. The economic scenarios includes the following ranges of key indicators for Oman, Saudi Arabia and Kuwait.

	Units of Measurement	**2019**	**2020**
As at 31 December 2018			
Brent Crude Oil Price	(USD per bbl)	**67.74**	**64.09**
Unemployment Rate	(%)	**16.46**	**16.33**
Private Consumption Expenditure	(RO Bn)	**9.37**	**9.53**
Overnight Interbank Lending Rate	(%)	**3.13**	**2.99**
Oman Gross Domestic Product	(RO Bn)	**30.35**	**30.72**
Oman Share Price Index	Index	**172.37**	**173.98**
Saudi Arabia Gross Domestic Product	(SAR Bn)	**2,672.23**	**2,727.53**
Saudi Arabia Share Price Index	Index	**8,133.35**	**9,156.05**
Kuwait Share Price Index	Index	**97.87**	**99.03**

	Units of Measurement	2018	2019
As at 31 December 2017			
Brent Crude Oil Price	(USD per bbl)	58.40	58.70
Unemployment Rate	(%)	17.45	17.45
Private Consumption Expenditure	(RO Bn)	9.32	9.50
Overnight Interbank Lending Rate	(%)	1.99	3.23
Oman Gross Domestic Product	(RO Bn)	29.22	29.73
Oman Share Price Index	Index	303.02	300.19
Saudi Arabia Gross Domestic Product	(SAR Bn)	2,626.00	2,804.21
Saudi Arabia Share Price Index	Index	7,411.43	7,347.90
Kuwait Share Price Index	Index	101.95	112.36

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 years.

Measurement of ECL

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

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

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

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

LGD is the magnitude of the likely loss if there is a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. EAD is derived from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, ECL is measured considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for risk management purposes, a longer period is considered. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, ECL is measured over a period based on behavioural pattern of the portfolio which may be longer than the maximum contractual period if the Group’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group’s exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- Loan to value (LTV) ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

Methodology for Computation of Expected Credit Losses

IFRS 9 requires 12 month expected credit loss provision for all accounts in Stage 1 and lifetime expected credit losses for all other accounts.

12 Month Expected Credit Loss

12 month credit loss refer to the portion of expected credit loss resulting from possible default events within 12 months after reporting date.

Lifetime Expected Credit Loss

Lifetime losses result from all possible default events over the expected life of the financial instrument after the reporting date. The lifetime refers to the loan tenure of the financial instrument.

Calculating expected credit losses is a multi-step process. The process followed for Non retail and Retail exposures is given below:

Non-Retail Exposure:

The following is the broad methodology for calculation of ECL for non retail exposures:

1. Inputs in ECL calculation include contractual terms, cash flows, EIR, Country and Industry risk factors, correlation to systemic risks and Moody’s equivalent Through the cycle (TTC) ratings on origination and reporting dates

2. TTC Moody’s Rating are converted to Point in time (PIT) Unconditional PD term structure using Moody's EDF9 model that incorporates country and industry factors.

3. Moody's RiskCalc model was adapted to Group’s non-retail portfolio to calculate Unconditional PIT LGD.

4. Using Moody's GCorr model, 3 macroeconomic scenarios (Baseline, Upside & Downside) and the weight for each scenario are specified. The weights assigned are 40%, 30% & 30% for Baseline, Upside & Downside respectively. The macro variables used for Bank Muscat are Oil price, Oman Equity, KSA Equity, Kuwait Equity and KSA GDP.

5. PIT Unconditional PD is converted into 12 month and lifetime Conditional PIT PD and PIT Unconditional LGD is converted into PIT Conditional LGD using GCorr Macro model for each scenario mentioned above.

6. Using the scenario weights mentioned above, scenario-weighted average Conditional PIT PD is calculated. Scenario-weighted average conditional PIT PD is then converted to an equivalent credit rating using Moody’s implied rating process.

7. Instrument-level contractual terms are used to generate cash flow which are discounted at the contractual rate to get exposure at default (EAD). Some instruments have irregular cash flows and hence custom cash flows are input directly in to the tool.

8. ECL Calculation
12 month ECL = 12 month PD X LGD X Discounted EAD
Lifetime ECL = Lifetime PD X LGD X Discounted EAD

9. Final ECL
For all Stage 1 instruments, Final ECL is equal to 12 month ECL calculated as above
For all Stage 2 and Stage 3 instruments, Final ECL is equal to Lifetime ECL calculated as above

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42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

Retail Exposures:

The following is the broad methodology for calculation of ECL for retail exposures:

1. Individual and loan characteristics are used to develop PD models for each retail portfolio.

2. Historical portfolio write-off information is used to build LGD models for each retail portfolio.

3. Detailed payment schedules are used for EAD computation. In case payment detailed schedules are not available, linear amortization to the maturity date is used to compute the exposure at a particular forecast date.

4. ECL Calculation
12 month ECL = 12 month PD X LGD X Discounted EAD
Lifetime ECL = Lifetime PD X LGD X Discounted EAD

5. Final ECL
For all Stage 1 instruments, Final ECL is equal to 12 month ECL calculated as above.
For all Stage 2 and Stage 3 instruments, Final ECL is equal to Lifetime ECL calculated as above.

IFRS 9 requires 12 month ECL provision for all accounts in Stage 1 and lifetime expected credit losses for all other accounts.

The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiplied by LGD and EAD.

When estimating the ECLs, the Group considers three scenarios (a base case, upside case, and a downside case) and these scenarios are based on the combination of PD and LGD. Both 12 month ECL and life time ECL amount would be the weighted average of the ECL amounts calculated using the three macroeconomic scenario.

The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the reporting date and future economic conditions that affect credit risk.

ECL Calculation
12 month ECL = 12 month PD X LGD X Discounted EAD
Lifetime ECL = Lifetime PD X LGD X Discounted EAD

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

An analysis of credit quality of gross exposures as at 31 December 2018 and changes in gross exposure balances from 1 January 2018 to 31 December 2018 is set out in the following tables by class of financial assets:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost/FVOCI				
High Grade (Aaa to Baa3)	362,867	28	-	362,895
Standard Grade (Ba1 to Ba2)	49,821	-	-	49,821
Satisfactory Grade (Ba3 to Caa3)	44,418	307	-	44,725
Total	**457,106**	**335**	**-**	**457,441**
Total (US$'000)	**1,187,288**	**870**	**-**	**1,188,158**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	**594,507**	**69**	**-**	**594,576**
Transfer between stages				
- Transfer to Stage 1	1,798	(1,798)	-	-
- Transfer to Stage 2	(3,434)	3,434	-	-
Re-measurement of outstanding	101,681	(1,301)	-	100,380
Financial assets originated during the period	2,441,310	2,289	-	2,443,599
Financial assets matured during the period	(2,678,756)	(2,358)	-	(2,681,114)
Balance at 31 December	**457,106**	**335**	**-**	**457,441**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loans and advances / Islamic financing receivables at Amortised cost				
High Grade (Aaa to Baa3)	2,814,834	593,963	-	3,408,797
Standard Grade (Ba1 to Ba2)	3,220,845	1,083,254	-	4,304,099
Satisfactory Grade (Ba3 to Caa3)	559,734	708,612	-	1,268,346
Sub Standard	-	-	36,224	36,224
Doubtful	-	-	48,070	48,070
Loss	-	-	202,490	202,490
Total	**6,595,413**	**2,385,829**	**286,784**	**9,268,026**
Total (US$'000)	**17,130,943**	**6,196,958**	**744,893**	**24,072,794**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	**6,658,301**	**1,738,733**	**259,466**	**8,656,500**
Transfer between stages				
- Transfer to Stage 1	1,095,868	(1,076,912)	(18,956)	-
- Transfer to Stage 2	(1,302,323)	1,325,051	(22,728)	-
- Transfer to Stage 3	(7,582)	(78,485)	86,067	-
Re-measurement of outstanding	(371,868)	(172,157)	17,037	(526,988)
Financial assets originated during the period	6,859,494	3,416,920	68,902	10,345,316
Financial assets matured during the period	(6,336,477)	(2,767,321)	(90,704)	(9,194,502)
Write off	-	-	(7,614)	(7,614)
Transfer from / (to) Memorandum portfolio	-	-	(4,686)	(4,686)
Balance at 31 December	**6,595,413**	**2,385,829**	**286,784**	**9,268,026**

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade (Aaa to Baa3)	1,150,806	790	-	1,151,596
Standard Grade (Ba1 to Ba2)	2,221,105	1,775	-	2,222,880
Satisfactory Grade (Ba3 to Caa3)	222,425	28,088	-	250,513
Sub Standard	-	-	10,396	10,396
Doubtful	-	-	14,130	14,130
Loss	-	-	50,469	50,469
Total	**3,594,336**	**30,653**	**74,995**	**3,699,984**
Total (US$'000)	**9,335,938**	**79,618**	**194,792**	**9,610,348**

* includes Housing Loans, Personal Loans Credit Cards and Retail Overdrafts

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	**3,452,684**	**29,080**	**65,759**	**3,547,523**
Transfer between stages				
- Transfer to Stage 1	90,344	(77,608)	(12,736)	-
- Transfer to Stage 2	(95,364)	107,176	(11,812)	-
- Transfer to Stage 3	(6,297)	(30,773)	37,070	-
Re-measurement of outstanding	(284,012)	(688)	4,569	(280,131)
Financial assets originated during the period	920,696	10,709	14,859	946,264
Financial assets matured during the period	(483,715)	(7,243)	(23,894)	(514,852)
Write off	-	-	(709)	(709)
Transfer from / (to) Memorandum portfolio	-	-	1,889	1,889
Balance at 31 December	**3,594,336**	**30,653**	**74,995**	**3,699,984**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate and other Loans and advances / Islamic financing receivables at Amortised cost				
High Grade (Aaa to Baa3)	1,664,028	593,173	-	2,257,201
Standard Grade (Ba1 to Ba2)	999,740	1,081,479	-	2,081,219
Satisfactory Grade (Ba3 to Caa3)	337,309	680,524	-	1,017,833
Sub Standard	-	-	25,828	25,828
Doubtful	-	-	33,940	33,940
Loss	-	-	152,021	152,021
Total	**3,001,077**	**2,355,176**	**211,789**	**5,568,042**
Total (US$'000)	**7,795,005**	**6,117,340**	**550,101**	**14,462,446**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	**3,205,617**	**1,709,653**	**193,707**	**5,108,977**
Transfer between stages				
- Transfer to Stage 1	1,005,524	(999,304)	(6,220)	-
- Transfer to Stage 2	(1,206,959)	1,217,875	(10,916)	-
- Transfer to Stage 3	(1,285)	(47,712)	48,997	-
Re-measurement of outstanding	(87,856)	(171,469)	12,468	(246,857)
Financial assets originated during the period	5,938,798	3,406,211	54,043	9,399,052
Financial assets matured during the period	(5,852,762)	(2,760,078)	(66,810)	(8,679,650)
Write off	-	-	(6,905)	(6,905)
Transfer from / (to) Memorandum portfolio	-	-	(6,575)	(6,575)
Balance at 31 December	**3,001,077**	**2,355,176**	**211,789**	**5,568,042**

