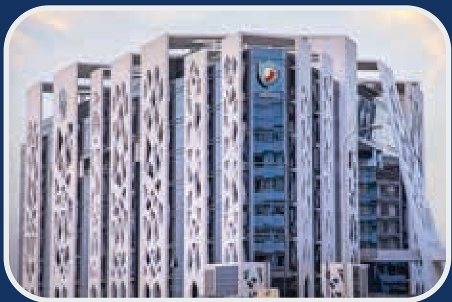
Banking

Insurance

Finance & Leasing

Financial Investments



Real Estate

Investment Banking

OMINVEST

Annual Report 2018

Investing in a Shared Future


OMINVEST

Contents

7 Track Record
12 Board of Directors
14 Directors' Report
19 Auditor's Report on Corporate Governance
20 Corporate Governance Report
28 Executive Management
33 Management Discussion and Analysis
37 Auditor's Report
44 Statement of Financial Position
46 Statement of Comprehensive Income
48 Statement of Changes in Equity
52 Statement of Cash Flow
54 Notes to the Financial Statements

Vision

To Sustain as a Premier Investment Holding Company in Oman and the Region

Mission

Achieving Superior and Sustainable Value for all Stakeholders

Core Values

TEAMWORK

Working together as one team to achieve shareholders objectives.

PERFORMANCE

Achieving superior and durable performance over the long term.

DISCIPLINE

Adhering to the highest professional standards.

INTEGRITY

Making integrity the foundation of all our activities.

REPUTATION

Earning trust of all stakeholders by demonstrating utmost integrity.

EMPOWERMENT

Encouraging and motivating employees by giving them a sense of ownership.

Our Strategic Platforms

Enhancing Mutual Synergies

Banking

Insurance

Finance & Leasing

Investment Banking

Real Estate

Financial Investments

Our Shared Journey

1983
Board of Directors

Chairman
H.E. Mohammad Al Zubair

Deputy Chairman
Mohammed Musa Al Yousef

Board Members
Sheikh Hamood Abdullah Al Harthi
Ahmed Abdul Nabi Macki
Salim Ahmed Khalfan Al Barami
Dr. Ali Mohammed Moosa
Maqbool Ali Sultan
Mohammed Abdul Rasool Al Jamali
Murtadha Hassan Ali
Abdul Kader Ahmed Askalan

1983 – 1995
Milestones

Our Founding Chairman and the Board Members laid the Foundations of OMINVEST and gave us a Great Vision and Enduring Values. Oman Arab Bank was established as OMINVEST's first Strategic Investment. With that – the Founders began the process of Institution Building – putting OMINVEST on a long term growth trajectory.

1996
Board of Directors

Chairman
Taya Jandal Ali

Deputy Chairman
Rashad Muhammad Al Zubair

Board Members
- Mohammed Abdul Rasool Al Jamali
- Murtadha Hassan Ali
- Abdul Kader Ahmed Askalan
- Essa Mohammed Al Essa
- Sheikh Salim Saeed Al Fannah Al Araimi
- Abdullah Abbas Ahmed
- Abdullah Said Abdullah Al Balushi
- Haythem Mahmood Macki

1996 – 2004
Milestones

OMINVEST marched ahead and further strengthened its management teams and diversified into industrial, finance and consumer sectors, supporting small and medium enterprises (SMEs) and contributing to Oman's economic growth.

2005
Board of Directors

Chairman
Hani Muhammad Al Zubair

Deputy Chairman
Rashad Muhammad Al Zubair

Board Members
- Murtadha Hassan Ali
- Abdul Kader Ahmed Askalan
- Taya Jandal Ali
- Abdullah Said Abdullah Al Balushi
- Jamal Shamis Al Hooti
- Majid Salim Saeed Al Fannah Al Araimi
- Khalil Abdullah Al Khonji
- Saif Said Al Yazidi

2005 – 2011
Milestones

Major initiatives were undertaken for international expansion and diversification in technology, media, healthcare, and private equity. These initiatives further transformed OMINVEST into a regional and international investment firm.

2018
Board of Directors

Chairman
Khalid Muhammad Al Zubair

Deputy Chairman
Sheikh Khalid Abdullah Al Khalili

Board Members
- Taya Jandal Ali
- Jamal Shamis Al Hooti
- Majid Salim Saeed Al Fannah Al Araimi
- C. S. Badrinath
- Anwar Hilal Al Jabri
- Sheikh Abdul Aziz Khalifa Al Saadi
- Jamal Said Al Tai
- Khaula Hamood Al Harthi

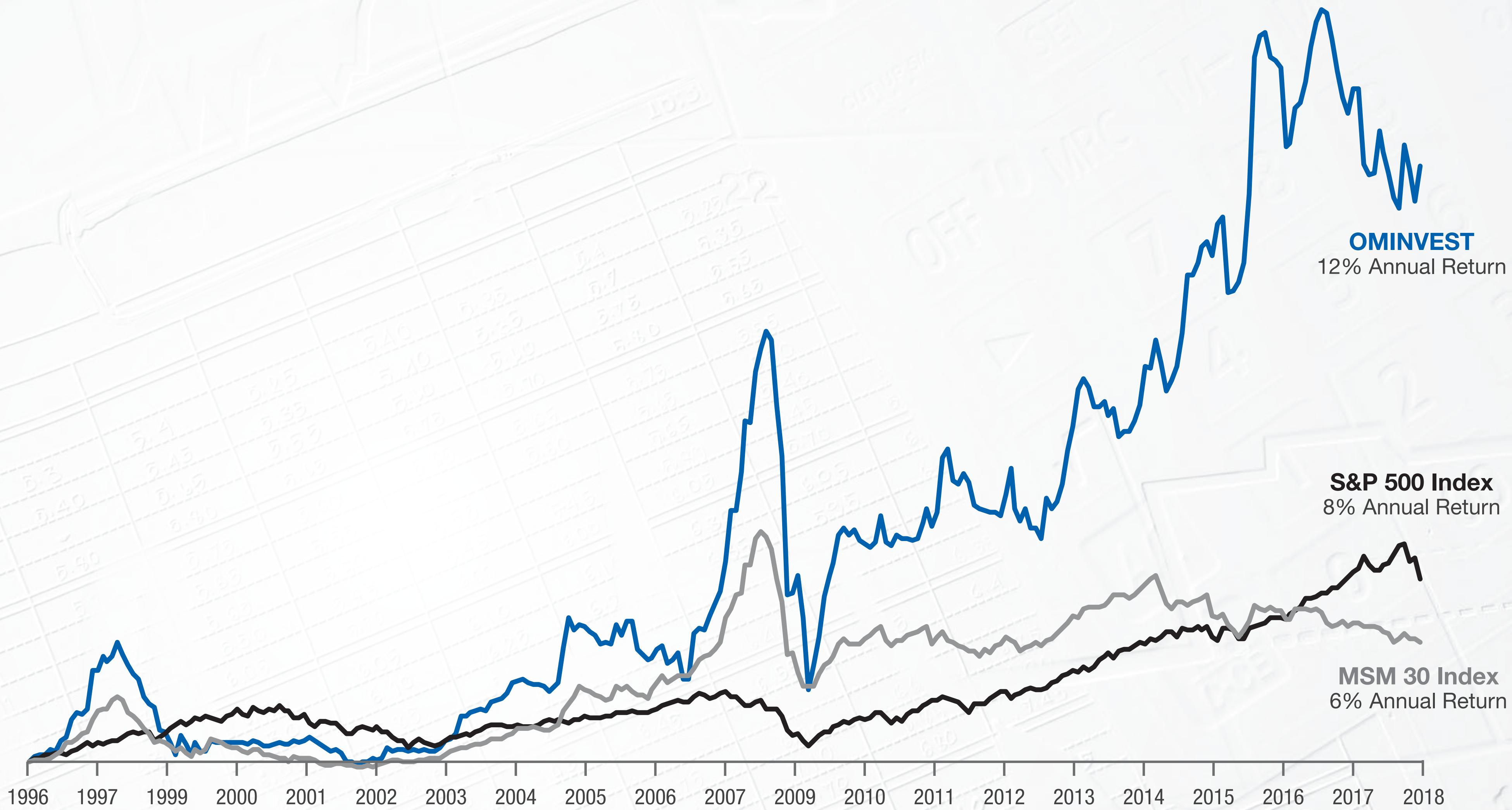
2012 – Present
Milestones

During this tenure, we built OMINVEST leadership team, developed strategic platforms, merged with ONIC Holding, enhanced revenue diversification, realized IPOs of insurance companies, merged our finance companies, and, built OMINVEST Business Centre. OMINVEST continues the pursuit of its Founders' Vision.

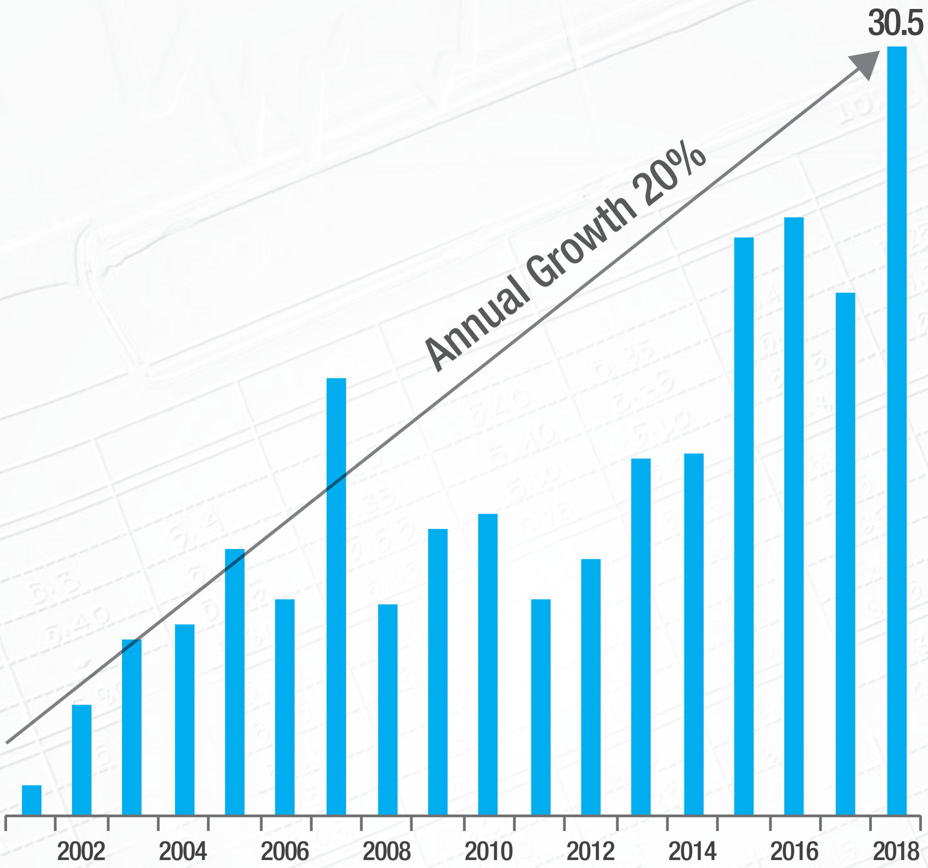
Track Record

Stock Price Performance – Total Return

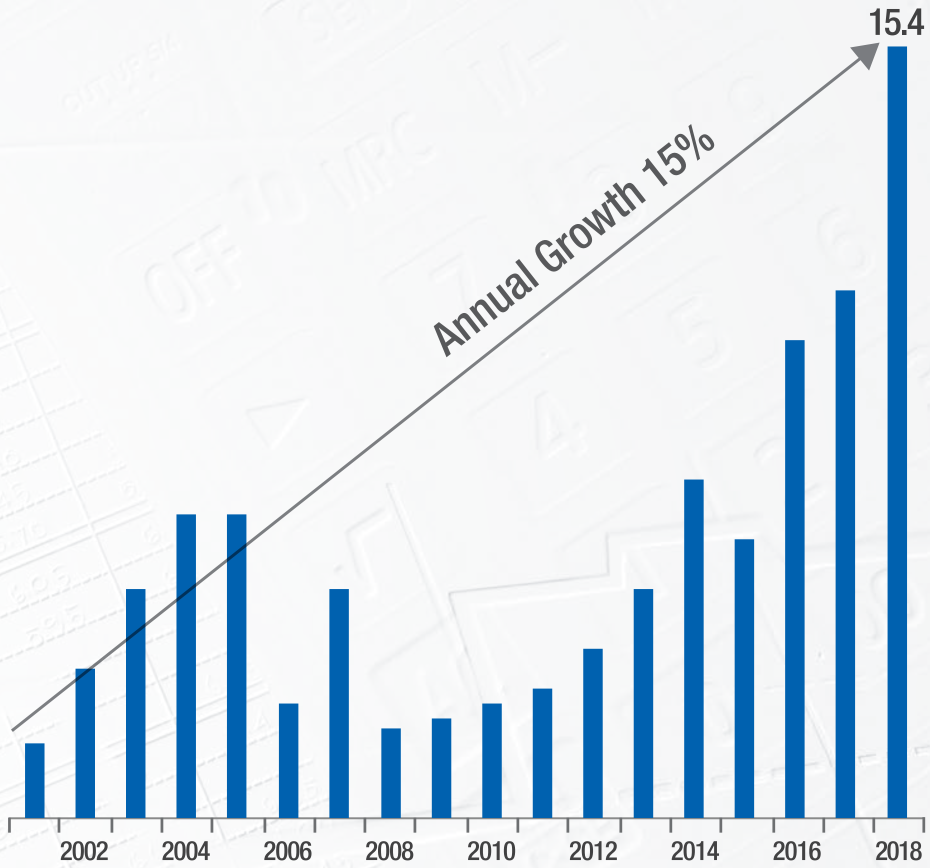
Dec 1996 – Dec 2018



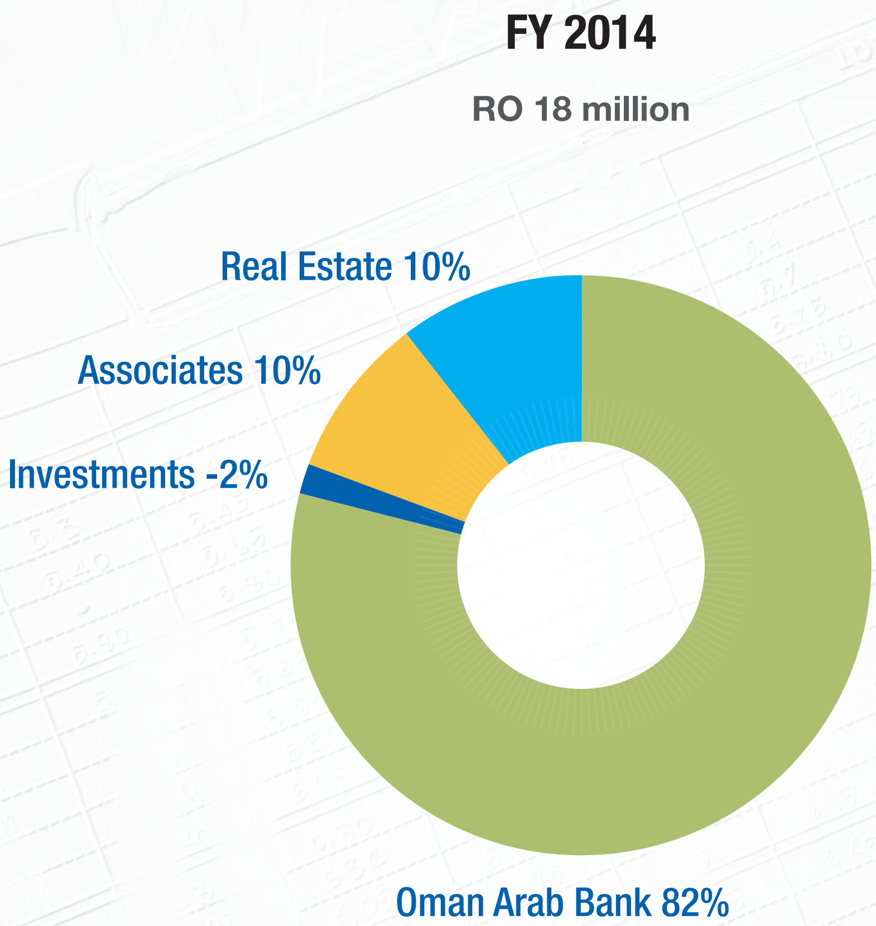
Net Income
(RO million)

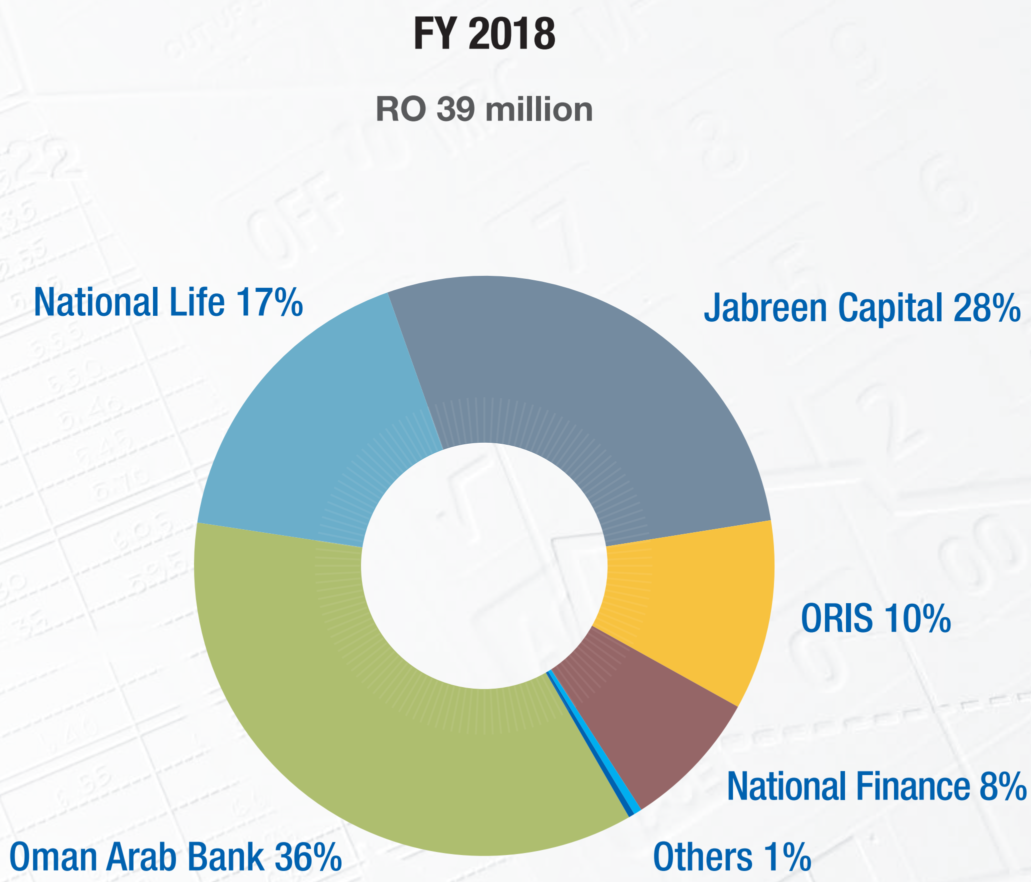


Cash Dividends
(RO million)



Net Revenue Growth & Diversification





Net revenues (after group adjustments) are based on profit contributions from each of the businesses

Board of Directors

Khalid Muhammad Al Zubair

Chairman

Sheikh Khalid Abdullah Al Khalili

Deputy Chairman

Taya Jandal Ali

Director

Jamal Shamis Al Hooti

Director

Jamal Said Mohamed Al Tai

Director

Sheikh Abdulaziz Khalifa Al Saadi

Director

C S Badrinath

Director

Anwar Hilal Al Jabri

Director

Khaula Hamood Abdullah Al Harthi

Director

Director's Report

"2018 was an important year for OMINVEST. We are beginning to reap fruits of the seeds we have been sowing for the last five years. Most of our subsidiaries and associate companies performed well in 2018 and are positioned for healthy growth in the years ahead. As a result of the successful implementation of our investment philosophy and business model, we have been able to more than double OMINVEST's revenue base and significantly enhance profit diversification despite difficult market conditions during the past few years. We achieved all this with a combination of organic and in-organic growth initiatives. As we lead OMINVEST to higher levels of achievements, we remain deeply committed to contributing back to our society through a variety of CSR initiatives."

Dear Shareholders,

On behalf of the Board of Directors, it's my pleasure to present to you the Audited Financial Results of the Group for the year ended 31 December 2018. During the year, OMINVEST delivered strong results both at the Group and the Parent level. In the following sections, I am pleased to highlight major developments at OMINVEST Group and its overall financial performance for the year ended 31 December 2018.

Macro Outlook and Strategic Direction

Omani and regional businesses across all key sectors continue to operate under challenging and uncertain economic conditions – as oil prices have been extremely volatile in recent years and are likely to remain as such in the foreseeable future. After trading well above $70/barrel during the first 9 months of 2018, Brent oil prices advanced to $86/barrel in early October 2018 and then sharply declined to $50/barrel in December 2018 on global oversupply concerns. However, oil price has again recovered back to $67/barrel in recent days as major oil producing countries pledged to curtail oil supply drastically. Weak and volatile oil prices are leading to rising sovereign debt levels, budget deficits and tight liquidity conditions in the banking sector. Cognizant of such macro challenges, we are proactively overseeing the management of OMINVEST's assets and liabilities to help maximize shareholder value while keeping potential risks well anchored. In the wake of slower economic growth in our region and rich asset valuations in international markets, OMINVEST is operating cautiously and opportunistically as our management team remains intensely focused on achieving steady growth in profits and further diversifying our revenue sources.

Funding Position and Capital Allocation

During 2018, OMINVEST successfully raised and secured total funding facilities of over OMR 250m at attractive terms from leading local and int'l Banks and prominent Omani institutional investors. I am pleased to state that our ability to raise such a substantial funding during current market conditions underscores OMINVEST's robust financial position and our strong relationships with leading banks and institutional investors. OMINVEST has used most of these funds to allocate capital to our key non-banking subsidiaries in growth sectors (Insurance, Private Equity and Real Estate) with the highest ROI potential and to achieve our revenue diversification objectives. With a prudent combination of long-term Bank facilities and the issuance of Perpetual Bonds, we have been able to further optimize our capital structure, repay some of the old loans reaching their maturity, and better match duration of liabilities with our long-term assets. Despite additional borrowings to fund new investments, our Debt/Equity ratio remains low at 0.92x. We intend to maintain a conservative leverage position to be able to effectively manage potential risks during down cycles.

Parent Company Performance

During the year ended 31 December 2018, total revenues rose by 29% to RO 47.72m and net profit by 27% to RO 34.36m, over the same period in 2017. The increase in the Parent-Level net profit was mainly due to increase in our share of P&L of the subsidiaries and interest income. As at 31 December 2018, total assets of the Parent Company stood at RO 541m compared to RO 388m as at 31 December 2017. Increase in total assets was due to growth in the portfolios and business activities of our key subsidiaries. Shareholders' equity of the Parent Company stood at RO 248m compared to RO 246m at 31 December 2017.