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42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at FVOCI				
High Grade (Aaa to Baa3)	43,663	1,020	-	44,683
Standard Grade (Ba1 to Ba2)	2,737	3,314	-	6,051
Satisfactory Grade (Ba3 to Caa3)	5,040	7,105	-	12,145
Total	**51,440**	**11,439**	**-**	**62,879**
Total (US$'000)	**133,610**	**29,712**	**-**	**163,322**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	**29,733**	**15,937**	**-**	**45,670**
Transfer between stages				
- Transfer to Stage 1	19,133	(19,133)	-	-
- Transfer to Stage 2	(17,001)	17,001	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	(1,459)	(392)	-	(1,851)
Financial assets originated during the period	29,858	31	-	29,889
Financial assets matured during the period	(6,680)	(2,005)	-	(8,685)
Foreign exchange movements	(1)	-	-	(1)
Loss from change in fair value	(2,143)	-	-	(2,143)
Balance at 31 December	**51,440**	**11,439**	**-**	**62,879**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade (Aaa to Baa3)	1,021,113	-	-	1,021,113
Standard Grade (Ba1 to Ba2)	45,165	1,128	-	46,293
Satisfactory Grade (Ba3 to Caa3)	10,000	7,782	-	17,782
Total	**1,076,278**	**8,910**	**-**	**1,085,188**
Total (US$'000)	**2,795,527**	**23,143**	**-**	**2,818,670**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	**591,500**	**273,293**	**-**	**864,793**
Transfer between stages				
- Transfer to Stage 1	429,492	(429,492)	-	-
- Transfer to Stage 2	(168,500)	168,500	-	-
- Transfer to Stage 3	-	-	-	-
Re-measurement of outstanding	3,605	(3,392)	-	213
Financial assets originated during the period	3,243,316	118,361		3,361,677
Financial assets matured during the period	(3,016,768)	(118,360)	-	(3,135,128)
Foreign exchange and other movements	(6,367)	-	-	(6,367)
Balance at 31 December	**1,076,278**	**8,910**	**-**	**1,085,188**

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42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Financial guarantee contracts - Amortised cost				
High Grade (Aaa to Baa3)	888,464	155,661	-	1,044,125
Standard Grade (Ba1 to Ba2)	629,921	555,083	-	1,185,004
Satisfactory Grade (Ba3 to Caa3)	175,909	256,265	-	432,174
Sub Standard	-	-	7,974	7,974
Doubtful	-	-	4,072	4,072
Loss	-	-	3,086	3,086
Total	**1,694,294**	**967,009**	**15,132**	**2,676,435**
Total (US$'000)	**4,400,764**	**2,511,712**	**39,304**	**6,951,780**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	**2,240,129**	**607,846**	**12,095**	**2,860,070**
Transfer between stages				
- Transfer to Stage 1	671,876	(671,098)	(778)	-
- Transfer to Stage 2	(1,040,133)	1,041,473	(1,340)	-
- Transfer to Stage 3	(484)	(8,211)	8,695	-
Re-measurement of outstanding	(324,327)	(114,007)	(195)	(438,529)
Financial assets originated during the period	1,276,505	458,501	2,277	1,737,283
Financial assets matured during the period	(1,129,272)	(347,495)	(5,622)	(1,482,389)
Balance at 31 December	**1,694,294**	**967,009**	**15,132**	**2,676,435**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade (Aaa to Baa3)	36,465	18,992	-	55,457
Standard Grade (Ba1 to Ba2)	5,916	41,959	-	47,875
Satisfactory Grade (Ba3 to Caa3)	490	3,610	-	4,100
Sub Standard	-	-	56	56
Total	**42,871**	**64,561**	**56**	**107,488**
Total (US$'000)	**111,353**	**167,691**	**145**	**279,189**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	**52,959**	**34,875**	**27**	**87,861**
Transfer between stages				
- Transfer to Stage 1	358	(358)	-	-
- Transfer to Stage 2	(2,315)	2,315	-	-
- Transfer to Stage 3	(11)	-	11	-
Re-measurement of outstanding	614	363	-	977
Financial assets originated during the period	340,258	226,717	288	567,263
Financial assets matured during the period	(348,992)	(199,351)	(270)	(548,613)
Balance at 31 December	**42,871**	**64,561**	**56**	**107,488**

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loan commitment/unutilised limits - Amortised cost				
High Grade (Aaa to Baa3)	701,144	542,911	-	1,244,055
Standard Grade (Ba1 to Ba2)	348,279	485,826	-	834,105
Satisfactory Grade (Ba3 to Caa3)	162,961	59,700	-	222,661
Total	**1,212,384**	**1,088,437**	**-**	**2,300,821**
Total (US$'000)	**3,149,049**	**2,827,109**	**-**	**5,976,158**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Balance at 1 January	**1,861,398**	**408,297**	**-**	**2,269,695**
Transfer between stages				
- Transfer to Stage 1	315,011	(314,990)	(21)	-
- Transfer to Stage 2	(818,084)	818,388	(304)	-
- Transfer to Stage 3	(2,724)	(6,119)	8,843	-
Re-measurement of outstanding	(290,098)	146,710	(7,465)	(150,853)
Financial assets originated during the period	488,920	59,060	-	547,980
Financial assets matured during the period	(342,039)	(22,909)	(1,053)	(366,001)
Balance at 31 December	**1,212,384**	**1,088,437**	**-**	**2,300,821**

Impairment loss allowances

An analysis of changes in the impairment loss allowances is set out in the following tables by class of financial assets. Balances as at 1 January 2018 are after remeasurement and reclassification on transition to IFRS 9 (refer note 44 for details).

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost/FVOCI				
Balance at 1 January	**2,788**	**1**	**-**	**2,789**
Transfer between stages:				
- Transfer to Stage 1	9	(9)	-	-
- Transfer to Stage 2	(5)	5	-	-
Reversal of impairment to income statement for:	(2,147)	6	-	(2,141)
- Re-measurement of impairment allowances	(1,907)	5	-	(1,902)
- Financial assets originated during the period	2,824	8	-	2,832
- Financial assets matured during the period	(3,064)	(7)	-	(3,071)
Balance at 31 December	**645**	**3**	**-**	**648**
Balance at 31 December (US$'000)	**1,675**	**8**	**-**	**1,683**

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FOR THE YEAR ENDED 31 DECEMBER 2018

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loans and advances / Islamic financing receivables at Amortised cost				
Balance at 1 January	**15,911**	**94,912**	**184,114**	**294,937**
Transfer between stages:				
- Transfer to Stage 1	34,778	(34,778)	-	-
- Transfer to Stage 2	(4,645)	4,645	-	-
- Transfer to Stage 3	(45)	(10,870)	10,915	-
Impairment charged to income statement for:	(31,057)	51,781	58,140	78,864
- Re-measurement of impairment allowances	(32,717)	38,591	58,140	64,014
- Financial assets originated during the period	5,965	22,945	-	28,910
- Financial assets matured during the period	(4,305)	(9,755)	-	(14,060)
Recoveries from impairment for credit losses	-	-	(36,706)	(36,706)
Interest reserve charged to interest income	-	1,989	8,071	10,060
Recoveries of reserved interest in interest income	-	-	(5,575)	(5,575)
Write off of impairment allowances	-	-	(7,614)	(7,614)
Transfer from / (to) Memorandum portfolio	-	-	(4,686)	(4,686)
Foreign exchange and other movements	-	-	(169)	(169)
Balance at 31 December	**14,942**	**107,679**	**206,490**	**329,111**
Balance at 31 December (US$'000)	**38,810**	**279,686**	**536,338**	**854,834**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost				
Balance at 1 January	**11,123**	**5,230**	**53,000**	**69,353**
Transfer between stages:				
- Transfer to Stage 1	12,131	(12,131)	-	-
- Transfer to Stage 2	(2,720)	2,720	-	-
- Transfer to Stage 3	(42)	(7,906)	7,948	-
Impairment charged to income statement for:	(10,279)	16,878	15,210	21,809
- Re-measurement of impairment allowances	(11,130)	17,691	15,210	21,771
- Financial assets originated during the period	2,766	1,014	-	3,780
- Financial assets matured during the period	(1,915)	(1,827)	-	(3,742)
Recoveries from impairment for credit losses	-	-	(19,129)	(19,129)
Interest reserve charged to interest income	-	-	5,260	5,260
Recoveries of reserved interest in interest income	-	-	(1,730)	(1,730)
Write off of impairment allowances	-	-	(709)	(709)
Transfer from / (to) Memorandum portfolio	-	-	1,889	1,889
Balance at 31 December	**10,213**	**4,791**	**61,739**	**76,743**
Balance at 31 December (US$'000)	**26,527**	**12,444**	**160,361**	**199,332**

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate and other Loans and advances / Islamic financing receivables at Amortised cost				
Balance at 1 January	**4,788**	**89,682**	**131,114**	**225,584**
Transfer between stages:				
- Transfer to Stage 1	22,647	(22,647)	-	-
- Transfer to Stage 2	(1,925)	1,925	-	-
- Transfer to Stage 3	(3)	(2,964)	2,967	-
Impairment charged to income statement for:	(20,778)	34,903	42,930	57,055
- Re-measurement of impairment allowances	(21,587)	20,900	42,930	42,243
- Financial assets originated during the period	3,199	21,931	-	25,130
- Financial assets matured during the period	(2,390)	(7,928)	-	(10,318)
Recoveries from impairment for credit losses	-	-	(17,577)	(17,577)
Interest reserve charged to interest income	-	1,989	2,811	4,800
Recoveries of reserved interest in interest income	-	-	(3,845)	(3,845)
Write off of impairment allowances	-	-	(6,905)	(6,905)
Transfer from / (to) Memorandum portfolio	-	-	(6,575)	(6,575)
Foreign exchange and other movements	-	-	(169)	(169)
Balance at 31 December	**4,729**	**102,888**	**144,751**	**252,368**
Balance at 31 December (US$'000)	**12,283**	**267,242**	**375,977**	**655,502**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at FVOCI				
Balance at 1 January	**109**	**985**	**-**	**1,094**
Transfer between stages:				
- Transfer to Stage 1	984	(984)	-	-
- Transfer to Stage 2	(51)	51	-	-
Reversal of impairment to income statement for:	(958)	796	-	(162)
- Re-measurement of impairment allowances	(979)	795	-	(184)
- Financial assets originated during the period	26	1	-	27
- Financial assets matured during the period	(5)	-	-	(5)
Balance at 31 December	**84**	**848**	**-**	**932**
Balance at 31 December (US$'000)	**218**	**2,203**	**-**	**2,421**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
Balance at 1 January	**79**	**553**	**-**	**632**
Transfer between stages:				
- Transfer to Stage 1	78	(78)	-	-
- Transfer to Stage 2	(5)	5	-	-
Reversal of impairment to income statement for:	(63)	(388)	-	(451)
- Re-measurement of impairment allowances	(137)	(388)	-	(525)
- Financial assets originated during the period	226	32	-	258
- Financial assets matured during the period	(152)	(32)	-	(184)
Balance at 31 December	**89**	**92**	**-**	**181**
Balance at 31 December (US$'000)	**231**	**239**	**-**	**470**

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Financial guarantee contracts at Amortised Cost				
Balance at 1 January	**1,681**	**17,895**	**617**	**20,193**
Transfer between stages:				
- Transfer to Stage 1	4,012	(4,012)	-	-
- Transfer to Stage 2	(704)	704	-	-
- Transfer to Stage 3	(1)	(571)	572	-
Impairment charged to income statement for:	(3,658)	7,240	6,047	9,629
- Re-measurement of impairment allowances	(3,786)	13,209	6,047	15,470
- Financial assets originated during the period	642	4,047	-	4,689
- Financial assets matured during the period	(514)	(10,016)	-	(10,530)
Foreign exchange and other movements	-	1	(3)	(2)
Balance at 31 December	**1,330**	**21,257**	**7,233**	**29,820**
Balance at 31 December (US$'000)	**3,455**	**55,213**	**18,787**	**77,455**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised Cost				
Balance at 1 January	**24**	**39**	**-**	**63**
Transfer between stages:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(1)	1	-	-
- Transfer to Stage 3	-	-	-	-
Impairment charged to income statement for:	(7)	8	27	28
- Re-measurement of impairment allowances	(11)	(29)	27	(13)
- Financial assets originated during the period	104	190	-	294
- Financial assets matured during the period	(100)	(153)	-	(253)
Balance at 31 December	**16**	**48**	**27**	**91**
Balance at 31 December (US$'000)	**42**	**125**	**70**	**237**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loan Commitment/Unutilised limits at Amortised Cost				
Balance at 1 January	**4,928**	**7,909**	**-**	**12,837**
Transfer between stages:				
- Transfer to Stage 1	4,901	(4,901)	-	-
- Transfer to Stage 2	(932)	932	-	-
- Transfer to Stage 3	(2)	(208)	210	-
Impairment charged to income statement for:	(6,649)	4,241	(210)	(2,618)
- Re-measurement of impairment allowances	(6,599)	4,072	(210)	(2,737)
- Financial assets originated during the period	820	1,740	-	2,560
- Financial assets matured during the period	(870)	(1,571)	-	(2,441)
Balance at 31 December	**2,246**	**7,973**	**-**	**10,219**
Balance at 31 December (US$'000)	**5,834**	**20,709**	**-**	**26,543**

Financial assets originated during the period mentioned in the above tables in note 42.2.8 reflect the staging of the financial assets as at 31 December 2018.