Group Consolidated Performance

During the year ended 31 December 2018, total Group revenues rose by 17% to RO 277.53m and the net profit attributable to OMINVEST's shareholders grew by 47% to RO 30.52m from RO 20.83m, over the same period in 2017. The growth is attributable to strong performance of our major subsidiaries: Oman Arab Bank (OAB), National Life & General Insurance Company SAOG (NLGIC), Oman Real Estate Investment & Services Corporation (ORIS) and Jabreen Capital.

Performance of Key Subsidiaries & Associates

Oman Arab Bank (OAB), our subsidiary in the banking sector, reported a profit of RO 30.14m for the year ended 31 December 2018 compared to RO 26.55m for the same period in 2017, a growth of 14%. OAB increased its Loans & Advances by 11% to RO 1.83bn compared to RO 1.65bn, as at 31 December 2017.

Customers' deposits rose by 7% to RO 1.87bn compared to RO 1.75bn, as at 31 December 2017. The Shareholders' funds were RO 284m compared to RO 276m, as at 31 December 2017. OAB's potential merger discussions with Alizz Islamic Bank are progressing well. If completed, the merger will further strengthen the Bank's market position and enable it to offer a wider array of products and services to conventional & Islamic customers. Despite difficult market conditions over the last few years, OAB has achieved healthy growth and remarkable transformation. The Bank has significantly improved its KPIs and moved-up the growth curve, by heavily investing in banking technologies, customer service, human capital and branch network. Another major focus at OAB has been to prepare a new bench of leadership comprising the brightest Omani professionals. Building onto its strong performance in 2018, OAB remains on a growth track and is expected to deliver healthy results in the years ahead.

National Life & General Insurance Company SAOG (NLGIC), our subsidiary in the insurance sector, reported Gross Written Premium (GWP) of RO 134.5m, of which Oman contributed 42%, UAE 57%, and, Kuwait 1%. NLGIC achieved a net insurance premium of RO 78.82m compared to RO 70.28m in 2017, a growth of 12%. NLGIC's progress reflects underlying growth in the broader insurance sector, and more importantly, further penetration in its key markets in the region. For the year ended 31 December 2018, NLGIC reported net profit of RO 9.30m compared to RO 8.40m in 2017, a growth of 11%. National Life is set to grow further and diversify outside Oman, as it is pursuing acquisitions opportunities in Indonesia and Saudi Arabia. In Sept 2018, National Life received Top Performing Company award by AIWA Awards-2018. In addition, the CEO of National Life was honored with the Best CEO award. With its ROE of 18%, Expense Ratio of 8.3% and net Loss Ratio of 76% – National Life's KPIs are the best in the sector. We believe that NLGIC's growth prospects are strong, its recurring revenues from insurance business are stable and on a clear growth trend.

Jabreen Capital, our subsidiary Jabreen Capital is focused on making private equity investments in diverse sectors and expanding into new markets. Jabreen Capital reported a net profit of RO 10.8m for the period ended 31 December 2018. The profit growth was mainly attributable to the dividend income received from Jabreen Capital's private and public equities portfolio and its share of profits from key associates. We expect Jabreen Capital to further enhance and diversify its investment income in the years ahead. During 2018, it acquired an additional stake of 6.5% in Bank Muscat at attractive valuation, taking its overall stake in Bank Muscat to 9.6%. Jabreen Capital's total assets now stand at RO 274m, as its paid-up capital was increased to RO 100m from RO 40m to optimize its capital structure.

Oman Real Estate Investment and Services Corporation (ORIS), our subsidiary in the real estate sector, invests in iconic real estate projects and acts as lead Developer and Promoter of such projects. ORIS also provides real estate management services to our affiliates within OMINVEST Group and to large institutional clients outside the Group to generate fee income. During Q4 2018, ORIS successfully completed its major project – OMINVEST Business Center (OBC) – atop Muscat Hills. ORIS has already sold and leased most of the floors well above our Carrying Value, resulting in significant capital gains on our investment in OBC. As a result, ORIS reported Net Profit of RO 4.1m, 123% higher than its 2018 budget of RO 1.8m due to higher than expected unit sales and rental income. We are pleased to share with you that in Dec 2018 we held a memorable inauguration of OBC and were extremely delighted to welcome our honorable founders and prominent leaders from Oman's public and private sectors. We are extremely thankful to all of them for their patronage and guidance.

National Finance Company (NFC), one of our largest associates in the leasing sector, reported net profit of RO 12.0m. With around 40% market share, NFC continues to maintain the best KPIs (Highest ROE and lowest NPLs), despite the fact the leasing sector is trying to cope with slower growth and rising NPLs. NFC has successfully completed the integration of business from its merger with Oman ORIX Leasing Company and is expected to resume its high-growth trajectory from next year. Given NFC's strong growth prospects in Oman and across the region, OMINVEST increased its equity stake in NFC to 35% to be able to play more active role on NFC's Board, provide strategic support and help create value for all stakeholders.

Corporate Governance and Social Responsibility: As a custodian of over 2,000 shareholders and a representative of Oman's leading investor houses and public sector institutions, your Board endeavors to follow the highest standards in Corporate Governance and strictly adheres to the applicable Regulatory Framework. As OMINVEST has risen to become one of the largest and highly successful investment firms in the region, we are taking our Corporate Social Responsibility with utmost passion and getting involved with various reputable institutions to help students, entrepreneurs and our communities in different ways.

Acknowledgements:

On behalf of the Board, We are profoundly thankful to the esteemed leaderships at the CMA, CBO, and MOCI for guiding and supporting us on bringing innovative Transaction Structures to the Market and participating in large-scale Capital Market activities to increase liquidity and help build investor confidence. We believe that a healthy discussion and a close interaction between the Policy Makers, the Regulators and the Private Sector Entities will strengthen businesses in the Key Sectors and help stimulate economic growth in the Country. We also take this opportunity to thank the management teams at OMINVEST and across our Group companies for their exemplary hard work and unfailing commitment to achieve our shared vision.

We are profoundly thankful to His Majesty Sultan Qaboos Bin Said for his great vision and wise leadership for the steady growth, stability and enduring prosperity of our beloved country.

Khalid Muhammad Al Zubair
Chairman

Corporate Governance Report

Building a better working world

Ernst & Young LLC
P.O. Box 1750, Ruwi 112
5th Floor, Landmark Building
Opposite Al Ameen Mosque
Bowsher, Muscat
Sultanate of Oman

Tel: +968 22 504 559
Fax: +968 22 060 810
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Oman International Development and Investment Company SAOG (the "Company") as at and for the year ended 31 December 2018 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarised as follows:

1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2018. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Oman International Development and Investment Company SAOG to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of Oman International Development and Investment Company SAOG, taken as a whole.

Ernst & Young LLC

Muscat
10 March 2019

ERNST & YOUNG LLC

The principles of Corporate Governance direct and control companies through processes and procedures by identifying rights and obligations of the Board of Directors and Management and setting out the framework of internal controls. At OMINVEST ("Company"), the Board supports the highest standards of Corporate Governance. The Board of Directors is responsible for approving and monitoring the Company's overall strategy and policies, including risk management policies, control systems, business plan and annual budget. The Management is responsible to provide the Board with appropriate and timely information to monitor and maintain effective control over strategic, financial, operational and compliance issues. The Board confirms that OMINVEST applies the principles set out in the Capital Market Authority's (CMA) Code of Corporate Governance for Public Listed Companies (the "Code") and other rules and guidelines issued by the CMA from time to time.

BOARD OF DIRECTORS

Nomination of Directors

The Articles of Association of the Company provides for ten (10) directors. Each director on the Board is required to own/represent at least two hundred thousand (200,000) shares in the Company as qualification shares. The Nomination, Remuneration and Executive Committee assists the General Meeting in the nomination of proficient directors and the election of the fit for purpose. Election to the Board is subject to approval by the regulatory authorities based on nomination form filed by the candidate who meets the minimum qualification requirements as per CMA guidelines. The election for the Board of Directors was held at Annual General Meeting ("AGM") on the 27 March 2018 for a term of three years. As of 31 December 2018; OMINVEST has one (1) vacant board seat.

Composition of the Board

During the year 2018, the Board consisted of ten (10) directors who have varied backgrounds and experience and who individually and collectively exercised independent and objective judgement. As of 31 December 2018, the composition and the independence of the Board of Directors is in accordance with the Code is as follows:

i) All Directors, including the Chairman, are non-executive. Three (3) out of the nine (9) Directors are independent; in compliance with the existing regulations.

ii) Four (4) out of the nine (9) Directors represent institutional shareholders, while five (5) Directors were elected by the shareholders in their individual capacities.

Number of Board meetings

OMINVEST held eight (8) Board meetings during the year ended 31 December 2018. These were held on 31 January, 28 February, 27 March, 6 May, 29 May, 13 August, 6 November and 19 December. The maximum interval between any two meetings was eighty-five (85) days. This is in compliance with the Code which requires meetings to be held within a maximum time gap of four (4) months.

Directors' attendance record

Director	No. of Board meetings attended	Whether attended last AGM
Khalid Muhammad Al Zubair	8	Yes
Sheikh Khalid Abdullah Al Khalili	8	Yes
Taya Jandal Ali	8	Yes
Jamal Shamis Al Hooti	7	Yes
Jamal Said Al Tai	5	No
Sheikh Abdulaziz Khalifa Al Saadi	8	Yes
Ceruseri Sreenivas Badrinath	8	Yes
Anwar Hilal Al Jabri	8	Yes
Khaula Hamood Al Harthi	6	Yes
Majid Salim Al Araimi (1)	3	Yes

(1) *Resigned during the year*

None of the Directors during their directorship was a member of the board of more than four (4) public joint stock companies whose principal place of business is in the Sultanate of Oman, or a chairman of more than two (2) such companies. Particulars of directorships of other joint stock companies and memberships of other Board Committees is set out in Appendix I of this Report. Furthermore, no director was a member of the board of directors of a joint stock company which practices similar activities to the Company and whose principal place of business is in the Sultanate of Oman.

Directors with materially significant related party transactions, pecuniary or business relationship with the Company

All details relating to financial and commercial transactions where directors may have a potential interest are provided to the Board, and the interested directors neither participate in the discussion, nor do they vote on such matters. All such matters are also discussed in detail by the Audit and Control Committee.

The company has its Related-Party policy & procedures as per the Code; and all related party transactions are reviewed by the Audit and Control Committee and approved by the Board and AGM if required.

The following shareholders have 10% or more of the voting power in the Company:

	At 31 Dec 2018
	(% Holding)
Ubhar Capital – Asset Management/ Local Trust	24.08%
Al Hilal Investment Company LLC	20.09%
Civil Service Employees' Pension Fund	11.58%

Board Evaluation & Training

The Code requires that the Board of Directors performance is appraised impartially and independently by a third party appointed by the AGM in accordance with a benchmark and standards set by the Board or the General Meeting. The AGM held in 27 March 2018 approved the appointment of an independent third-party as per the evaluation framework parameters. The appointed consultants "Protiviti" carried out the evaluation exercise during the year and presented a report to the Board with recommended actions.

The Directors along with the Executive Management attended "IMD High Performance Boards" 3-day program at Lausanne, Switzerland from 14 – 17 May 2018. The program explored diverse board practises from different organisations around the world and from many industries.

Committees of the Board

Audit and Control Committee (AC)

The AC as of 31 December 2018 consists of four (4) non-executive members, of which three (3) are independent and one (1) non-independent. All members of the Committee are familiar with finance, industry, Omani laws and regulations governing SAOG companies.

The AC met five (5) times during the year on 27 February, 6 May, 12 August, 5 November and 19 December and the attendance record is tabled below.

Attendance record of Audit and Control Committee Members:

Name of Committee Member	Position	Meetings attended during the year
Jamal Shamis Al Hooti	Chairman	4
Jamal Said Al Tai	Deputy Chairman	4
Anwar Hilal Al Jabri	Member	5
Khaula Hamood Al Harthi	Member	4
Majid Salim Al Araimi (1)	Member	2

(1) *Resigned during the year*

The Committee receives reports on the findings of internal and external audits and on actions taken by the Management. It meets with the external auditors at least once (1) every year and with internal auditors on quarterly basis. The Committee reviews the scope, findings and cost effectiveness of the Company's statutory audit and the independence and objectivity of the external auditors. It also reviews changes to the accounting policies and reviews the audited annual and unaudited quarterly financial statements and recommends for Board approval. In addition, the Committee periodically reviews and reports to the Board on the effectiveness of the Company's system of internal control and risk management process.

Nomination, Remuneration and Executive Committee (NREC)

The NREC is delegated powers and authority to facilitate the smooth running of the operations of the Company and exercise all of the responsibilities of the Board between its meetings within the limits set out in the Delegation of Authority approved by the Board. The NREC is also responsible for nomination of competent directors and developing appropriate remuneration policies. The exceptions to the delegated powers include the following:

i) Approval of the Company's annual budget and business plan;

ii) Approval of the Group's and Company's quarterly unaudited financial statements and the annual audited financial statements; and

iii) Acquisition and disposal of strategic investments.

The NREC as of 31 December 2018 consists of five (5) non-executive members. All members are non-independent Directors.

The Committee met four (4) times during the year on 29 January, 25 March, 6 November and 16 December and the attendance record of the members is tabled below:

Name of Committee Member	Position	Meetings attended during the year
Khalid Muhammad Al Zubair	Chairman	4
Sheikh Khalid Abdullah Al Khalili	Deputy Chairman	4
Taya Jandal Ali	Member	4
Ceruseri Sreenivas Badrinath	Member	2
Sheikh Abdulaziz Khalifa Al Saadi	Member	4

Remuneration of Directors

During the year, following the approval by the shareholders at the AGM held on 27 March 2018, the Directors were paid a remuneration of RO 154,500 for 2017.

Directorship sitting fees of RO 500 was paid to the Directors for each Board and Board Committee meeting attended during the year. Total sitting fees for Board and Board Committee meetings held during 2018 were as follows:

	(RO)
Board	34,000
NREC	9,000
AC	9,500
	52,500

There was no other remuneration paid by the company to any of the Directors.

Remuneration for 2017 paid in 2018 and sitting fees paid for 2018 relating to individual Directors was (in RO):

Director	Sitting Fees				Remuneration	
	Board	NREC	AC	Total	for 2017	Total
Khalid Muhammad Al Zubair	4,000	2,000	-	6,000	22,123	**28,123**
Sheikh Khalid Abdullah Al Khalili	4,000	2,000	-	6,000	15,234	**21,234**
Taya Jandal Ali	4,000	2,000	-	6,000	14,749	**20,749**
Jamal Shamis Al Hooti	3,500	-	2,000	5,500	14,749	**20,249**
Jamal Said Al Tai	2,000	-	2,000	4,000	-	**4,000**
Sheikh Abdulaziz Khalifa Al Saadi (2)	4,000	2,000	-	6,000	14,749	**20,749**
Ceruseri Sreenivas Badrinath	4,000	1,000	-	5,000	14,749	**19,749**
Anwar Hilal Al Jabri	4,000	-	2,500	6,500	14,749	**21,249**
Khaula Hamood Al Harthi	3,000	-	2,000	5,000	-	**5,000**
Majid Salim Al Araimi (1)	1,500	-	1,000	2,500	14,749	**17,249**
Qais Mohammed Al Yousef (1)	-	-	-	-	13,456	**13,456**
Hassan Ahmed Al Nabhani (1)	-	-	-	-	14,547	**14,547**
Shaheen Mohammed Amin (1)	-	-	-	-	646	**646**
Total	**34,000**	**9,000**	**9,500**	**52,500**	**154,500**	**207,000**

(1) Resigned / Replaced during the past two (2) years

(2) Shareholder, Civil Service Employees Pension Fund, has advised that's its representative, Sheikh Abdulaziz Khalifa Al Saadi, can be paid a maximum of 5,000 RO as Directors Remuneration, and the balance, if any, should be paid to the Fund. However, sitting fees shall be paid in full to the Director.

Directors' Remuneration proposed for 2018 is RO 147,500 and this is subject to shareholders' approval at the AGM scheduled to be held on Tuesday, 27 March 2019. As per Royal Decree 99/2005 of 5 December 2005, the maximum permissible limit on Board remuneration, including sitting fees is 5% of annual net profit, subject to an overall limit of RO 200,000 after deduction at a rate not less than 5% of the capital. Each Director's sitting fees per annum is limited to RO 10,000.

Management Remuneration

At 31 December 2018, the Company had thirty one (31) full-time employees. The expense (salaries, allowances, other statutory payments and bonuses) incurred for 2018 relating to the (5) full-time executive management team of the Company was RO 1,464,051. In addition, sitting fees and funds received by the Company from the investee companies was RO 109,563. Travel and incidental expenses for Group's business incurred by any of the above executives for the year 2018 amounted to RO 8,840. All employees are employed on two year renewable employment contracts. Notice period is three (3) months for all positions or salary in lieu thereof.

Internal Control Review

The Code requires that the directors should, at least annually, review the effectiveness of the Company's system of internal controls and report to the shareholders that they have done so. The Board attach great importance to maintaining a strong control and governance environment and confirm that its review has covered the financial statements, all controls, including financial, operational, compliance and risk management. The Board has reviewed the Parent Company's internal control policies and procedures and is satisfied that appropriate procedures are in place to implement the Code's requirement.

SHAREHOLDERS

Communication to shareholders and investors

Information relating to the Company and its quarterly and annual financial statements are uploaded on the Muscat Securities Market ("MSM") website and posted on the Company's website at www.ominvest.net. Financial statements, in Arabic and English, are also available at the Company's offices during the Company's business hours. The quarterly unaudited and annual audited sections of the financial statements of the Group and Parent Company are published in leading Arabic and English newspapers in the Sultanate of Oman.

Audited financial statements (abridged), in Arabic together with the Notice and Agenda for the AGM are sent by post to all shareholders to their registered addresses provided by the Muscat Clearing and Depository Company saoc and have also been disclosed on the MSM website. Extracts from the financial statements are published in an Arabic and English newspaper within five (5) days of filing it through electronic transmission system of MSM.

Distribution of shareholding

The shareholding pattern as of 31 December 2018 was:

Number of Shares	% Held	Number of shareholders	Total Shares	% of Share Capital
76,930,698 and above	Above 10%	3	428,936,373	55.76%
38,465,349 up to 76,930,698	5% - 10%	1	38,465,350	5.00%
7,693,070 up to 38,465,349	1% - 5%	8	109,107,471	14.18%
Below 7,693,070	Below 1%	2030	192,797,786	25.06%
GRAND TOTAL		**2,042**	769,306,980	100.00%

Professional profile of the statutory auditor

The shareholders of the Company have appointed Ernst & Young as the auditors for the year ended 31 December 2018.

Ernst & Young (EY) – Statutory Auditors'

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,600 partners and approximately 106,775 professionals. Globally, EY operates in more than 150 countries and employs 261,559 professionals in 700 offices. Please visit ey.com for more information about EY.

Remuneration payable to statutory auditors is RO 15,000/- plus out of pocket expenses for the year ended 31 December 2018 for the Parent Company.

LEGAL ADVISOR

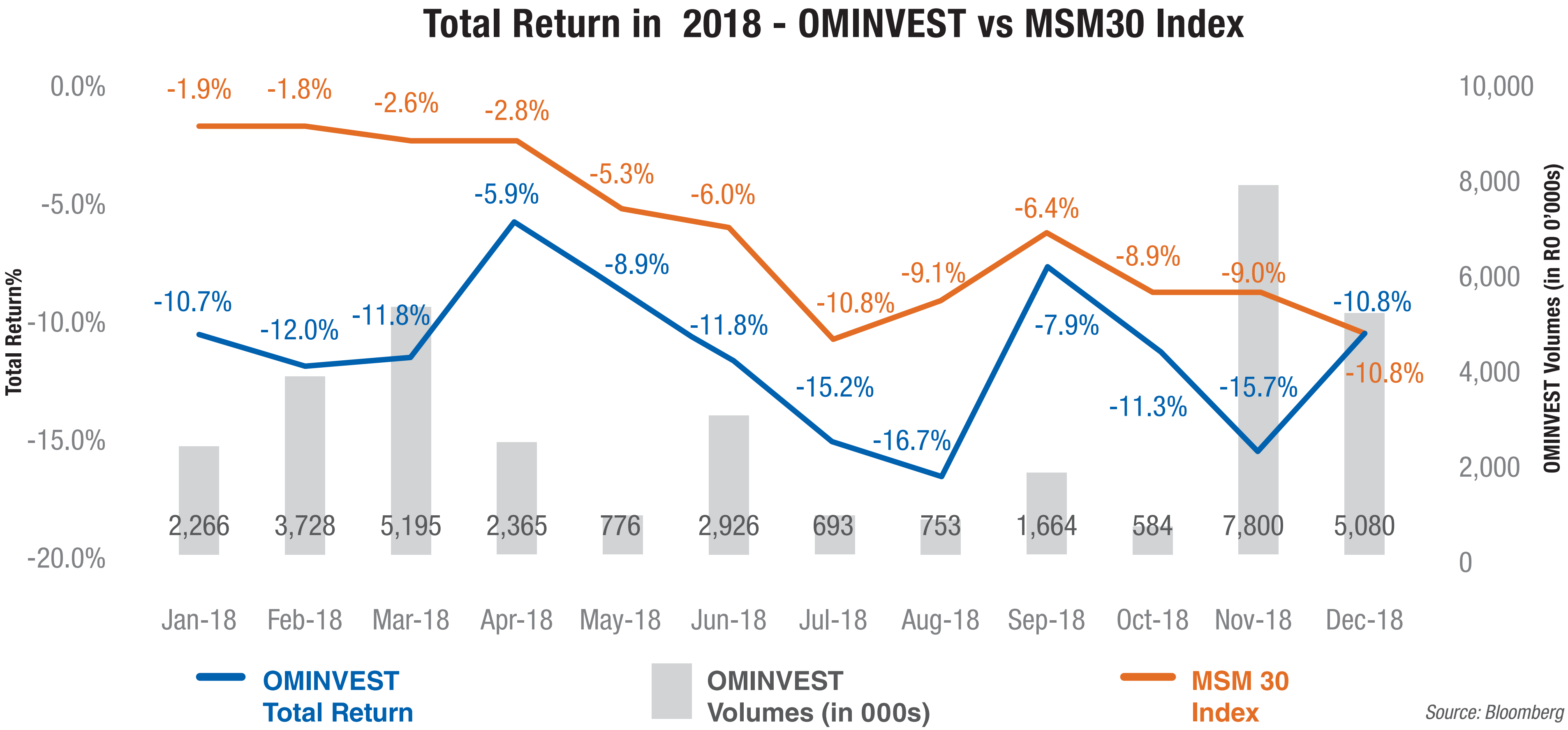
Curtis, Mallet-Prevost, Colt & Mosle LLP

For over twenty years, Curtis Oman has been helping Omani and international companies, financial institutions and governments to do business in the Sultanate of Oman. Curtis remains the only US-headquartered law firm licensed to practice in Oman. The Muscat office is the hub of our wider Middle East practice and offers the full range of international and domestic legal services.

All Curtis Oman partners are ranked by Chambers Global and Legal 500 EMEA and the team continues to be ranked in the leading legal directories year on year. Clients come to firm for its "excellent quality of service, timeliness, very good understanding of the issues and expert advice" (Chambers Global).