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

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

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross amount RO 000's	Provision as per CBO norms RO 000's	Reserve interest as per CBO norms RO 000's	Provision as per IFRS 9 RO 000's	Difference RO 000's	Net carrying amount RO 000's	Interest recognised as per IFRS 9 RO 000's
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7) = (4)+(5)-(6)*	*(8) = (3)-(6)*	*(9)*
Standard	**Stage 1**	7,052,519	103,339	-	15,589	87,750	7,036,930	
	Stage 2	1,726,165	17,416	-	54,704	(37,288)	1,671,461	
	Stage 3	-	-	-	-	-	-	
		8,778,684	**120,755**	**-**	**70,293**	**50,462**	**8,708,391**	**-**
Special mention	**Stage 1**	-	-	-	-	-	-	
	Stage 2	660,024	30,023	-	52,977	(22,954)	607,047	
	Stage 3	-	-	-	-	-	-	
		660,024	**30,023**	**-**	**52,977**	**(22,954)**	**607,047**	**-**
Substandard	**Stage 1**	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	
	Stage 3	44,254	10,813	372	11,185	-	33,069	
		44,254	**10,813**	**372**	**11,185**	**-**	**33,069**	**-**
Doubtful	**Stage 1**	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	
	Stage 3	52,142	21,706	1,442	29,122	(5,974)	23,020	
		52,142	**21,706**	**1,442**	**29,122**	**(5,974)**	**23,020**	**-**
Loss	**Stage 1**	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	
	Stage 3	205,576	153,049	20,394	173,443	-	32,133	
		205,576	**153,049**	**20,394**	**173,443**	**-**	**32,133**	**-**
Other items not covered under	**Stage 1**	2,949,549	-	-	3,590	(3,590)	2,945,959	
CBO circular BM 977 and related	**Stage 2**	2,119,982	-	-	29,279	(29,279)	2,090,703	
instructions	**Stage 3**	-	-	-	-	-	-	
		5,069,531	**-**	**-**	**32,869**	**(32,869)**	**5,036,662**	**-**
Total	**Stage 1**	**10,002,068**	**103,339**	**-**	**19,179**	**84,160**	**9,982,889**	
	Stage 2	**4,506,171**	**47,439**	**-**	**136,960**	**(89,521)**	**4,369,211**	
	Stage 3	**301,972**	**185,568**	**22,208**	**213,750**	**(5,974)**	**88,222**	
		14,810,211	**336,346**	**22,208**	**369,889**	**(11,335)**	**14,440,322**	**-**

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Restructured accounts

Assets classification as per CBO Norms *(1)*	Assets classification as per IFRS 9 *(2)*	Gross carrying amount RO 000's *(3)*	Provision required as per CBO Norms RO 000's *(4)*	Reserve interest as per CBO norms RO 000's *(5)*	Provisions held as per IFRS 9 RO 000's *(6)*	Difference between CBO provision required and provision held RO 000's *(7)=(4)+(5)-(6)*	Net carrying amount RO 000's *(8)=(3)-(6)*	Interest recognised as per IFRS 9 RO 000's *(9)*
Classified as performing	**Stage 1**	-	-	-	-	-	-	-
	Stage 2	64,964	8,663	-	13,060	(4,397)	51,904	-
	Stage 3	-	-	-	-	-	-	-
		64,964	**8,663**	**-**	**13,060**	**(4,397)**	**51,904**	**-**
Classified as non-performing	**Stage 1**	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	89,751	62,289	6,735	70,902	(1,878)	18,849	-
		89,751	**62,289**	**6,735**	**70,902**	**(1,878)**	**18,849**	**-**
Total	**Stage 1**	-	-	-	-	-	-	-
	Stage 2	**64,964**	**8,663**	**-**	**13,060**	**(4,397)**	**51,904**	**-**
	Stage 3	**89,751**	**62,289**	**6,735**	**70,902**	**(1,878)**	**18,849**	**-**
		154,715	**70,952**	**6,735**	**83,962**	**(6,275)**	**70,753**	**-**

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42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.8 Exposures and ECL of financial assets (continued)

Impairment allowance

	As per CBO Norms RO 000's	As per IFRS 9 RO 000's	Difference RO 000's
Impairment loss charged to profit and loss account (net of recoveries) [1]	43,855	43,855	-
Provisions required as per CBO norms / held as per IFRS 9 [1]	358,555	369,889	(11,334)
Gross NPL ratio [2]	3.09%	3.09%	0.00%
Net NPL ratio [2]	0.91%	0.89%	0.02%

[1] Impairment loss and provisions held above includes unallocated provision created by the Group
[2] NPL ratios are calculated on the basis of funded non performing loans and funded exposures

42.2.9 Credit rating analysis

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation, based on Moody's ratings or their equivalent:

At 31 December 2017	Debt and Treasury Bills RO 000's	Due from banks RO 000's	Gross off balance sheet exposures RO 000's
Rated:			
Aaa to Aa3	174,598	90,268	97,077
A1 to A3	64,957	137,259	544,063
Baa1 to Baa3	634,350	194,123	97,117
Ba1 to Ba3	3,813	47,268	179,513
B1 & Below	-	174	20,891
Unrated	8,487	125,484	1,921,409
Total	886,205	594,576	2,860,070
Total (US$ 000's)	2,301,831	1,544,353	7,428,754

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.10 Concentration of credit risk

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or businesses. It also obtains appropriate security concentration by location for loans and advances and is measured based on the location of the Group holding the asset, which has a high co-relation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

An analysis of concentrations of credit risk as the reporting date is shown below.

	Due from banks		Loans and advances and Islamic financing receivables		Investment debt securities		Contingent liabilities and commitments	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RO 000's	RO 000's	**RO 000's**	RO 000's	**RO 000's**	RO 000's	**RO 000's**	RO 000's
Carrying amount								
Concentration by sector								
Corporate	**-**	-	**4,951,772**	4,566,119	**99,652**	63,873	**1,669,961**	1,606,122
Sovereign	**-**	-	**39,400**	32,666	**957,682**	747,696	**107,065**	124,862
Financial institutions	**476,691**	594,576	**551,652**	491,108	**90,733**	101,613	**899,409**	1,129,086
Retail	**-**	-	**3,725,202**	3,566,607	**-**	-	**-**	-
Total	**476,691**	594,576	**9,268,026**	8,656,500	**1,148,067**	913,182	**2,676,435**	2,860,070
US$'000	**1,238,158**	1,544,352	**24,072,794**	22,484,416	**2,981,992**	2,371,901	**6,951,780**	7,428,754

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.10 Concentration of credit risk (continued)

The table below analyses the concentration of gross exposures to customers by various sectors.

	Due from banks		Loans and advances and Islamic financing receivables		Investment debt securities		Contingent liabilities and commitments	
	2018	2017	2018	2017	2018	2017	2018	2017
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Agriculture/allied activity	-	-	30,482	28,712	-	-	14,243	14,873
Construction	-	-	346,634	323,764	-	-	521,071	615,945
Export trade	-	-	14,709	14,929	-	-	68	1,864
Financial institutions	476,691	594,576	551,652	491,108	90,733	101,614	1,089,725	1,129,086
Government	-	-	39,400	32,666	957,681	747,696	41,796	124,862
Import trade	-	-	396,726	443,783	-	-	123,061	151,829
Manufacturing	-	-	730,184	584,631	-	-	101,570	94,419
Mining and quarrying	-	-	420,448	456,686	8,730	8,876	126,562	97,312
Real estate	-	-	407,315	389,346	-	-	8,120	8,047
Services	-	-	717,160	675,731	44,018	7,892	472,401	450,453
Transport	-	-	856,217	817,922	-	-	56,182	45,897
Utilities	-	-	642,993	543,129	43,097	43,209	26,203	36,649
Wholesale and retail trade	-	-	229,637	201,557	-	-	41,933	42,598
Others	-	-	159,267	85,929	3,808	3,895	53,500	46,236
Personal and Housing Loans	-	-	3,725,202	3,566,607	-	-	-	-
Total	476,691	594,576	9,268,026	8,656,500	1,148,067	913,182	2,676,435	2,860,070
US$'000	1,238,158	1,544,353	24,072,794	22,484,416	2,981,991	2,371,900	6,951,780	7,428,753

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.10 Concentration of credit risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk by location at the reporting date is shown below.

	Due from banks		Loans and advances and Islamic financing receivables		Investment debt securities		Contingent liabilities and commitments	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RO 000's	RO 000's	**RO 000's**	RO 000's	**RO 000's**	RO 000's	**RO 000's**	RO 000's
Concentration by location								
Sultanate of Oman	**5,127**	28,182	**8,738,251**	8190176	**1,072,943**	824,152	**1,564,988**	1,653,764
Other GCC Countries	**94,683**	175,314	**478,514**	425334	**57,920**	71,705	**529,988**	619,290
Europe	**31,451**	96,331	**2,701**	10138	**-**	-	**321,664**	295,049
United States of America	**57,965**	10,446	**11**	-	**-**	-	**29,451**	30,431
Others	**287,465**	284,303	**48,549**	30852	**17,204**	17,325	**230,344**	261,536
Total	**476,691**	594,576	**9,268,026**	8,656,500	**1,148,067**	913,182	**2,676,435**	2,860,070
US$'000	**1,238,158**	1,544,353	**24,072,794**	22,484,416	**2,981,991**	2,371,900	**6,951,779**	7,428,753

42. Financial risk management (continued)

42.2 Credit risk (continued)

42.2.10 Concentration of credit risk (continued)

ii. Offsetting financial assets and financial liabilities

The disclosures set out in the following tables include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The 'similar agreements' include derivative clearing agreements, global master repurchase agreements and ISDA credit support annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

42.2.11 Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honor its obligation to deliver cash, securities or other assets as contractually agreed.

The Group mitigates settlement risk by conducting settlements through a settlement / clearing agent or having bilateral payment netting agreements.

42.3 Liquidity risk

Liquidity risk is the potential inability of the Group to meet its maturing obligations to counterparty.

42.3.1 Management of liquidity risk

Liquidity risk arises when the Group is unable to generate sufficient cash resources to meet obligations as they fall due or can do so only at materially disadvantageous terms. Such liquidity risk may arise even when the institution is solvent. Liquidity stress may be caused by counterparties withdrawing credit lines or of not rolling over existing funding or as a result of general disruption in the markets or run on Group deposits etc.

Asset Liability Committee (ALCO) of the Group manages the liquidity position of the Group. In order to ensure that the Group meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Liquidity risk management ensures that the Group has the ability, under varying levels of stress to efficiently and economically meet liquidity needs.