MARKET PRICE DATA

The performance of the Company's share price (total returns) in 2018 versus MSM-30 Index is shown below:



Source: Bloomberg

Details of OMINVEST's high, low and closing share prices during each month are as follows:

	Dec'17	Jan'18	Feb'18	Mar'18	Apr'18	May'18	Jun'18	Jul'18	Aug'18	Sep'18	Oct'18	Nov'18	Dec'18
High	0.466	0.462	0.418	0.410	0.392	0.390	0.364	0.360	0.350	0.380	0.376	0.364	0.378
Low	0.464	0.416	0.408	0.360	0.358	0.360	0.350	0.340	0.336	0.336	0.350	0.344	0.334
Close	0.466	0.416	0.410	0.360	0.384	0.372	0.360	0.346	0.340	0.376	0.362	0.344	0.364

Source: MSM Monthly Bulletin

DETAILS OF NON-COMPLIANCE

There have been no instances of non-compliance on any matter relating to the Commercial Companies Law No. 4/1974, CMA's Code of Corporate Governance for Public Listed Companies, CMA regulations or the MSM listing agreements. No Penalties and strictures have been imposed on the Company by the MSM or CMA or any other regulatory authority during the past (3) three years.

ACKNOWLEDGEMENT BY THE BOARD

The Board acknowledges its responsibilities and confirm that:

a. the Audited Group and Parent Company financial statements have been prepared in accordance with the IFRS, the minimum requirements of the Commercial Companies Laws No. 4/1974 and the disclosure requirements of the CMA;

b. the internal controls and procedures have been reviewed through an established process of regular internal audit, review by the Audit and Control Committee and the final clearance by the Board;

c. the Parent Company and the Group have a strong financial standing to carry on their successful operations in the foreseeable future.

APPENDIX 1

PARTICULARS OF DIRECTORSHIPS OF OTHER PUBLIC JOINT STOCK COMPANIES AND MEMBERSHIPS OF THEIR COMMITTEES AS OF 31 DECEMBER 2018

Director	OTHER DIRECTORSHIPS			
	Company	Position	Committee	Position
Khalid Muhammed Al Zubair	National Life and General Insurance Company SAOG	Chairman	NREC	Chairman
Sheikh Khalid Abdullah Ali Al Khalili	Bank Nizwa	Director	EC	Member
	Al Ahila Insurance	Director	NRI	Member
Taya Jandal bin Ali	National Finance Co.	Chairman	NREC	Chairman
Sheikh Abdulaziz Khalifa Al Saadi	Bank Nizwa	Director	EC RC	Member Member
Anwar Hilal Al Jabri	Ahli Bank	First Deputy Chairman	ERC	Member
	National Life and General Insurance	Director	IC	Member
	Dhofar Power	Director	IC AC	Member Member

NREC = Nomination, Remuneration and Executive Committee *EC = Executive Committee* *NRI = Nomination, Remuneration and Investment Committee* *RC = Risk Committee*
ERC = Executive Risk Committee *IC = Investment Committee* *AC = Audit Committee*

Executive Management

AbdulAziz Mohammed Al Balushi

Group
Chief Executive Officer

AbdulAziz Mohammed Al Balushi has been the Group CEO of Oman International Development and Investment Company SAOG (OMINVEST) since January 2014.

With experience of more than 34 years, AbdulAziz has extensive in-depth knowledge of global financial services industry. At OMINVEST, AbdulAziz was the key driver behind the merger of Ominvest and ONIC Holding, which has created the largest publicly listed investment company in Oman.

Before joining OMINVEST, AbdulAziz was the CEO of Ahlibank SAOG from 2007 to 2013 and was primarily responsible in converting a single product mortgage bank into a full-fledged commercial bank. During his tenure, Ahlibank won many prestigious awards including; the best bank of Oman for three consecutive years by OER, the best bank in Oman 2012 by World Finance and the Bankers award 2013. AbdulAziz has held positions of increasing responsibility in all major areas of Banking. Abdulaziz started his career with Oman International Bank and prior to joining Ahlibank, he was Deputy CEO of National Bank of Oman.

AbdulAziz holds Master of Science Degree in Finance from the University of Strathclyde (UK) and a Fellow Chartered Institute of Bankers (UK). He has attended a host of Specialized Executive Management Development Programs at International Institutes of worldwide repute including, London Business School, INSEAD Business School and Strathclyde University Business School. In November 2012, he was ranked as the “Second Best CEO in the Arab Banking World” by Forbes Magazine.

AbdulAziz is the Chairman of Board of Directors at Oman Electricity Transmission Company SAOC (a wholly government-owned entity), Oman Real Estate Investments and Services SAOC and Oman National Investment Corporation SAOC. He is also a Board member at Oman Arab Bank SAOC, Ubhar Capital SAOC, National Finance Company SAOG and National Life and General Insurance Company SAOG. Additionally, he is a member of Oman American Business Center, an organization formed to foster the development of commercial activity between the United States of America and the Sultanate of Oman.

Shahid Rasool

Deputy CEO

Shahid is the Deputy CEO at OMINVEST and joined the firm as CIO in August 2014. Over the last 22 years, he has held leadership responsibilities at prominent Investment Banks and Investment Firms in the Middle East. Shahid has managed substantially large investment platforms across public equities, private equity, fixed income and alternative investments across regional and int'l markets. Before joining OMINVEST, Shahid was Head of Public Securities at QInvest (Qatar's largest investment bank) and managed the bank's proprietary capital and client portfolios focusing on MENA and Global Equities. Earlier, he was Head of Investments Group at First Gulf Bank (which has now become First Abu Dhabi Bank) in Abu Dhabi, where he led a large team and managed multi-asset investment portfolios covering MENA and Global markets. He also managed regional and global Private Equity investments at Abu Dhabi Investment Company and Asset Management business at Riyad Bank, Saudi Arabia. Shahid is a CFA charter holder and received his MBA from The University of Chicago, Booth School of Business, Illinois, USA.

Badar Al Shanfari

Deputy CEO - Jabreen Capital

Mr Badar Al Shanfari is the Deputy Chief Executive Officer of Jabreen Capital. Prior to joining Jabreen Capital, Badar was the General Director of Uzbek-Oman Investment Company and UzOman Capital, which is a joint venture between Oman's Sovereign Wealth Fund (State General Reserve Fund) and Fund for Reconstruction & Development of Uzbekistan, the leading Private Equity investor in Uzbekistan. Before joining Uzbek Oman Investment Company, Badar spent 4 years as a Senior Direct Investments Officer at the State General Reserve Fund (SGRF). Prior to SGRF, Badar spent 7 years as Manager Financial Services at Oman Refineries and Petrochemicals Company LLC (ORPIC).

Mr. Al Shanfari is a Certified Public Account from the state of Delaware and has a Masters in Business Administration Degree from University of Strathclyde (UK).

Nasser Al Shibli

General Manager - ORIS

Nasser Al Shibli is the General Manager of ORIS. Nasser joined OMINVEST Group in 2014, he has over 18 years' experience in project management and real estate. Previously, he held the position of Director of Projects & Service Department at the Ministry of Endowments & Religious Affairs. He has also worked at Iskan Oman Investment Co. (IOIC) and Oman Telecommunications Company in a Project Management Role. Nasser holds a B.Sc. in Civil Engineering from Sultan Qaboos University, MBA from the University of Bedfordshire and a Master Certificate in Project Management from George Washington University.

Neelmani Bhardwaj

Business Executive Officer - Insurance

Neelmani is a senior general insurance professional with 25 years of extensive international experience in Financial Services industry of which 18 years were with American International Group (AIG) in varied roles and geographies across South Asia, GCC, Africa, Russia and Europe. Prior to joining OMINVEST, Neelmani was the Country Head for AIG in Oman where he transformed a small country operation with 8 staff to a multimillion dollar business with 170+ professionals in a short span of 3 years. He has been highly successful in building a collaborative and effective working environment across culturally diverse teams and geographies. He has been effective in leading teams to high performance amidst a rapidly changing external and internal environment. Neelmani has done his Master's in Business Administration from Amity Business School. At OMINVEST, Neel will be responsible to manage and grow the investments in the Insurance Sector.

Hamid Al Harthi

Chief Human Resources Officer

Hamid joined OMINVEST in 2009 as a Vice President Internal Audit, reporting to Audit Committee. Currently, he changed his career to Chief Human Resource Officer at OMINVEST. Hamid is a Certified Internal Auditor (CIA) – from the Institution of Internal Auditors (IIA), United State of America (USA) and Certified Internal Quality Auditor (CIQA). He is a Member of Institution of Internal Auditor (IIA), USA. He is also a member of Information Systems Audit and Control Association (ISACA), USA. He has over 12 years of professional experience in internal audit in various institutions in Oman includes; Oman Development Bank, Gulf Investment Services (GIS) as a Head of Internal Audit & Group Compliance Officer, at Gulf Baadar Capital Markets as Management representative of GIS. Hamid graduated from Sultan Qaboos University with a bachelor degree of Science in Accounting from College of Commerce and Economics.

Shadi Zghoul

Head of Legal and Company Secretary

Shadi Zghoul joined Ominvest in 2010 as Vice President, Legal Affairs. Since joining, his role expanded as he assumed, from 2011, the position of Head of Legal Affairs and acted as the Board Secretary and since 2015, the Head of Legal and Company Secretary.

Holding a Law degree from the University of Jordan, and a member of the Jordan Bar Association, Shadi started his career in 1997 and accumulated his experience from various top corporations and law firms in Jordan through his practice in litigation, employment, banking, insurance, IT and corporate law. Before joining Ominvest, he was the legal advisor for the Minister of Tourism of Sultanate of Oman.

Muneer Al-Mughairy

Chief Internal Auditor

Muneer has over 16 years of experience in Internal Audit. His industry experiences includes government oil and gas, investment and financial services companies. He worked for various reputable companies such as Oman LNG, Takamul Investment Company and Al Maha Petroleum Marketing Company. Muneer is providing strategic direction to the audit department that also covers other subsidiaries within the group. He is the president of the Institute of Internal Auditor - Oman Chapter. Muneer holds a master's degree in business administration and is a Certified Internal Auditor, a Certified Fraud Examiner and a Certified Information System Auditor.

Management Discussion and Analysis

Company Overview:

OMINVEST is one of the oldest and largest investment holding companies in the region. It operates around its six strategic platforms which comprise (i) Banking, (ii) Insurance, (iii) Leasing, (iv) Real Estate, (v) Investment Banking and (vi) Financial Investments (public & private equity investments). Our objective is to seize attractive investment opportunities within these verticals to establish a diversified and steady stream of income through share of profits from underlying investments.

Investment Philosophy:

Our business model entails developing a diverse portfolio of investments in our six verticals by adhering to the following investment philosophy:

- Focus Investing – make few outstanding investments
- Operate within 'Circle of Competence' – do what we know
- Own local, regional, international brands, high-quality durable businesses that can withstand major market turmoil
- Diversify across companies, sectors, geographies, duration
- Buy & Hold for a long time to compound returns
- Valuation Discipline – Invest when prices are depressed
- Stay liquid & avoid leverage – especially huge short-term debt
- Invest alongside smart management teams – demonstrating high integrity and alignment with Shareholders

Business Model and Strategy:

To achieve our strategic goals, OMINVEST is focusing on the following initiatives:

- further build our presence in the financial services sector and help improve performance of our strategic investments,
- expand our footprint in the regional insurance sector through organic expansion
- further enhance synergies within our portfolio companies in the leasing sector,
- grow our investment banking and asset management platform to generate fee income,
- develop a diverse and high-quality portfolio of financial investments in public and private equity through our subsidiary Jabreen Capital, and
- establish a top-tier real estate investment and projects advisory business through our ORIS platform.

Business Profile:

Over the past four years, OMINVEST has successfully implemented its investment philosophy and business model. As a result, OMINVEST has attained remarkable revenue diversification and significantly reduced downside risks to its profitability. In Dec-2014, banking sector investments accounted for 82% of OMINVEST's revenues, while by Dec-2018, banking sector accounted for just 44% of its revenues, as OMINVEST's new businesses in other sectors including insurance, leasing, and real estate have added additional revenue streams.

Investment Opportunities and Challenges during 2018:

During 2018, OMINVEST made considerable progress - despite a difficult economic environment. Specifically, we achieved the following milestones:

- strengthened and optimized OMINVEST capital structure by raising RO 250 million at attractive terms from leading local and international banks and prominent Omani institutional investors,
- Our real estate subsidiary, ORIS, successfully completed its major project – OMINVEST Business Center (OBC) and our head office moved to the penthouse at OBC,
- OMINVEST increased its equity stake in its leasing associate National Finance Company to 35% to play a more active role on NFC's Board and provide strategic support,
- our fully owned subsidiary and private equity arm, Jabreen Capital, acquired an additional stake of 6.5% in Bank Muscat at attractive valuation, taking its overall stake in Bank Muscat to 9.6% in addition to securing a board seat.
- Jabreen Capital also continued to build its education platform through the acquisition of a 15% stake in a K12 school in Dubai.
- built an efficient organizational structure, and
- invested in our people to strengthen our overall capabilities.

During 2018, buying high-quality businesses was difficult amid a tough macro-economic environment. However, the initiatives outlined above further strengthened OMINVEST as a highly robust institutional investor, putting in place recurring income streams for 2018 and the years ahead.

Key Performance Indicators:

Our focus remains on delivering superior and durable shareholder value over the long term. This can be measured by our stock price performance, dividend distribution to shareholders, and our key performance indicators. In terms of stock price performance, despite weak market conditions, OMINVEST stock has delivered a total return of 64% since Jan 2014 to Dec 2018, while MSM Index fell by 20%, over the same period. With regards to dividends, since its inception, OMINVEST has a track record of distributing an uninterrupted stream of dividends to its shareholders. For 2018, OMINVEST proposed to distribute its highest ever dividend of RO 15m cash (20 Baizas cash per share) and a stock dividend of 5%. Lastly, we ended the year 2018 with strong key performance indicators – Return on Equity of 11.7%, Debt / Equity remained low at 0.9x and we continued to drive operational efficiencies by maintaining a low cost / income ratio.

Internal Controls:

The Board of Directors of OMINVEST plays an active role in the strategic oversight of OMINVEST, in addition, the board ensures that a system of Internal Controls provides reasonable assurance of effective operations, internal financial controls and compliance with the applicable Laws and Regulations. The system of internal controls is monitored regularly by the Board, its Committees, Management and the Internal Audit.

The Company's business is conducted with a regulated control framework, underpinned by policy guidelines, written procedures and control manuals. The Board has established a management structure which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The business performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies fully in compliance with the IFRS which are adhered to consistently.

Risk Management:

OMINVEST has a robust Board-approved Risk Management framework in place that adheres to industry best practices. Risk Management is embedded in all core business functions and is an integral part of the business strategy.

OMINVEST follows a proactive Risk Management approach in remediating internal and external risks. OMINVEST does this by conducting regular risk assessment of its portfolio companies, operating environment and taking proactive action to mitigate emerging risks. For instance, in view of the current challenging liquidity conditions in the market, OMINVEST has secured adequate funding arrangements mostly through long-term facilities, to mitigate its funding and interest rate risks and ensuring its assets-liabilities maturity profile is well-managed.

Risk issues impacting portfolio companies are proactively managed through close working relationships with investee companies and the prudent oversight of our Board representatives.

Regular risk updates are provided to the Audit & Control Committee and the Board, ensuring robust risk oversight. Further, the Risk Management Framework is periodically reviewed to assess its effectiveness and to align with changes in the operating environment.

Corporate Social Responsibility ("CSR"):

OMINVEST has a strong commitment towards the development and growth of the Omani youth and society. The Annual CSR Plan for 2018 was mainly focused on education and training by engaging with young entrepreneurs and building upon their skills. Consequently, OMINVEST created an in-house internship program for young graduates across its group companies, allowing them to obtain working knowledge. To further capitalise on this strategy, OMINVEST is collaborating with well-established entities that share our CSR philosophy.

Our key partners in CSR initiatives include:

Zubair SEC: OMINVEST funded RO 10,000 to Zubair SEC to sponsor a seat under the Direct Support Program to help support an SME owner, the founder of Global Space and Technology Company LLC.

Injaz Oman: OMINVEST funded RO 10,000 to Injaz Oman to sponsor the Company Program "Al Sharika" a program that enhances young peoples' innovative and leadership abilities. In addition, OMINVEST committed RO 30,000 for an exclusive sponsorship for next year's Program, along with getting a seat on Injaz Oman Board.

Environmental Society of Oman "ESO": OMINVEST renewed its corporate membership with ESO for a financial commitment of RO 1,000. A further RO 4,000 was paid to ESO to sponsor the Inter-College Environmental Public Speaking Competition that gives the opportunity to students to develop their presentation skills.

OMINVEST is also active in providing donations and sponsorships for other matters, including a donation to the Oman Cancer Association for RO 500. At OMINVEST we apply best industry practises and give high priority to the protection of our surroundings and compliance with the relevant regulations and standards to ensure sustainability. Corporate sustainability is an approach OMINVEST follows that creates long-term shareholder value by ensuring our CSR activities are sustainable.

Financial Statements

Building a better working world

Ernst & Young LLC
P.O. Box 1750, Ruwi 112
5th Floor, Landmark Building
Opposite Al Ameen Mosque
Bowsher, Muscat
Sultanate of Oman

Tel: +968 22 504 559
Fax: +968 22 060 810
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements (the "financial statements") of Oman International Development and Investment Company SAOG (the "Company" or the "Parent Company") and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group and separate financial position of the Company as at 31 December 2018 and their respective financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)

Report on the audit of the consolidated and separate financial statements (continued)

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Impairment provision for loans and advances to customers in the consolidated financial statements The valuation of loans and advances to customers of the Group's banking subsidiary represents a significant part of the Group's total assets and due to the significance of the judgments used in classifying loans and advances to customers into various stages stipulated in IFRS 9 and determining related provision requirements, this audit area is considered a key audit matter. The basis of the banking subsidiary's impairment provision policy is presented in the accounting policies in note 2.5.1 (c) to the financial statements. The critical accounting estimates and judgements, related disclosures and the credit risk management are set out in notes 3.2, 9 and 42.2 to the financial statements.	Our audit procedures in this area included the following: • Evaluated the appropriateness of the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; • Obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions; • Evaluated Bank's key judgments and estimates made in the ECL computation and involved specialists to assist in evaluating the judgments and estimates relating to probability of default, macro-economic variables and recovery rates; • For a sample of exposures, we performed procedures to evaluate: - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Bank's staging; and - ECL calculation. • Checked the completeness of the loans, advances and financing activities for customers (including off balance sheets) in the ECL calculation as of 31 December 2018. We understood the theoretical soundness and tested the mathematical integrity of the models; • Checked the consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and • Considered the adequacy of the disclosures in the financial statements in relation to impairment of loans, advances and financing activities for customers and other financial assets subject to credit risk as required under IFRS 9.

2

EY

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)

Report on the audit of the consolidated and separate financial statements (continued)

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Accounting for acquisition of an associate During 2018, the Group acquired additional stake in Bank Muscat SAOG (the Bank). Such acquisition resulted in the Company exercising significant influence over Bank Muscat SAOG. We have determined this to be a key audit matter based on the materiality and the complexities involved in the acquisition and the significant management judgment made on the establishment of significant influence. The basis of the Group's accounting for investment in associates and business combinations is presented in the accounting policies in notes 2.4 and 2.29, respectively to the financial statements. The critical accounting estimates and judgements and related disclosures are set out in notes 3.7 and 8 (d) (ii), respectively to the financial statements.	Our audit procedures focused on the following: - Inspected the purchase agreements entered into for the acquisition of additional stake in the Bank, which took place during the year and other relevant documentation to understand the terms and conditions of the agreements. - Discussed the basis with management for performing the provisional accounting, assessed the related disclosures incorporated by management in these financial statements and traced the assets and liabilities amounts to the related accounting records. - Inspected evidences of the Group's representation on the Bank's Board of Directors. - Considered that the Group re-measured its previously held interest in the Bank. - Evaluated that the consideration transferred in respect of each transaction was appropriately calculated.

3

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)

Report on the audit of the consolidated and separate financial statements (continued)

Other information included in the Group's 2018 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Group's 2018 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

4

Building a better
working world

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)**

Report on the audit of the consolidated and separate financial statements (continued)

Responsibilities of management and those charged with governance for the financial statements

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)

Report on the audit of the consolidated and separate financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG (CONTINUED)

Report on the audit of the consolidated and separate financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Philip Stanton
Muscat
10 March 2019

ارنست ويونغ ش م م
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

7

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Notes	Group		Parent Company	
		2018 (RO'000)	2017 (RO'000) Restated	**2018 (RO'000)**	2017 (RO'000) Restated
Assets					
Balances with banks and money at call	5	**212,686**	169,531	**2,363**	878
Deposits with banks	6	**121,637**	154,036	**-**	-
Premium and insurance balance receivable	7	**43,122**	37,462	**-**	-
Re-insurance share in insurance funds	19	**28,129**	23,596	**-**	-
Investment securities	8	**175,799**	232,854	**2,271**	19,676
Investments in associates	8(d)	**219,055**	72,807	**36,982**	69,962
Investments in subsidiaries	8(e)	**-**	-	**307,702**	228,674
Loans and advances to customers	9	**1,826,817**	1,642,513	**-**	-
Due from subsidiaries		**-**	-	**188,260**	67,875
Other assets	10	**61,270**	52,292	**2,842**	852
Investment properties	11(a)	**17,043**	15,909	**-**	-
Projects work in progress	11(b)	**3,260**	3,399	**-**	-
Property and equipment	11(c)	**36,727**	30,896	**404**	26
Intangible assets	12	**16,537**	17,298	**-**	-
Total assets		**2,762,082**	2,452,593	**540,824**	387,943
Equity and liabilities					
Capital and reserve					
Share capital	13(a)	**76,931**	69,937	**76,931**	69,937
Share premium	14(a)	**47,684**	54,678	**47,684**	54,678
Treasury shares	13(c)	**(81,464)**	(81,464)	**-**	-
Legal reserve	14(b)	**34,423**	30,714	**34,423**	30,714
General reserve	14(c)	**13,033**	13,033	**13,033**	13,033
Other non-distributable reserves	15	**33,323**	28,567	**11,591**	6,835
Cumulative changes in fair value reserve		**(8,391)**	(11,093)	**(20,452)**	(6,410)
Retained earnings		**64,359**	60,948	**84,763**	77,490
Equity attributable to equity holders of the Parent Company		**179,898**	165,320	**247,973**	246,277

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 (continued)

	Notes	Group		Parent Company	
		2018 (RO'000)	2017 (RO'000) Restated	**2018 (RO'000)**	2017 (RO'000) Restated
Equity attributable to equity holders of the Parent Company		**179,898**	165,320	**247,973**	246,277
Perpetual Tier I capital bonds	13(b)	**129,641**	30,000	**60,638**	-
		309,539	195,320	**308,611**	246,277
Non-controlling interests		**154,495**	149,514	**-**	-
Total equity		**464,034**	344,834	**308,611**	246,277
Liabilities					
Due to banks	17	**238,007**	131,811	**228,800**	139,300
Deposits from customers	18	**1,862,768**	1,738,428	**-**	-
Insurance funds	19	**78,011**	68,179	**-**	-
Subordinated debt	20	**20,000**	20,000	**-**	-
Other liabilities	21	**91,504**	143,261	**3,405**	2,366
Taxation	22	**7,758**	6,080	**8**	-
Total liabilities		**2,298,048**	2,107,759	**232,213**	141,666
Total equity and liabilities		**2,762,082**	2,452,593	**540,824**	387,943
Net assets per share (Rial Omani)	32	**0.308**	0.311	**0.322**	0.352