The Group consciously diversifies its funding base to include deposits raised from inter-bank, issue of Certificate of deposits, retail customer deposits, bonds and medium term funds raised through Euro medium term notes and subordinated liabilities. These together with the strength of the Group's equity and asset quality ensure that funds are available at competitive rates at all times.

The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and ensure a robust management of liquidity risks. The Group undertakes structural profiling based on the actual behavioral patterns of customers to study the structural liquidity position and initiate measures to fund these gaps.

The Group undertakes liquidity management through both cash flow approach and stock approach. Under stock approach, Liquid assets to total deposits and Liquid assets to total assets ratios are closely monitored and managed. Under cash approach, assets and liabilities are bucketed based on their residual maturity to ascertain liquidity gaps. The ALCO reviews the liquidity position on a continuous basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

42. Financial risk management (continued)

42.3 Liquidity risk (continued)

42.3.1 Management of liquidity risk (continued)

The Group's statement on maturity of asset and liability is outlined in note 42.3.2 to the consolidated financial statements.

42.3.2. Exposure to liquidity risk

The key measures used by the Group for managing liquidity risk are the ratios of liquid assets to total deposits and liquid assets to total assets. For this purpose the liquid assets include cash and balances with Central Banks, government securities, treasury bills and due from banks. The table below provides the ratios of liquid assets to deposits from customers and liquid assets to total assets at the reporting date and during the reporting period.

	Liquid assets to total assets ratio		**Liquid assets to total deposits ratio**	
	2018	2017	**2018**	2017
As at 31 December	**21.07%**	17.46%	**27.13%**	23.85%
Average for the period	**17.54%**	18.05%	**23.55%**	24.58%
Maximum for the period	**21.07%**	21.40%	**27.13%**	28.43%
Minimum for the period	**15.38%**	15.52%	**20.68%**	21.58%

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity Groupings based on the remaining period at the reporting date using the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

42. Financial risk management (continued)

42.3 Liquidity risk (continued)

42.3.2. Exposure to liquidity risk (continued)

The Group's maturity position of on and off balance sheet assets and liabilities as follows:

	On demand or within one month	Two to three months	Four months to 12 months	One to five years	More than five years	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
As at 31 December 2018						
Cash and balances with Central Banks	1,085,194	22,485	55,528	100,330	43,219	1,306,756
Due from banks	135,796	128,005	174,862	37,380	-	476,043
Loans and advances	1,397,278	514,268	862,832	2,184,667	3,979,870	8,938,915
Investments	453,796	100,331	27,833	367,045	320,577	1,269,582
Property and equipment and other assets	80,985	81,430	59,907	2,277	72,144	296,743
Total on balance sheet assets	3,153,049	846,519	1,180,962	2,691,699	4,415,810	12,288,039
Irrevocable commitments to extend credit	-	-	-	336,998	224,932	561,930
Derivative products	745,219	383,622	528,833	118,883	-	1,776,557
Total off balance sheet assets	745,219	383,622	528,833	455,881	224,932	2,338,487
Total assets	3,898,268	1,230,141	1,709,795	3,147,580	4,640,742	14,626,526
Future interest cash inflows	37,342	79,590	326,571	1,164,148	840,097	2,447,748
Deposits from banks	389,773	249,118	68,921	244,066	-	951,878
Customers' deposits	1,356,406	716,035	1,789,029	3,232,261	1,368,954	8,462,685
Euro medium term notes	-		-	429,608	-	429,608
Other liabilities and taxation	186,645	103,621	183,305	2,303	982	476,856
Subordinated liabilities	-	-	-	39,270	-	39,270
Shareholders' funds	-	-	-	-	1,927,742	1,927,742
Total liabilities and equity	1,932,824	1,068,774	2,041,255	3,947,508	3,297,678	12,288,039
Irrevocable commitments to extend credit	82,391	94,533	246,708	138,298	-	561,930
Derivative products	724,594	385,102	524,723	139,110	-	1,773,529
Total off balance sheet Liabilities	806,985	479,635	771,431	277,408	-	2,335,459
Total liabilities	2,739,809	1,548,409	2,812,686	4,224,916	3,297,678	14,623,498
Future interest cash outflows	12,630	24,086	71,205	269,391	51,129	428,441
Gap (total assets - total liabilities)	1,158,459	(318,268)	(1,102,891)	(1,077,336)	1,343,064	3,028
Cumulative gap	1,158,459	840,191	262,700	(1,340,036)	3,028	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

42. Financial risk management (continued)

42.3 Liquidity risk (continued)

42.3.2. Exposure to liquidity risk (continued)
42. Financial risk management (continued)

	On demand or within one month	Two to three months	Four months to 12 months	One to five years	More than five years	Total
	US $ 000's	US $ 000's	US $ 000's	US $ 000's	US $ 000's	US $ 000's
Cash and balances with Central Banks	2,818,686	58,403	144,229	260,597	112,257	3,394,172
Due from banks	352,716	332,481	454,187	97,091	-	1,236,475
Loans and advances	3,629,293	1,335,760	2,241,122	5,674,460	10,337,325	23,217,960
Investments	1,178,690	260,599	72,294	953,364	832,668	3,297,615
Property and equipment and other assets	210,351	211,506	155,603	5,914	187,387	770,761
Total on balance sheet assets	8,189,736	2,198,749	3,067,435	6,991,426	11,469,637	31,916,983
Irrevocable commitments to extend credit	-	-	-	875,319	584,239	1,459,558
Derivative products	1,935,634	996,421	1,373,592	308,787	-	4,614,434
Total off balance sheet assets	1,935,634	996,421	1,373,592	1,184,106	584,239	6,073,992
Total assets	10,125,370	3,195,170	4,441,027	8,175,532	12,053,876	37,990,975
Future interest cash inflows	96,992	206,727	848,236	3,023,761	2,182,070	6,357,786
Deposits from banks	1,012,397	647,060	179,016	633,938	-	2,472,411
Customers' deposits and certificates of deposit	3,523,132	1,859,831	4,646,829	8,395,483	3,555,725	21,981,000
Euro medium term notes	-	-	-	1,115,865	-	1,115,865
Other liabilities & taxation	484,791	269,145	476,117	5,982	2,551	1,238,586
Subordinated liabilities	-	-	-	102,000	-	102,000
Shareholders' funds	-	-	-	-	5,007,121	5,007,121
Total liabilities and equity	5,020,320	2,776,036	5,301,962	10,253,268	8,565,397	31,916,983
Irrevocable commitments to extend credit	214,003	245,540	640,800	359,216	-	1,459,559
Derivative products	1,882,062	1,000,265	1,362,917	361,325	-	4,606,569
Total off balance sheet Liabilities	2,096,065	1,245,805	2,003,717	720,541	-	6,066,128
Total liabilities	7,116,385	4,021,841	7,305,679	10,973,809	8,565,397	37,983,111
Future interest cash outflows	32,805	62,561	184,948	699,717	132,803	1,112,834
Gap (total assets - total liabilities)	3,008,985	(826,671)	(2,864,652)	(2,798,277)	3,488,479	7,864
Cumulative gap	3,008,985	2,182,314	(682,338)	(3,480,615)	7,864	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

42.3. Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

At 31 December 2017	On demand or within one month RO 000's	Two to three months RO 000's	Four months to twelve months RO 000's	One to five years RO 000's	More than five years RO 000's	Total RO 000's
Cash and balances with Central Banks	712,346	25,338	57,210	95,139	44,712	934,745
Due from banks	191,168	197,294	167,122	36,442	-	592,026
Loans and advances	1,201,169	636,758	841,178	1,790,677	3,858,934	8,328,716
Investments	251,389	213,437	52,046	221,428	288,876	1,027,176
Property and equipment and other assets	87,732	48,627	48,636	2,647	78,917	266,559
Total on balance sheet assets	2,443,804	1,121,454	1,166,192	2,146,333	4,271,439	11,149,222
Irrevocable commitments to extend credit	-	-	-	402,527	162,190	564,717
Derivative products	438,113	440,051	420,379	115,479	-	1,414,022
Total off balance sheet assets	438,113	440,051	420,379	518,006	162,190	1,978,739
Total assets	2,881,917	1,561,505	1,586,571	2,664,339	4,433,629	13,127,961
Future interest cash inflows	29,147	64,559	262,535	959,077	783,391	2,098,709
Deposits from banks	397,539	128,620	71,879	312,087	-	910,125
Customers' deposits	737,623	771,839	1,714,829	2,870,375	1,324,646	7,419,312
Euro medium term notes	-	192,500	-	236,616	-	429,116
Other liabilities and taxation	115,979	114,684	183,395	3,704	798	418,560
Subordinated liabilities/ Mandatory convertible bonds	-	32,416	69,000	52,360	-	153,776
Shareholders' funds	-	-	-	-	1,818,333	1,818,333
Total liabilities and equity	1,251,141	1,240,059	2,039,103	3,475,142	3,143,777	11,149,222
Irrevocable commitments to extend credit	128,330	60,779	133,603	241,875	130	564,717
Derivative products	436,709	440,633	417,125	112,954	-	1,407,421
Total off balance sheet Liabilities	565,039	501,412	550,728	354,829	130	1,972,138
Total liabilities	1,816,180	1,741,471	2,589,831	3,829,971	3,143,907	13,121,360
Future interest cash outflows	9,645	17,516	47,201	130,965	3,662	208,989
Gap (total assets - total liabilities)	1,065,737	(179,966)	(1,003,260)	(1,165,632)	1,289,722	6,601
Cumulative gap	1,065,737	885,771	(117,489)	(1,283,121)	6,601	

42. Financial risk management (continued)

42.3. Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

At 31 December 2017	On demand or within one month US$ 000's	Two to three months US$ 000's	Four months to twelve months US$ 000's	One to five years US$ 000's	More than five years US$ 000's	Total US$ 000's
Cash and balances with Central Banks	1,850,250	65,813	148,597	247,114	116,135	2,427,909
Due from banks	496,540	512,452	434,083	94,655	-	1,537,730
Loans and advances	3,119,920	1,653,918	2,184,878	4,651,109	10,023,205	21,633,030
Investments	652,959	554,382	135,184	575,138	750,327	2,667,990
Property and equipment and other assets	227,876	126,304	126,327	6,875	204,979	692,361
Total on balance sheet assets	6,347,545	2,912,869	3,029,069	5,574,891	11,094,646	28,959,020
Irrevocable commitments to extend credit	-	-	-	1,045,525	421,273	1,466,798
Derivative products	1,137,956	1,142,990	1,091,894	299,945	-	3,672,785
Total off balance sheet assets	1,137,956	1,142,990	1,091,894	1,345,470	421,273	5,139,583
Total assets	7,485,501	4,055,859	4,120,963	6,920,361	11,515,919	34,098,603
Future interest cash inflows	75,706	167,686	681,909	2,491,109	2,034,782	5,451,192
Deposits from banks	1,032,568	334,078	186,699	810,616	-	2,363,961
Customers' deposits	1,915,905	2,004,777	4,454,101	7,455,519	3,440,639	19,270,941
Euro medium term notes	-	500,000	-	614,587	-	1,114,587
Other liabilities & taxation	301,243	297,881	476,351	9,621	2,073	1,087,169
Subordinated liabilities/ Mandatory Convertible Bonds	-	84,198	179,221	136,000	-	399,419
Shareholders' funds	-	-	-	-	4,722,943	4,722,943
Total liabilities and equity	3,249,716	3,220,934	5,296,372	9,026,343	8,165,655	28,959,020
Irrevocable commitments to extend credit	333,325	157,868	347,021	628,247	338	1,466,799
Derivative products	1,134,309	1,144,501	1,083,442	293,387	-	3,655,639
Total off balance sheet Liabilities	1,467,634	1,302,369	1,430,463	921,634	338	5,122,438
Total liabilities	4,717,350	4,523,303	6,726,835	9,947,977	8,165,993	34,081,458
Future interest cash outflows	25,052	45,496	122,600	340,169	9,512	542,829
Gap (total assets - total liabilities)	2,768,151	(467,444)	(2,605,872)	(3,027,616)	3,349,926	17,145
Cumulative gap	2,768,151	2,300,707	(305,165)	(3,332,781)	17,145	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

42. Financial risk management (continued)

42.3 Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

Interest cash flows shown in the above tables represent inflows and outflows up to the contractual maturity of financial assets and liabilities. Mismatch in interest cash flows arise as contractual maturity of financial assets is longer than contractual maturity of financial liabilities. Historically, financial liabilities are rolled over on contractual maturity which is not considered in the future interest cash flow calculations. Furthermore, the interest cash flows do not factor in the stable nature of unambiguous maturity financial liabilities such as demand and savings accounts.

As on the reporting date, deposits from Ministries and other Government organisations represent 29.4 percent of the total customer deposits (2017: 31.5 percent).

42.4 Market risk

42.4.1 Management of market risks

The Group sets limits for each product and risk type in order to ensure that the Group's market risk is managed well within the overall regulatory requirements set by the Central Bank of Oman and internal regulations contained in the Risk Policy. The Group does not enter into trading positions in commodities and derivatives. Limits and all internal/external guidelines are strictly adhered to, deviations, if any, are immediately escalated and action taken wherever necessary.

The principal categories of market risk faced by the Group are set out below:

- Foreign exchange risk
- Investment price risk
- Interest rate risk
- Commodity price risk

42.4.2 Foreign exchange risk

Foreign exchange risk is the risk of loss due to volatility in the exchange rates. Foreign exchange risk management in the Group is ensured through regular measurement and monitoring of open foreign exchange positions against approved limits. Majority of the foreign exchange transactions carried out by the division are on behalf of corporate customers and are on a back-to-back basis. The treasury ensures that positions with customers are covered in the interbank market.

The Group conservatively restricts its open currency position at below 35 percent of its net worth as against the regulatory limit of 40 percent of net worth.

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.2 Foreign exchange risk (continued)

. As at the reporting date, the Group had the following net exposures denominated in foreign currencies:

2017 USD 000's	**2018 USD 000's**		**2018 RO 000's**	2017 RO 000's
4,525	10,132	UAE Dirhams	3,901	1,742
280,442	205,691	US Dollar	79,191	107,970
60,787	34,161	Saudi Riyal	13,152	23,403
5,244	8,418	Qatari Riyal	3,241	2,019
8,223	6,553	Pakistani Rupee	2,523	3,166
6,816	7,190	Indian Rupee	2,768	2,624
71,358	51,304	Kuwait Dinar	19,752	27,473
96,330	83,829	Bahraini Dinar	32,274	37,087
11,558	44,431	Others	17,106	4,450
545,283	451,709		**173,908**	209,934

Positions are monitored on a daily basis to ensure positions are maintained within the limits approved by the Central Bank of Oman.

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas branches, subsidiary and significant investment in entity of equivalent to RO 73 million (2017: RO 87 million) which are exempted from regulatory limit on foreign exchange exposure.

The Group's significant portion of foreign exchange exposure is in USD and other GCC currencies which have (other than Kuwaiti Dinar) fixed parity with Omani Rial unless the peg is changed.

Exposure and sensitivity analysis:

The table below indicates the sensitivity analysis of foreign exchange exposure of the Group to changes in the non-parity foreign currency prices as at 31 December 2018 with all other variables held constant.

Non parity foreign currency net assets	**At 31 December 2018**		At 31 December 2017	
	% of change in the currency price (+/-)	**Change in profit and equity (+/-) RO'000**	% of change in the currency price (+/-)	Change in profit and equity (+/-) RO'000
Indian Rupees	**10%**	**277**	10%	262
Pakistani Rupees	**10%**	**252**	10%	317
Kuwaiti Dinar	**10%**	**1,975**	10%	2,747
Others	**10%**	**1,711**	10%	445

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.3 Investment Price Risk

Investment price risk is the risk of decline in the market value of the Group’s portfolio as a result of diminishment in the market value of individual investments. The Group’s investments are governed by the Investment Policy and Risk Policy approved by the Board of Directors and are subject to rigorous due diligence. Investment limits such as position limits, exposure limits, stop loss limits, sectorial limits are defined in various policies enabling proper risk management of the Group’s investments. The Group’s Investment Committee monitors the investments. The rating and cost vis-a-vis the market price of the instruments are monitored on daily basis and necessary actions taken to reduce exposure, if needed. Traded portfolio is revalued on daily basis and the rest at regular intervals to ensure that unrealised losses, if any, on account of reduction in the market value of the investments below their cost remain within the acceptable parameters defined in the Group’s Investment Policy.

Exposure and sensitivity analysis

The Group analyses price sensitivity of the equity portfolio as follows:

(a) For the local quoted equity portfolio, based on the beta factor of the portfolio performance to the MSM30 Index performance.

(b) For the international quoted equity portfolio, based on the individual security market price movement.

The Group's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Group's local equity portfolio has a correlation to the performance of MSM30 Index.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2018 was 1.09. Thus, a +/- 5% change in the value of MSM30 index may result in 5.46% change in the value of Group’s quoted local equity portfolio, amounting to RO 2.573 million change in the unrealised gain recognised in the investment income / statement of other comprehensive income for the year based on the classification of the portfolio

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2017 was 0.19. Thus, a +/- 5% change in the value of MSM30 index may result in 0.97% change in the value of Group’s quoted local equity portfolio, amounting to RO 0.475 million change in the unrealised gain recognised in the statement of other comprehensive income for the year.

International quoted equity portfolio of the Group comprises of shares listed in GCC stock markets, Indian Stock markets and other international markets. A +/- 5% change in the market price of the respective securities would result in change in value of the portfolio of +/- RO 3.70 million (2017: +/- RO 1.42 million) and corresponding increase or decrease in the unrealised gain recognised in the investment income / statement of other comprehensive income based on the classification of the portfolio.

42.4.4 Interest rate risk management.

Interest rate risk is the risk of adverse impact on the Group’s financial position due to change in market interest rates. While the impact on the trading book is by way of change in the value of the portfolio, the banking book leads to impact on the net Interest Income (NII) and/or Economic Value of Equity (EVE). The short term impact of interest rate risk is measured by studying the impact on the NII of the Group while the long term impact is measured through the study of the impact on the Economic Value of Equity. The responsibility for interest rate risk management rests with the Parent Company’s Treasury under the supervision of the Asset Liability Management Committee (ALCO). The Group’s interest rate sensitivity position of assets and liabilities, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.4 Interest rate risk management (continued)

	Effective annual interest rate %	Within one month RO 000's	Months 2 to 3 RO 000's	Months 4 to 12 RO 000's	Year 1 to 5 RO 000's	Over 5 years RO 000's	Non-interest sensitive RO 000's	Total RO 000's
As of 31 December 2018								
Cash and balances with Central Banks	0-0.5	767,187	3,158	3,137	-	-	533,274	1,306,756
Due from banks	2.35	134,456	128,004	171,782	37,730	-	4,071	476,043
Loans and advances	4.86	1,573,355	1,055,102	1,226,653	2,834,318	2,238,931	10,556	8,938,915
Investments	2.50	365,613	98,000	39,276	364,046	288,800	113,847	1,269,582
Property, equipment, software and Other assets	None	-	-	-	-	-	296,743	296,743
Total on balance sheet assets		2,840,611	1,284,264	1,440,848	3,236,094	2,527,731	958,491	12,288,039
Derivatives		911,162	538,048	396,016	517,804	184,352	-	2,547,382
Total assets		3,751,773	1,822,312	1,836,864	3,753,898	2,712,083	958,491	14,835,421
Deposits from banks	2.74	376,356	249,119	68,921	244,066	-	13,416	951,878
Customers' deposits	1.53	963,105	300,928	4,180,176	1,645,913	124,466	1,248,097	8,462,685
Euro medium term notes / Sukuk	4.86	-	-	-	429,608	-	-	429,608
Other liabilities and taxation	None	-	-	-	-	-	476,856	476,856
Subordinated liabilities	5.84	-	-	39,270	-	-	-	39,270
Perpetual Tier I capital	5.50	-	-	-	130,000	-		130,000
Shareholders' funds	None	-	-	-	-	-	1,797,742	1,797,742
Total on balance sheet liabilities and equity		1,339,461	550,047	4,288,367	2,449,587	124,466	3,536,111	12,288,039
Derivatives		920,175	539,528	354,734	545,565	184,352	-	2,544,354
Total liabilities		2,259,636	1,089,575	4,643,101	2,995,152	308,818	3,536,111	14,832,393
Total interest rate sensitivity gap		1,492,137	732,737	(2,806,237)	758,746	2,403,265	(2,577,620)	3,028
Cumulative interest rate sensitivity gap		1,492,137	2,224,874	(581,363)	177,383	2,580,648	3,028	
In US$ '000		3,875,681	5,778,894	(1,510,034)	460,735	6,702,982	7,865	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.4 Interest rate risk management (continued)

	Effective annual interest rate %	Within one month RO 000's	Months 2 to 3 RO 000's	Months 4 to 12 RO 000's	Year 1 to 5 RO 000's	Over 5 years RO 000's	Non-interest sensitive RO 000's	Total RO 000's
As of 31 December 2017								
Cash and balances with Central Banks	0-0.5	188,067	-	1,899	-	-	744,779	934,745
Due from banks	1.53	182,211	197,294	167,122	36,442	-	8,957	592,026
Loans and advances	4.67	1,447,104	970,992	1,206,246	2,549,088	2,142,405	12,881	8,328,716
Investments	2.25	161,817	213,042	67,649	240,651	240,055	103,962	1,027,176
Property, equipment, software and Other assets	None	-	-	944	11	-	265,604	266,559
Total on balance sheet assets		1,979,199	1,381,328	1,443,860	2,826,192	2,382,460	1,136,183	11,149,222
Derivatives		509,369	784,883	442,668	397,803	152,898	-	2,287,621
Total assets		2,488,568	2,166,211	1,886,528	3,223,995	2,535,358	1,136,183	13,436,843
Deposits from banks	2.26	394,872	128,620	71,879	312,087	-	2,667	910,125
Customers' deposits	1.46	302,715	419,180	4,167,685	324,131	843,804	1,361,797	7,419,312
Euro medium term notes / Sukuk	3.73	-	192,500	-	236,616		-	429,116
Other liabilities and taxation	None		-	-	-	-	418,560	418,560
Subordinated liabilities and Mandatory Convertible bonds	5.24	-	84,776	69,000	-	-	-	153,776
Perpetual Tier I capital	5.5	-	-	-	130,000	-	-	130,000
Shareholders' funds	None	-	-	-	-	-	1,688,333	1,688,333
Total on balance sheet liabilities and equity		697,587	825,076	4,308,564	1,002,834	843,804	3,471,357	11,149,222
Derivatives		627,774	785,466	387,670	346,904	133,206	-	2,281,020
Total liabilities		1,325,361	1,610,542	4,696,234	1,349,738	977,010	3,471,357	13,430,242
Total interest rate sensitivity gap		1,163,207	555,669	(2,809,706)	1,874,257	1,558,348	(2,335,174)	6,601
Cumulative interest rate sensitivity gap		1,163,207	1,718,876	(1,090,830)	783,427	2,341,775	6,601	
In US$ '000		3,021,317	4,464,613	(2,833,325)	2,034,875	6,082,532	17,145	

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.4. Interest rate risk management (continued)

(i) The repricing profile is based on the remaining period to the next interest repricing date.

(ii) An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment.