The financial statements were authorised for issue by the Board of Directors on 25 February 2019 and signed by:

Khalid Muhammad Al Zubair
Chairman

AbdulAziz Mohammed Al Balushi
Group Chief Executive Officer

The attached notes 1 to 44 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Group		Parent Company	
		2018	2017	**2018**	2017
		(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
			Restated		Restated
Gross premium earned	23	**127,389**	116,098	**-**	-
Interest income	24	**102,237**	89,598	**8,539**	2,599
Investment income – net	26	**14,660**	3,321	**(988)**	4,276
Fee and commission income – net	27	**14,867**	14,214	**-**	-
Other operating income	28	**6,626**	7,203	**2,224**	729
Share of results from subsidiaries	8(e)	**-**	-	**34,733**	22,512
Share of results from associates	8(d)	**11,752**	6,996	**3,211**	6,881
Total revenue		**277,531**	237,430	**47,719**	36,997
Premium ceded to re-insurers	23	**(48,570)**	(45,817)	**-**	-
Net claims	19	**(59,704)**	(53,557)	**-**	-
Interest expense	25	**(42,753)**	(37,608)	**(7,892)**	(5,648)
Operating expenses	29	**(65,052)**	(60,072)	**(5,457)**	(4,221)
Allowance for loan impairment, net of recoveries	9(b)	**(7,990)**	(144)	**-**	-
Total expenses		**(224,069)**	(197,198)	**(13,349)**	(9,869)
Profit before tax		**53,462**	40,232	**34,370**	27,128
Income tax expense	22	**(7,891)**	(6,315)	**(8)**	-
Profit for the year		**45,571**	33,917	**34,362**	27,128
Profit for the year attributable to:					
Equity holders of the Parent Company		**30,521**	20,834	**34,362**	27,128
Non-controlling interests		**15,050**	13,083	**-**	-
		45,571	33,917	**34,362**	27,128
Basic earnings per share attributable to the equity holders of the Parent Company (RO)	31	**0.046**	0.026	**0.040**	0.035

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

	Notes	Group		Parent Company	
		2018 (RO'000)	2017 (RO'000) Restated	**2018 (RO'000)**	2017 (RO'000) Restated
Other comprehensive (expense) / income:					
Items that may be reclassified subsequently to profit or loss:					
Foreign currency translation reserve		**(132)**	398	**(132)**	398
Items not to be reclassified subsequently to profit or loss:					
Fair value changes of financial assets fair value through other comprehensive income		**(3,208)**	(9,379)	**(16,907)**	(8,838)
Other comprehensive expense for the year		**(3,340)**	(8,981)	**(17,039)**	(8,440)
Total comprehensive income for the year		**42,231**	24,936	**17,323**	18,688
Total comprehensive income for the year attributable to:					
Equity holders of the Parent Company		**27,612**	12,595	**17,323**	18,688
Non-controlling interests		**14,619**	12,341	**-**	-
		42,231	24,936	**17,323**	18,688

The attached notes 1 to 44 form part of these financial statements.

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

Group	Share capital (RO'000)	Share Premium (RO'000)	Treasury Shares (RO'000)	Legal reserve (RO'000)	General reserve (RO'000)	Other Non-distributable reserves (RO'000)	Cum. changes in fair value reserve (RO'000)	Retained earnings (RO'000)	Sub-total (RO'000)	Perpetual Tier I Capital bonds (RO'000)	Attributable to equity holders (RO'000)	Non-controlling interest (RO'000)	Total (RO'000)
	ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF PARENT COMPANY												
At 1 January 2017	63,579	61,036	-	27,523	13,033	48,419	(5,033)	32,578	241,135	30,000	271,135	125,336	396,471
Adjustments for change in accounting policy (Note 4.3)	-	-	-	-	-	-	-	1,005	1,005	-	1,005	-	1,005
At 1 January 2017 (Restated)	63,579	61,036	-	27,523	13,033	48,419	(5,033)	33,583	242,140	30,000	272,140	125,336	397,476
Profit for the period (Restated)	-	-	-	-	-	-	-	20,834	20,834	-	20,834	13,083	33,917
Other comprehensive income / (expense) for the period	-	-	-	-	-	398	(8,637)	-	(8,239)	-	(8,239)	(742)	(8,981)
Total comprehensive income for the period	-	-	-	-	-	398	(8,637)	20,834	12,595	-	12,595	12,341	24,936
Transfer to / from retained earnings	-	-	-	3,191	-	(20,250)	2,577	14,482	-	-	-	-	-
Treasury shares purchased by subsidiary	-	-	(81,464)	-	-	-	-	-	(81,464)	-	(81,464)	-	(81,464)
Movements related to subsidiaries and fair value through other comprehensive income investments	-	-	-	-	-	-	-	(302)	(302)	-	(302)	-	(302)
Part disposal of a subsidiary	-	-	-	-	-	-	-	3,074	3,074	-	3,074	13,039	16,113
Interest on Perpetual Tier1 capital bonds	-	-	-	-	-	-	-	(1,186)	(1,186)	-	(1,186)	(1,139)	(2,325)
Bonus shares issued during the period (note 13a)	6,358	(6,358)	-	-	-	-	-	-	-	-	-	-	-
Dividend paid relating to 2016	-	-	-	-	-	-	-	(9,537)	(9,537)	-	(9,537)	(63)	(9,600)
At 31 December 2017 (Restated)	69,937	54,678	(81,464)	30,714	13,033	28,567	(11,093)	60,948	165,320	30,000	195,320	149,514	344,834

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

Group	ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF PARENT COMPANY												
	Share capital (RO'000)	Share Premium (RO'000)	Treasury Shares (RO'000)	Legal reserve (RO'000)	General reserve (RO'000)	Other Non-dis-tributable reserves (RO'000)	Cum. changes in fair value reserve (RO'000)	Retained earnings (RO'000)	Sub-total (RO'000)	Perpet-ual Tier I Capital bonds (RO'000)	Attribut-able to equity holders (RO'000)	Non-con-trolling interest (RO'000)	Total (RO'000)
At 1 January 2018 (Restated)	69,937	54,678	(81,464)	30,714	13,033	28,567	(11,093)	60,948	165,320	30,000	195,320	149,514	344,834
IFRS 15 opening adjustment (note 4.1)	-	-	-	-	-	-	-	(444)	(444)	-	(444)	(123)	(567)
At 1 January 2018 (Restated)	69,937	54,678	(81,464)	30,714	13,033	28,567	(11,093)	60,504	164,876	30,000	194,876	149,391	344,267
Profit for the period	-	-	-	-	-	-	-	30,521	30,521	-	30,521	15,050	45,571
Other comprehensive expense for the period	-	-	-	-	-	(132)	(2,777)	-	(2,909)	-	(2,909)	(431)	(3,340)
Total comprehensive income for the period	-	-	-		-	(132)	(2,777)	30,521	27,612	-	27,612	14,619	42,231
Transfer to / from retained earnings	-	-	-	3,709	-	3,818	-	(7,527)	-	-	-	-	-
Issue of Perpetual Tier1 capital bonds	-	-	-	-	-	-	-	-	-	99,641	99,641	-	99,641
Perpetual Tier 1 issuance cost	-	-	-	-	-	-	-	(340)	(340)	-	(340)	-	(340)
Interest on Perpetual Tier1 capital bonds	-	-	-	-	-	-	-	(3,574)	(3,574)	-	(3,574)	(1,249)	(4,823)
Movements related to subsidiaries and FVTOCI investments & others	-	-	-	-	-	1,070	5,479	(7,252)	(703)	-	(703)	(96)	(799)
Bonus shares issued during the period (note 13a)	6,994	(6,994)	-	-	-	-	-	-	-	-	-	-	-
Dividend paid relating to 2017 (note 16)	-	-	-	-	-	-	-	(7,973)	(7,973)	-	(7,973)	(8,170)	(16,143)
At 31 December 2018	76,931	47,684	(81,464)	34,423	13,033	33,323	(8,391)	64,359	179,898	129,641	309,539	154,495	464,034

The attached notes 1 to 44 form part of these financial statements.

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

Parent Company	Share capital	Share Premium	Legal Reserve	General Reserve	Other non-dis-trib-utable reserves	Cum. changes in fair value reserve	Retained earnings	Sub-total	Perpetu-al bonds	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
At 1 January 2017	63,579	61,036	27,523	13,033	30,573	(149)	42,008	237,603	-	237,603
Adjustments for change in accounting policy (Note 4.3)	-	-	-	-	-	-	1,011	1,011	-	1,011
At 1 January 2017 (Restated)	63,579	61,036	27,523	13,033	30,573	(149)	43,019	238,614	-	238,614
Profit for the period (Restated)	-	-	-	-	-	-	27,128	27,128	-	27,128
Other comprehensive income / (expense) for the period	-	-	-	-	398	(8,838)	-	(8,440)	-	(8,440)
Total comprehensive income for the period	-	-	-	-	398	(8,838)	27,128	18,688	-	18,688
Transfer to / from retained earnings	-	-	3,191	-	(24,136)	2,577	18,368	-	-	-
Movements related to subsidiaries and fair value through other comprehensive income investments	-	-	-	-	-	-	(302)	(302)	-	(302)
Interest on Perpetual Tier1 capital bonds	-	-	-	-	-	-	(1,186)	(1,186)	-	(1,186)
Bonus shares issued during the period (note 13a)	6,358	(6,358)	-	-	-	-	-	-	-	-
Dividend paid relating to 2016	-	-	-	-	-	-	(9,537)	(9,537)	-	(9,537)
At 31 December 2017 (Restated)	69,937	54,678	30,714	13,033	6,835	(6,410)	77,490	246,277	-	246,277

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

Parent Company	Share capital	Share Premium	Legal Reserve	General Reserve	Other non-distributable reserves	Cum. changes in fair value reserve	Retained earnings	Sub-total	Perpetual bonds	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
At 1 January 2018 (Restated)	69,937	54,678	30,714	13,033	6,835	(6,410)	77,490	246,277	-	246,277
IFRS 15 opening adjustment (note 4.1)	-	-	-	-	-	-	(417)	(417)	-	(417)
At 1 January 2018 (Restated)	69,937	54,678	30,714	13,033	6,835	(6,410)	77,073	245,860		245,860
Profit for the period	-	-	-	-	-	-	34,362	34,362	-	34,362
Other comprehensive income / (expense) for the period	-	-	-	-	(132)	(16,907)	-	(17,039)	-	(17,039)
Total comprehensive income for the period	-	-	-	-	(132)	(16,907)	34,362	17,323	-	17,323
Transfer to / from retained earnings	-	-	3,709	-	3,818	-	(7,527)	-	-	-
Issue of Perpetual Tier1 capital bonds	-	-	-	-	-	-	-	-	60,638	60,638
Perpetual Tier 1 issuance cost	-	-	-	-	-	-	(340)	(340)	-	(340)
Interest on Perpetual Tier1 capital bonds	-	-	-	-	-	-	(3,663)	(3,663)	-	(3,663)
Movements related to subsidiaries and fair value through other comprehensive income investments and others	-	-	-	-	1,070	2,865	(4,651)	(716)	-	(716)
Bonus shares issued during the period (note 13a)	6,994	(6,994)	-	-	-	-	-	-	-	-
Dividend paid relating to 2017 (note 16)	-	-	-	-	-	-	(10,491)	(10,491)	-	(10,491)
At 31 December 2018	76,931	47,684	34,423	13,033	11,591	(20,452)	84,763	247,973	60,638	308,611