Re-pricing gap is the difference between interest rate sensitive assets and liabilities spread over distinct maturity bands based on residual maturity or re-pricing dates. The Parent Company uses currency-wise and consolidated re-pricing gaps to quantify interest rate risk exposure over distinct maturities and analyse the magnitude of portfolio changes necessary to alter existing risk profile. The distribution of assets and liabilities over these time bands is done based on the actual repricing schedules. The schedules are used as a guideline to assess interest rate risk sensitivity and to focus the efforts towards reducing the mismatch in the repricing pattern of assets and liabilities.

The Parent Company uses simulation reports as an effective tool for understanding risk exposure under variety of interest rate scenarios. These reports help ALCO to understand the direction of interest rate risk in the Parent Company and decide on the appropriate strategy and hedging mechanism for managing it. The Parent Company's current on- and off-balance sheet exposures are evaluated under static environment to quantify potential effect of external interest rate shocks on the earnings and economic value of equity at risk, using assumptions about future course of interest rates and changes in Parent Company's business profile.

Economic Value of Equity (EVE) is the present value of all asset cash flows subtracted by the present value of all liability cash flows. By calculating the EVE the Group is able to show the effect of different interest rate changes on its total capital. This is a key tool that allows Group to prepare against constantly changing interest rates. The impact of interest rate changes on EVE is monitored by recognising the changes in the value of assets and liabilities for a given change in the market interest rate. The interest rate risk management is facilitated by limits of 5% NII impact and 20% impact on EVE for a 200 basis points shock.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates is as follows:

Impact on Net Interest income	**+200 bps RO 000's**	**-200 bps RO 000's**	**+100 bps RO 000's**	**-100 bps RO 000's**	**+50 bps RO'000's**	**-50 bps RO 000's**
2018						
As at 31 December	**19,739**	**(18,238)**	**10,994**	**(5,268)**	**5,957**	**1,605**
Average for the period	**20,387**	**(18,053)**	**12,000**	**(5,521)**	**6,999**	**1,348**
Maximum for the period	**37,191**	**(20,310)**	**27,231**	**(6,620)**	**21,490**	**2,270**
Minimum for the period	**14,769**	**(13,931)**	**8,617**	**(4,752)**	**4,682**	**(365)**
2017						
As at 31 December	16,564	(13,115)	9,434	(4,247)	5,067	1,571
Average for the period	17,616	(12,819)	9,932	(4,588)	5,147	858
Maximum for the period	21,410	(15,241)	11,999	(6,390)	6,385	1,789
Minimum for the period	14,826	(10,752)	8,819	(3,296)	4,441	(808)

42. Financial risk management (continued)

42.4 Market risk (continued)

42.4.4. Interest rate risk management (continued)

Impact on Economic Value	+200 bps RO 000's	-200 bps RO 000's	+100 bps RO 000's	-100 bps RO 000's	+50 bps RO 000's	-50 bps RO 000's
2018						
As at 31 December	**(216,216)**	**368,139**	**(92,207)**	**136,324**	**(93,819)**	**98,487**
Average for the period	**(205,655)**	**358,958**	**(85,686)**	**135,334**	**(90,384)**	**100,525**
Maximum for the period	**(224,585)**	**368,139**	**(96,241)**	**139,390**	**(95,870)**	**105,522**
Minimum for the period	**(183,914)**	**345,621**	**(74,833)**	**130,171**	**(84,689)**	**81,325**
2017						
As at 31 December	(210,917)	358,804	(87,430)	136,560	(90,983)	105,614
Average for the period	(205,111)	349,623	(78,597)	125,849	(86,487)	108,902
Maximum for the period	(221,349)	359,210	(88,191)	136,560	(91,375)	203,902
Minimum for the period	(187,243)	336,394	(68,265)	111,191	(81,217)	95,648

Impact on Net Interest income	+200 bps US$ '000	-200 bps US$ '000	+100 bps US$ '000	-100 bps US$ '000	+50 bps US$ '000	-50 bps US$ '000
2018						
As at 31 December	**51,271**	**(47,371)**	**28,556**	**(13,683)**	**15,472**	**4,168**
Average for the period	**52,953**	**(46,891)**	**31,169**	**(14,339)**	**18,179**	**3,501**
Maximum for the period	**96,601**	**(52,753)**	**70,731**	**(17,194)**	**55,818**	**5,897**
Minimum for the period	**38,362**	**(36,186)**	**22,381**	**(12,343)**	**12,162**	**(948)**
2017						
As at 31 December	43,023	(34,065)	24,504	(11,031)	13,161	4,081
Average for the period	45,756	(33,296)	25,797	(11,917)	13,369	2,229
Maximum for the period	55,610	(39,587)	31,166	(16,597)	16,584	4,647
Minimum for the period	38,509	(27,927)	22,906	(8,561)	11,535	(2,099)

Impact on Economic Value	+200 bps US$ 000's	-200 bps US$ 000's	+100 bps US$ 000's	-100 bps US$ 000's	+50 bps US$ 000's	-50 bps US$ 000's
2018						
As at 31 December	**(561,601)**	**956,205**	**(239,498)**	**354,089**	**(243,686)**	**255,810**
Average for the period	**(534,170)**	**932,360**	**(222,561)**	**351,517**	**(234,763)**	**261,104**
Maximum for the period	**(583,339)**	**956,205**	**(249,976)**	**362,053**	**(249,014)**	**274,082**
Minimum for the period	**(477,700)**	**897,716**	**(194,371)**	**338,107**	**(219,972)**	**211,233**
2017						
As at 31 December	(547,836)	931,958	(227,091)	354,701	(236,319)	274,322
Average for the period	(532,756)	908,112	(204,148)	326,881	(224,642)	282,862
Maximum for the period	(574,932)	933,013	(229,068)	354,701	(237,338)	529,616
Minimum for the period	(486,345)	873,751	(177,312)	288,808	(210,953)	248,436

42. Financial risk management (continued)

42.5 Commodity Price Risk

As part of its treasury operations, the Group offers commodities hedging facility to its clients. Customers of the Group who are exposed to commodities like Copper, Aluminium and also Jewellers with exposure to gold prices cover their commodity exposures through the Group. The Group covers all its commodity exposures back-to-back in the interbank market.

The Group operates in the commodities market purely as a provider of hedging facilities and does not either trade in commodities or bullion or maintain positions in commodities. Customers of the Group are sanctioned a transaction volume limit based on their turn-over/ orders as well as a Variation Margin limit is applied to mitigate any mark-to-mark related credit exposures for the Group. The transaction volume limit is to restrict the total outstanding contracts value to the business requirement of the customer and the variation margin limit is to protect the Group from excessive credit risk due to adverse price movement in the underlying commodity prices. Margin calls for additional collateral or cash deposits is demanded from customers on the breach of the Variation Margin limit. The treasury middle-office monitors customers’ positions and MTMs on daily basis.

42.6 Operational risks

Operational risk is the risk that deficiencies in information systems/internal controls or uncontrollable external events will result in loss. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of monetary losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

Losses from external events such as a natural disaster that has a potential to damage the Group’s physical assets or electrical or telecommunications failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Group’s specific products and business lines; they are more specific to the Group’s operations than the risks due to external events. Operational risks faced by the Group include IT Security, telecom failure, fraud, and operational errors.

The Group has developed its own Operational Risk Management Software to aid assessment of operational risks as well as the collection and analysis of operational losses.

The Group’s risk policy provides the framework to identify, assess, monitor, control and report operational risks in a consistent and comprehensive manner across the Group. Operational Risk Management function independently supports business units in the management of operational risks. Operational risk management in the Group is driven by the objective to increase the efficiency and effectiveness of the available resources, minimise losses and utilise opportunities. The main objectives of Operational Risk Management are as follows:

- To achieve strong risk control by harnessing the latest risk management technologies and techniques, resulting in a distinctive risk management capability, enabling business units to meet their performance and growth objectives.
- To enable adequate capital allocation in respect of potential impact of operational risks
- To minimize the impact of operational risks through means such as a fully functional IT Disaster Recovery facility, Business Continuity Plans, up-to-date documentation and by developing general operational risk awareness within the Group.

Operational risk appetite is defined at a business unit and Group level. Business units have the primary responsibility for identifying, measuring and managing the operational risks that are inherent in their respective operations. Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. The responsibility of overseeing the process lies with Operational Risk Unit in accordance with the Operational Risk Management Framework. Internal Audit independently reviews effectiveness of the Group’s internal controls and its ability to minimise the impact of operational risks.

42. Financial risk management (continued)

42.6 Operational risks (continued)

The Operations committee is the primary oversight body for operational risk. The Operations committee is represented by business and control functions and is responsible for ensuring that the Group has an adequate risk management process that covers identification, evaluation and management of operational risks and the formulation of adequate policies pertaining to operational risk management.

Business Continuity Planning (BCP)

Business Continuity Management within the Group is the implementation and management of preventative measures, planning and preparation to ensure the Group can continue to operate following an incident, significant unplanned event or major operational disruption. The Group ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. The Group has put in place Business Continuity Plans (BCP) to ensure that its business runs effectively in the event of most unforeseen disasters as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards. The Group continuously strengthens and enhances its existing plans by implementing a robust business continuity framework to ensure that its systems and procedures are resilient and ready to meet ‘emergency preparedness’. The BCM Committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Group. The BCM Committee continuously review and agree the strategic Business Continuity assessment and planning information to ensure Business Continuity Management, planning and maintenance responsibilities are assigned, understood and implemented across the business areas.

The Group has made significant strides in enhancing its business continuity framework. Some of the major developments in line with the objective of the continuous evolution of the Group’s BCM framework were:

- BCM Committee ensures business continuity is closely aligned and integrated with business initiatives and developments.
- Fire evacuation drills were conducted for each section of the Seeb Head Office and a collective, full-fledged surprise fire drill and evacuation was conducted in conjunction with the Royal Oman Police. Fire evacuation response leaders were appointed and trained.
- Comprehensive testing of the recovery of the Group’s key systems and applications was conducted in conjunction with the Business.
- The Group’s Business Recovery Centre of the Group has the capability to meet any unforeseen disaster and ensure continual operational capability in the event of a major operational disruption. To ensure the functionality of the Business Recovery Centre.

42.7 Capital management

42.7.1 Regulatory capital

The Parent Company’s regulator, Central Bank of Oman (CBO), sets and monitors capital requirements for the Parent Company as a whole. In implementing Basel III’s capital requirement, the CBO requires the Parent Company to maintain a minimum of 12.625% ratio of total capital to total risk-weighted assets. The Group’s regulatory capital as per Basel III regulations is Grouped into:

- Tier I capital, which includes ordinary share capital, share premium, distributable and non-distributable reserves and retained earnings (net of proposed dividend) after deductions for goodwill and fifty percent of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes;

42. Financial risk management (continued)

42.7 Capital management (continued)

42.7.1 Regulatory capital (continued)

- Tier II capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as FVOCI after deductions for fifty percent of carrying value of investments in associates;

Various limits are applied to elements of the capital base. The qualifying Tier II and Tier III capital cannot exceed Tier I capital; qualifying subordinated liabilities may not exceed fifty percent of Tier I capital; and amount of collective impairment allowances that may be included as part of Tier II capital is limited to 1.25 percent of the total risk-weighted assets.

42.7.2 Capital adequacy

Capital adequacy indicates the ability of the Group in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the Group's assets helps promote financial stability and confidence of the stakeholders and creditors. The Group aims to maximise the shareholders' value through an optimal capital structure that protects the stakeholders' interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders. The Group has a forward looking capital policy which considers the current risk, planned growth and an assessment of the emerging risk for the forecasted period.

While risk coverage is the prime factor influencing capital retention, the Group is conscious of the fact that as a business entity, its capital needs to be serviced and a comfortable rate of return needs to be provided to the shareholders. Excessive capital will dilute the return on capital and this in turn can exert pressure for profitability, propelling business asset growth resulting in the Group assuming higher levels of risk. Hence, with regards to the retention of capital, the Group's policy is governed by the need for adequately providing for associated risks and the needs for servicing the capital retained. The Group makes good use of subordinated loans as Tier II Capital and raises share capital as and when the need arises. The Group's strong and diverse shareholder profile gives the Group the necessary confidence in its ability to raise capital when it is needed.

The Group desires to move to more advanced approaches for measuring credit risk, market risk and operational risk and has put in place a 'building block' approach. A road map has been laid down for each core area of risk viz. credit, market, operational. Progress has been made in line with the road map and is being monitored on a continuous basis and reported.

Basel III regulatory reporting

The Central Bank of Oman has issued final guidelines on the implementation of the new capital norms along with the phase-in arrangements and reporting norms.

42. Financial risk management (continued)

42.7 Capital management (continued)

42.7.2 Capital adequacy (continued)

The following table sets out the capital adequacy position of the Group:

2017 USD 000's	2018 USD 000's		2018 RO 000's	2017 RO 000's
		Common Equity Tier 1 (CET1) capital: Instruments and reserves		
703,730	**765,561**	Share capital	**294,741**	270,936
1,323,057	**1,380,610**	Share premium	**531,535**	509,377
234,577	**255,187**	Legal reserve	**98,247**	90,312
750,384	**963,605**	General reserve	**370,988**	288,898
213,221	**34,000**	Subordinated loan reserve	**13,090**	82,090
881,208	**1,031,117**	Retained profit (post proposed cash dividend)	**396,980**	339,265
4,106,177	**4,430,080**	**Total**	**1,705,581**	1,580,878
		Less: Regulatory adjustments		
(1,501)	**(31,531)**	Cumulative loss on fair value	**(12,139)**	(578)
(483)	**-**	Cumulative loss on cash flow hedge	**-**	(186)
(15,865)	**(20,086)**	Deferred tax assets	**(7,733)**	(6,108)
(3,436)	**(5,371)**	Foreign currency translation reserve	**(2,068)**	(1,323)
(99,888)	**(86,491)**	Significant investments in the common stock of banking, financial and insurance entities	**(33,299)**	(38,457)
(121,173)	**(143,479)**	Total regulatory adjustments to CET1	**(55,239)**	(46,652)
3,985,004	**4,286,601**	Total Common Equity Tier 1 capital (CET1)	**1,650,342**	1,534,226
337,662	**337,662**	Additional Tier 1 capital (AT1)	**130,000**	130,000
4,322,666	**4,624,263**	Total Tier 1 capital (T1 = CET1 + AT1)	**1,780,342**	1,664,226
		Tier 2 capital: instruments and provisions		
13,766	**1,398**	Cumulative change in fair value (45%)	**538**	5,300
289,870	**287,276**	General Loan loss impairment / ECL provision (Stage 1 and 2)	**110,601**	111,600
102,000	**27,200**	Subordinated liabilities (net of reserves)	**10,472**	39,270
405,636	**315,874**		**121,611**	156,170
		Less: Regulatory adjustments		
-	**-**	Significant investments in the common stock of banking, financial and insurance entities	**-**	-
405,636	**315,874**	Tier 2 capital (T2)	**121,611**	156,170
4,728,302	**4,940,137**	Total Regulatory Capital (TC = T1 + T2)	**1,901,953**	1,820,396
25,629,041	**25,488,424**	Total risk weighted assets	**9,813,043**	9,867,181
23,189,597	**22,982,099**	Of which: Credit risk weighted assets	**8,848,108**	8,927,995
451,361	**429,629**	Of which: Market risk weighted assets	**165,407**	173,774
1,988,083	**2,076,696**	Of which: Operational risk weighted assets	**799,528**	765,412

42. Financial risk management (continued)

42.7 Capital management (continued)

42.7.2 Capital adequacy (continued)

2017	2018	Capital Ratios: (expressed as a % of total risk weighted assets)	2018	2017
15.55%	**16.82%**	Common Equity Tier 1	**16.82%**	15.55%
16.87%	**18.14%**	Tier 1	**18.14%**	16.87%
18.45%	**19.38%**	**Total capital**	**19.38%**	18.45%

The total regulatory capital adequacy ratio of 19.38% (2017: 18.45%) is after considering the proposed dividend of 30% Cash and 5% Stock (2017: 30% Cash and 5% Stock). The total capital adequacy ratio pre consideration of dividend would be 20.28% (2017: 19.27%).

Capital Adequacy as per Basel II reporting for monitoring purposes:

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

2017 USD 000's	2018 USD 000's		2018 RO 000's	2017 RO 000's
4,372,610	**4,667,508**	Tier I Capital	**1,796,991**	1,683,455
385,114	**313,429**	Tier II Capital	**120,670**	148,269
4,757,724	**4,980,937**	**Total regulatory capital**	**1,917,661**	1,831,724
		Risk weighted assets		
23,189,597	**22,982,099**	Credit risk	**8,848,108**	8,927,995
451,361	**429,629**	Market risk	**165,407**	173,774
1,988,083	**2,076,696**	Operational risk	**799,528**	765,412
25,629,041	**25,488,424**	**Total risk weighted assets**	**9,813,043**	9,867,181
		Capital ratios		
18.56%	**19.54%**	Total regulatory capital expressed as a % of total risk weighted assets	**19.54%**	18.56%
17.06%	**18.31%**	Total Tier I capital expressed as a % of total risk weighted assets	**18.31%**	17.06%

The total regulatory capital adequacy ratio of 19.54% (2017: 18.56%) is after considering the proposed dividend of 30% Cash and 5% Stock (2017: 30% Cash and 5% Stock). The total capital adequacy ratio pre consideration of dividend would be 20.44% (2017: 19.39%).

42. Financial risk management (continued)

42.7 Capital management (continued)

42.7.3 Internal Capital Adequacy Assessment Process (ICAAP):

Apart from the regulatory capital which is based on the guidelines issued by Central Bank of Oman, the Group has in place Internal Capital Adequacy Assessment Process (ICAAP) which provides an assessment of the Group's actual capital adequacy based on advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, interest rate risk on banking book along with the core risks. The purpose of the Group's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to estimate future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The process covers a forward looking plan for the next 5 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Group's risk profile. It will scrutinize the current business model of the Group and may lead to corresponding adjustments if the inherent risk goes beyond the Group's risk appetite. ICAAP is approved by the Board of Directors and submitted to Central Bank annually. On a quarterly basis, reporting is done to the Board of Directors on the adequacy of capital. The Group believes that its current and foreseen capital supply is suitable to support its business strategy. The present plan will be updated at least annually on a rolling basis for forward-looking planning period of 5 years.

The forward looking assessment of capital adequacy has helped the Group to plan ahead for capital management.

42.7.4 Capital allocation

The allocation of capital between specific business units and activities is, to large extent, driven by optimisation of the return on capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular business units or activities, it is not the sole basis used for decision making. Other factors such as synergies between the units or activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives are taken in to account while allocating capital.

43. Fair value information

Based on the valuation methodology outlined below, the fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values:

As of 31 December 2018	Notes	Designated as at FVTPL RO 000's	Designated as at FVOCI RO 000's	Amortised cost RO 000's	Total carrying value RO 000's	Fair Value RO 000's
Cash and balances with Central Bank	5	-	-	1,306,756	1,306,756	1,306,756
Due from banks	6	19,213	11,581	445,249	476,043	479,683
Loans and advances and Islamic financing receivables	7	-	-	8,938,915	8,938,915	9,037,426
Investment securities	9	30,119	154,456	1,085,007	1,269,582	1,283,347
Derivative assets	38	18,431	-	-	18,431	18,431
		67,763	166,037	11,775,927	12,009,727	12,125,643
Deposits from banks	14	-	-	951,878	951,878	959,572
Customers' deposits and Islamic customer deposits	15	-	-	8,462,685	8,462,685	8,520,259
Sukuk	17	-	-	44,608	44,608	40,147
Euro medium term notes	17	-	-	385,000	385,000	395,877
Subordinated liabilities	21	-	-	39,270	39,270	39,270
Derivative liabilities	38	19,456	-	-	19,456	19,456
		19,456	-	9,883,441	9,902,897	9,974,581

43. Fair value information (continued)

	Notes	Loans and receivables RO 000's	Available-for-sale RO 000's	Held-to-maturity RO 000's	Fair value through profit or loss RO 000's	Other amortised cost RO 000's	Total carrying value RO 000's	Fair value RO 000's
At 31 December 2017								
Cash and balances with Central Banks	5	934,745	-	-	-	-	934,745	934,745
Due from banks	6	592,026	-	-	-	-	592,026	595,217
Loans and advances and Islamic financing receivables	7	8,328,716	-	-	-	-	8,328,716	8,353,864
Investment securities	9	-	368,226	607,955	50,995	-	1,027,176	998,873
Derivative assets	38	-	-	-	27,347	-	27,347	27,347
		9,855,487	368,226	607,955	78,342	-	10,910,010	10,910,046
Deposits from banks	14	-	-	-	-	910,125	910,125	917,764
Customers' deposits and Islamic customer deposits	15	-	-	-	-	7,419,312	7,419,312	7,464,768
Sukuk	17	-	-	-	-	44,608	44,608	44,430
Euro Medium Term Notes	17	-	-	-	-	384,508	384,508	395,616
Subordinated liabilities / mandatory convertible bonds	18,21	-	-	-	-	153,776	153,776	155,721
Derivative liabilities	38				25,622	-	25,622	25,622
		-	-	-	25,622	8,912,329	8,937,951	9,003,921

43. Fair value information (continued)

Effective 1 January 2010, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)
The following table presents the Group's assets and liabilities that are measured at fair value at 31 December:

2018	**Level 1 RO'000s**	**Level 2 RO'000s**	**Level 3 RO'000s**	**Total RO'000s**
Assets				
Derivatives	**-**	**18,431**	**-**	**18,431**
FVTPL				
- Equity securities	**21,307**	**-**	**8,812**	**30,119**
FVOCI				
- Equity securities	**81,747**	**-**	**10,762**	**92,509**
- Debt investments	**54,010**	**-**	**7,937**	**61,947**
Total Assets	**157,064**	**18,431**	**27,511**	**203,006**
Liabilities				
Derivatives	**-**	**19,456**	**-**	**19,456**

2017	Level 1 RO 000's	Level 2 RO 000's	Level 3 RO 000's	Total RO 000's
Assets				
Derivatives	-	27,347	-	27,347
Fair value through profit or loss	50,995	-	-	50,995
Available-for-sale financial assets:				
- Equity securities	94,177	-	20,647	114,824
- Debt investments	34,375	206,807	12,220	253,402
Total assets	179,547	234,154	32,867	446,568
Liabilities				
Derivatives	-	25,836	-	25,836

There are no transfers between levels of fair value measurement hierarchy during the years 2018 and 2017.

43. Fair value information (continued)

A table showing the impact of change in estimates by 5% on the Group's assets and liabilities that are measured at fair value at 31 December, on the other comprehensive income is as follows:

2018	Level 1 RO'000s	Level 2 RO'000s	Level 3 RO'000s	Total RO'000s
Assets				
Derivatives	-	922	-	922
FVTPL				
Equity securities	1,065	-	441	1,506
FVOCI				
Equity securities	4,087	-	538	4,625
Debt investments	2,701	-	397	3,098
Total Assets	7,853	922	1,376	10,151
Liabilities				
Derivatives	-	973	-	973

2017	Level 1 RO 000's	Level 2 RO 000's	Level 3 RO 000's	Total RO 000's
Assets				
Derivatives	-	1,367	-	1,367
Fair Value through profit or loss	2,550	-	-	2,550
Available-for-sale financial assets:				
- Equity securities	4,709	-	1,032	5,741
- Debt investments	1,719	10,340	611	12,670
Total assets	8,978	11,707	1,643	22,328
Liabilities				
Derivatives	-	1,292	-	1,292

The impact of change in estimates used in measurement of fair value of level 3 securities is not material to the financial statements. The following table demonstrates the movement of the Group's level 3 investments:

	Equity securities RO 000's	Debt investments RO 000's	Total RO 000's
At 1 January 2018	20,647	12,220	32,867
IFRS 9 transition adjustments	(8,574)	(1,925)	(10,499)
(Impairment) / Reversal of impairment on investments	-	66	66
Gain/(loss) from change in fair value	(1,366)	80	(1,286)
Additions	63	-	63
Disposals and redemption	(8)	(2,504)	(2,512)
At 31 December 2018	10,762	7,937	18,699

	Equity securities RO 000's	Debt investments RO 000's	Total RO 000's
At 1 January 2017	23,983	20,272	44,255
Realised gain on sale	(67)	9	(58)
Loss from change in fair value	(2,124)	(70)	(2,194)
Additions	1,354	3,300	4,654
Disposals and redemption	(4,103)	(10,461)	(14,564)
Impairment losses	1,613	(830)	783
Exchange differences	(9)	-	(9)
At 31 December 2017	20,647	12,220	32,867

43.Fair value information (continued)

As of 31 December 2018, 86% (2017: 74%) of the level 3 equity securities were valued on the basis of fair valuation carried out in accordance with appropriate valuation techniques based on income approach (discounting of cash flows), market approach (using prices or other relevant information generated by market transactions of identical or similar entities), cost approach or a combination thereof. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, using the best information available in the circumstances. These might include banks own data and would consider all information about market participant assumptions that is reasonably available.

As of 31 December 2018, 14% (2017: 26%) of the level 3 equity securities were valued on the basis of latest available capital accounts statements of the investee companies received from independent fund managers as at 30 September 2018 or at a later date and adjusted for subsequent cash flows till 31 December 2018 or based on net asset values received from independent fund managers as at 30 September 2018 or at a later date.

The debt investments were valued on fair value basis. Valuation is based on Risk adjusted discount rate (yield) considering a reasonable range of estimates. A significant decrease in the credit quality would result in a lower fair value with significant increase in the spread above the risk-free rate and vice-versa. The Group holds adequate provisioning on the above investments as of the reporting date.

43.1 Estimation of fair values

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

43.1.1 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.

43.1.2 Investments carried at cost and derivatives

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.

43.1.3 Available for sale, fair value through OCI and fair value through profit or loss investments

Fair values for quoted investments are based on quoted bid prices as at the reporting date. Unquoted equity investments are carried at fair values, measured in accordance with appropriate valuation techniques based on income , market, cost approaches or a combination thereof or on the basis of latest available capital accounts statements or net asset values of the investee companies received from independent fund managers and adjusted for subsequent cash flows up to the reporting date.

43.1.4 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.

43 Fair value information (continued)

43.1 Estimation of fair value (continued)

43.1.5 Off-balance sheet 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 the book values of other assets and other liabilities.

44. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

1 January 2018	Designated as at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised cost	Total carrying amount
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Cash and balances with Central Banks	-	-	-	934,745	934,745
Due from banks	-	-	-	591,787	591,787
Loans and advances and Islamic financing receivables	-	-	-	8,361,563	8,361,563
Investments securities	27,846	45,670	85,988	864,793	1,024,297
Derivative assets	27,347	-	-	-	27,347
Total Assets	**55,193**	**45,670**	**85,988**	**10,752,888**	**10,939,739**
Deposits from banks	-	-	-	910,125	910,125
Customer deposits and Islamic customer deposits	-	-	-	7,419,312	7,419,312
Sukuk	-	-	-	44,608	44,608
Euro Medium Term Notes	-	-	-	384,508	384,508
Subordinated liabilities / mandatory convertible bonds	-	-	-	153,776	153,776
Derivative liabilities	25,836	-	-	-	25,836
Total Liabilities	**25,836**	**-**	**-**	**8,912,329**	**8,938,165**

44. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39 RO 000's	New classification under IFRS 9 RO 000's	Original carrying amount under IAS 39 RO 000's	New carrying amount under IFRS 9 RO 000's
Cash and balances with Central Banks	L&R	AC	934,745	934,745
Due from banks	L&R	AC	592,026	591,787
Loans and advances / Islamic financing receivables	L&R	AC	8,328,716	8,361,563
Investment securities:				
- Investment securities: Debt	HTM	AC	607,955	607,336
- Investment securities: Debt	AFS	AC	208,734	207,462
- Investment securities: Debt	FVTPL	AC	49,995	49,995
- Investment securities: Debt	AFS	FVOCI	44,670	44,670
- Investment securities: Debt	FVTPL	FVOCI	1,000	1,000
- Investment securities: Equity	AFS	FVOCI	86,976	85,988
- Investment securities: Equity	AFS	FVTPL	27,846	27,846
Positive fair value of derivatives	FVTPL	FVTPL	27,347	27,347
Other assets	L&R	AC	239,212	239,149
Total Assets			**11,149,222**	**11,178,888**
Deposits from banks	AC	AC	910,125	910,125
Customers' deposits	AC	AC	7,419,312	7,419,312
Sukuk	AC	AC	44,608	44,608
Euro Medium Term Notes	AC	AC	384,508	384,508
Subordinated liabilities / mandatory convertible bonds	AC	AC	153,776	153,776
Negative fair value of derivatives	FVTPL	FVTPL	25,836	25,836
Other liabilities	L&R	AC	392,724	425,754
Total Liabilites			**9,330,889**	**9,363,919**

HTM – Held-to-maturity, AC – Amortised cost, FVTPL – Fair value through profit or loss, FVOCI – Fair value through other comprehensive income, AFS – Available for sale, L&R – Loans and receivables

44. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount 31 December 2017 RO 000's	Reclassification RO 000's	Changes through: Cumulative changes in fair value RO 000's	Changes through: Retained Profits RO 000's	IFRS 9 carrying amount 1 January 2018 RO 000's
Financial assets measured at Amortised cost					
Cash and balances with Central Banks	934,745	-	-	-	934,745
Due from banks	592,026	-	-	(239)	591,787
Loans and advances / Islamic financing	8,328,716	-	-	32,847	8,361,563
Investment securities:					
From Held to maturity	607,955	-	-	(619)	607,336
From Available-for-sale	-	208,734	(1,259)	(13)	207,462
From FVTPL	-	49,995	-	-	49,995
Closing balance	607,955	258,729	(1,259)	(632)	864,793
Other assets	239,212	-	-	-	239,212
Impairment on:					
Acceptances	-	-	-	(63)	(63)
Closing Balance	239,212	-	-	(63)	239,149
	10,702,654	**258,729**	**(1,259)**	**31,913**	**10,992,037**
Available-for-sale Investment securities:					
Opening balance	368,226	-	-	-	368,226
To FVOCI – Equity	-	(86,976)	-	-	(86,976)
To FVOCI – Debt	-	(44,670)	-	-	(44,670)
To FVTPL	-	(27,846)	-	-	(27,846)
To Amortised cost	-	(208,734)	-	-	(208,734)
Closing balance	**368,226**	**(368,226)**	-	-	-
Financial assets at FVOCI					
Debt Investments					
Opening balance	-	-	-	-	-
From Available-for-sale	-	44,670	264	(264)	44,670
From FVTPL	-	1,000	38	(38)	1,000
Closing balance	-	45,670	302	(302)	45,670
Equity Investments					
Opening balance	-	-		-	-
From Available-for-sale	-	86,976	(8,073)	7,085	85,988
Closing balance	-	86,976	(8,073)	7,085	85,988
	-	**132,646**	**(7,771)**	**6,783**	**131,658**
Finacial assets at FVTPL					
Derivative assets held for risk management	27,347	-	-	-	27,347
Investment securities:	-	-	-	-	-
Opening balance	50,995	-	-	-	50,995
To Amortised cost	-	(49,995)	-	-	(49,995)
To FVOCI - equity	-	(1,000)	-	-	(1,000)
From Available-for-sale	-	27,846	(2,395)	2,395	27,846
	78,342	**(23,149)**	**(2,395)**	**2,395**	**55,193**
Other liabilities					
Opening balance	392,724	-	-	-	392,724
Impairment on:					
Financial guarantee contracts	-	-	-	20,193	20,193
Loan commitment/unutilised limits	-	-	-	12,837	12,837
Closing Balance	**392,724**	**-**	**-**	**33,030**	**425,754**

44. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

The group has elected to irrevocably designate strategic equity investments of RO 86.976 million in FVOCI as permitted under IFRS 9. These securities were previously classified as available-for-sale. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

The following table shows the effects of the reclassification of financial assets from IAS 39 categories into the Amortised cost category under IFRS 9.

From Available-for-sale financial assets under IAS 39	2018 RO 000's
Fair value at 31 December 2018	184,159
Fair value gain that would have been recognised during 2018 in other comprehensive income if the financial assets had not been reclassified	(1,237)
	182,922

From FVTPL financial assets under IAS 39	2018 RO 000's
Fair value at 31 December 2018	49,995
Fair value gain that would have been recognised during 2018 in P&L if the financial assets had not been reclassified	-
	49,995

The Group holds debt instruments amounting to RO 49.995 million equivalent which had been previously been designated at FVTPL. The Group has chosen to de-designate these financial assets upon transition to IFRS9 and measure them at amortised cost. The effective interest rate on these debt instruments is 3.5 per cent per annum and interest income of RO 1.75 million has been recognized during the year.

The following table analyses the impact of transition to IFRS 9 on reserves and retained profits. The impact relates to the cumulative changes in fair value and retained profits. There is no impact on other components of equity.

Impact of adopting IFRS 9 at 1 January 2018	2018 RO 000's
Cumulative changes in fair value	
At 1 January 2018	**16,813**
Due to reclassification:	
- Debt: AFS to AC	(1,272)
- Debt FVTPL to FVOCI	38
- Equity: AFS to FVOCI	(8,073)
- Equity: AFS to FVTPL	(2,395)
Due to remeasurement:	
- Debt: AFS to AC	13
- Debt: AFS to FVOCI	264
Impact on adopting IFRS9 at 1 January 2018	**(11,425)**
Restated balance as at 1 January 2018	**5,388**

44. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

Retained profits	
At 1 January 2018	**420,546**
Due to reclassification:	
- Equity investment securities	
- AFS to FVOCI	7,083
- AFS to FVTPL	2,395
Due to remeasurement:	
- Debt investment securities	
- FVTPL to FVOCI	(38)
- AFS to FVOCI	(264)
- AFS to AC	(13)
- HTM to AC	(619)
- Due from banks	(239)
- Loans and advances/Islamic financing receivables	32,847
- Acceptances	(63)
- Financial guarantee contracts	(20,193)
- Loan commitment/unutilised limits	(12,837)
Impact on adopting IFRS9 at 1 January 2018	**8,059**
Restated balance as at 1 January 2018	**428,605**

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39) RO 000's	Reclassification RO 000's	Remeasurement RO 000's	1 January 2018 (IFRS 9) RO 000's
Due from banks	2,550	-	239	2,789
Loans and advances/Islamic financing receivables	327,784	-	(32,847)	294,937
Investment securities	14,973	(14,143)	896	1,726
- Equity: AFS to FVOCI	7,835	(7,835)	-	-
- Equity: AFS to FVTPL	6,308	(6,308)	-	-
- Debt: HTM to AC	-	-	619	619
- Debt: AFS to AC	-	-	13	13
- Debt AFS to FVOCI	830	-	264	1,094
Financial guarantee contracts	-	-	20,193	20,193
Acceptances	-	-	63	63
Loan commitment/unutilised limits	-	-	12,837	12,837
	345,307	**(14,143)**	**1,381**	**332,545**

45 Comparative figures

No material corresponding figures for 2017 included for comparative purposes were reclassified.

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