The attached notes 1 to 44 form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Group		Parent Company	
		2018 (RO'000)	2017 (RO'000) (Restated)	**2018 (RO'000)**	2017 (RO'000) (Restated)
Operating activities					
Profit before tax		**53,462**	40,232	**34,370**	27,128
Adjustments for:					
Depreciation on property and equipment and investment property		**4,781**	4,347	**34**	120
Amortisation of intangible assets		**945**	946	**694**	-
Share of results from associates		**(11,752)**	(6,996)	**(3,211)**	(6,881)
Share of results from subsidiaries		**-**	-	**(34,733)**	(22,512)
Allowance for loan impairment, net of recoveries		**7,990**	144	**-**	-
Provision for impairment of forex reserve	26	**1,070**	-	**1,070**	-
Net gain from subsidiary associates	26	**(6,279)**	-	**-**	-
Other income		**-**	-	**(2,084)**	
Gain on sale of property and equipment		**(8)**	(1)	**-**	
Gain on investment property		**(5,299)**	(50)	**-**	
Loss on sale of associates		**-**	327	**-**	292
Gain on sale of a subsidiary		**-**	-	**-**	(4,752)
Change in the fair value of financial assets at fair value through profit or loss		**698**	828	**2**	34
Loss / (profit) on sale of investments		**91**	589	**(6)**	238
Income from amortised cost		**(4,895)**	(2,211)	**-**	-
Operating profit/(loss) before working capital changes		**40,804**	38,155	**(3,864)**	(6,333)
Changes in operating assets and liabilities					
Investment securities		**(46,635)**	(29,356)	**17,576**	5,439
Loans and advances to customers		**(192,294)**	(51,858)	**-**	-
Due from subsidiaries		**-**	-	**(41,952)**	(28,165)
Other assets		**(8,978)**	(993)	**(1,990)**	1,978
Deposits from customers		**124,340**	113,047	**-**	-
Premiums and insurance balances receivables		**(5,660)**	(2,855)	**-**	-
Re-insurance share in insurance funds		**(4,533)**	3,089	**-**	-
Insurance funds		**9,832**	346	**-**	-
Other liabilities		**(25,383)**	62,224	**1,039**	(322)
Cash (used in)/from operations		**(108,507)**	131,799	**(29,191)**	(27,403)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

	Notes	Group		Parent Company	
		2018 (RO'000)	2017 (RO'000) (Restated)	**2018 (RO'000)**	2017 (RO'000) (Restated)
Cash (used in) / from operations		**(108,507)**	131,799	**(29,191)**	(27,403)
Tax paid		**(6,155)**	(5,162)	**-**	-
Net cash flow (used in) / generated from operating activities		**(114,662)**	126,637	**(29,191)**	(27,403)
Investing activities					
Purchase of associates shares		**(28,739)**	(6,510)	**(16,865)**	(3,781)
Investments in / rights issue by subsidiaries		**-**	-	**(74,250)**	-
Purchase of treasury shares by a subsidiary		**-**	(81,464)	**-**	-
Proceeds from sale of investment in associates		**-**	12,896	**-**	12,931
Dividend received from associates		**2,521**	3,447	**996**	3,447
Dividend received from subsidiaries		**-**	-	**10,638**	2,992
Proceeds from sale of a subsidiary		**-**	18,287	**-**	20,268
Acquisition of goodwill		**-**	(190)	**-**	-
Capital expenditure on investment property		**(6,232)**	(4,378)	**-**	-
Proceeds from disposal of an investment property		**7,797**	-	**-**	-
Projects work in progress		**7**	(31)	**-**	-
Additions to property and equipment		**(8,010)**	(5,116)	**(412)**	(3)
Proceeds from sale of property and equipment		**6**	62	**-**	-
Net cash (used in) / generated from investing activities		**(32,650)**	(62,997)	**(79,893)**	35,854
Financing activities					
Bank borrowings		**95,000**	(11,000)	**89,500**	400
Perpetual bonds issue / subordinated bonds issue		**73,267**	(50,000)	**34,264**	-
Payment related to perpetual bonds through equity		**(5,252)**	(2,325)	**(2,704)**	-
Dividends paid		**(16,143)**	(9,600)	**(10,491)**	(9,537)
Net cash generated from / (used in) financing activities		**146,872**	(72,925)	**110,569**	(9,137)
Net change in cash and cash equivalents		**(440)**	(9,285)	**1,485**	(686)
Cash and cash equivalents at the beginning of the year		**319,056**	328,341	**878**	1,564
Cash and cash equivalents at the end of the year	5	**318,616**	319,056	**2,363**	878

The attached notes 1 to 44 form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

Oman International Development and Investment Company SAOG (‘the Company’ or ‘the Parent Company’ or “OMINVEST”) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in investment related activities. The Parent Company’s shares are listed on the Muscat Securities Market.

The Company’s principal place of business and registered address is OMINVEST Business Center, Seventh Floor, Building No. 95, Block No 9993, Muscat Hills, Madinat Al Erfaan, Muscat, Sultanate of Oman. The Company’s postal address is P O Box 3886, Ruwi, Postal Code 112, Sultanate of Oman.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. The financial statements comply with the relevant requirements of the Commercial Companies Law of 1974, as amended and the Capital Market Authority.

These consolidated financial statements for the year ended 31 December 2018 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group’s interest in associates. The consolidated and separate financial statements are collectively referred to as “the financial statements”.

2.2 Basis of preparation

The financial statements are prepared under the historical cost convention except for Financial assets at fair value through other comprehensive income, financial investments at fair value through profit or loss, derivative financial instruments and investment properties that have been measured at fair value.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 3.

The financial statements are presented in Omani Rials (“RO”), which is the Group’s functional and presentation currency.

2.3 Changes in accounting policies and disclosures

The accounting policies are consistent with those used in the previous financial year except for where the Parent Company and Group has adopted certain new standards, amendments and interpretations to IFRS and the change in accounting policy for investment properties. Details are set out in note 4.1 and 4.3 respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation

The financial statements comprise the financial statements of the Parent Company and its subsidiaries 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:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect the investee's 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 subsidiaries begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiaries. Assets, liabilities, income and expenses of subsidiaries acquired or disposed of during the year are included in the statement of income from the date the Group gains control until the date the Group ceases to control the subsidiaries.

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 subsidiaries, without a loss of control, is accounted for as an equity transaction. If the Group loses control over subsidiaries, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiaries
- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation (continued)

In the Parent Company's separate financial statements, the investment in the subsidiaries are accounted for using equity method.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured 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.

Investment in associates

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 over those policies.

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 associates 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 associates is shown on the face of the statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of associates 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Basis of consolidation (continued)

Investment in associates (continued)

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, then recognises the loss as 'Share of results of associates' in the statement of profit or loss.

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 and proceeds from disposal is recognised in profit or loss.

The Group uses method of valuing investments to eliminate unrealised gains in excess of investments.

In the Parent Company's separate financial statements, the investment in the associates are accounted for using equity method.

2.5 Financial instruments

2.5.1 Financial assets and liabilities

a) Recognition and measurement

The Group recognises financial assets and liabilities in the statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument.

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Financial assets and liabilities (continued)

a) Recognition and measurement(continued)

All regular way purchases and sales of financial assets and liabilities classified as FVTPL are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the financial asset or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the trade date, which is the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the timeframe generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

i) Financial assets at amortised cost

Financial assets are measured at amortised cost using the effective interest rate method if:-

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

If either of these two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

Additionally, even if a financial asset meets the amortised cost criteria, the Group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

ii) Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election to classify an equity investment that is not held for trading as FVTOCI.

For this purpose, a financial asset is deemed to be held for trading if the equity investment meets any of the following conditions:-

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

The irrevocable election is on an instrument-by-instrument basis. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the profit and loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Financial assets and liabilities (continued)

a) Recognition and measurement(continued)

iii) Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost
All financial liabilities, other than those classified as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method.

b) Modification of assets and liabilities

Financial assets
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, the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value. If the cash flows 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 the statement of comprehensive income.

Financial liabilities
The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of comprehensive income.

c) Impairment of financial assets

Impairment allowances for expected credit losses (ECL) are recognised for financial instruments that are not measured at FVTPL. No impairment loss is recognised on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL, except for the following, for which they are measured as a12-month ECL:-

- debt investment securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments for which the credit risk has not increased significantly since their initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Financial assets and liabilities (continued)

c) Impairment of financial assets (continued)

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL.
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL.

12-month ECL (stage 1) is the portion of ECL that results from probable default events on a financial instrument within 12 months after the reporting date.

Lifetime ECL (stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit -impaired at the reporting date.

For stage 3 financial instruments, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

Provisions for credit-impairment are recognised in the statement of comprehensive income and are reflected in an allowance account against loans and advances, investment securities, and placements.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in allowance for loan impairment net of recoveries.

Financial assets that are measured at amortised cost are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.1 Financial assets and liabilities (continued)

c) Impairment of financial assets (continued)

Financial assets which have been renegotiated or modified are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to on-going review to determine whether they remain impaired or should be considered past due. All renegotiated or modified facilities are classified as stage 2 or stage 3 for a minimum period of 12 months from the date of renegotiation . The ECL on renegotiated financial instruments is measured based on whether the terms of renegotiation resulted in the derecognition of an existing asset.

2.5.2 Fair value measurement principles

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.

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.

All assets and liabilities for which fair value is measured or disclosed in the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

2.5.2 Fair value measurement principles (continued)

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 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.

2.6 Segment reporting

The Group's segmental reporting is based on the following operating segment:

- Investments
- Banking activities
- Insurance activities
- Real Estate.

The segment information is set out in note 33.

2.7 Foreign currencies

2.7.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using Rial Omani which is the currency of the primary economic environment in which the entity operates (the functional currency). These financial statements are presented in Rial Omani, which is the Group's functional and presentation currency.

2.7.2 Transactions and balances

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currencies (continued)

2.7.2 Transactions and balances (continued)

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 financial assets at fair value through other comprehensive income, are included in other comprehensive income.

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 are recognised in other comprehensive 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.

2.8 Investment properties

Investment properties comprises land and buildings that is held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met. Investment property is measured initially at cost including transaction costs. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. If the Company determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, then the Company measures that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier). Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the statement of comprehensive income in the year in which they arise.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the statement of comprehensive income in the year of retirement or disposal. Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements. Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

2.9 Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Property and equipment (continued)

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Freehold building	- 25 years
Leasehold buildings	- lower of 25 years and un expired lease period
Furniture, fixtures and equipment	- up to 10 years
Motor vehicles	- up to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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 proceeds with carrying amount. These are included in the statements of profit or loss.

Projects work-in-progress

Projects work-in-progress is recognised at cost and not depreciated. The carrying values of projects work-in-progress are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

2.10 Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Amortisation is recognised on a straight-line basis over their estimated useful lives as follows:

Hospital network	15 years
License	6 years

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Intangible assets (continued)

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

2.11 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities up to three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in the statement of financial position.

2.13 Borrowings

Borrowings are initially recognised at fair value, 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 as interest expense in the statements of profit or loss 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Other liabilities

Other liabilities are stated at amortised cost using the effective interest method.

2.14A Deposits from customers

Deposits from banks and customers 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.

2.15 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised in other comprehensive income.

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

Deferred tax is calculated using the liability 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.16 Employees' end of service benefits

End of service benefits are accrued in accordance with the terms of employment of the Group's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to the Omani Government Social Security Scheme under Royal Decree No. 72/91 for Omani employees in accordance with the Omani Social Insurance Law 1991 are recognised as an expense in the statements of profit or loss as incurred.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

- *Interest income and expense*

Interest income and expense are recognised in the profit or loss for all instruments measured at amortised cost using the effective interest method, unless collectability is in doubt. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

- *Fee and commission income*

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Insurance and investment contract policyholders are charged for policy administration services, surrenders and other contract fees. These fees are recognised as revenue at the time policies are written or at the time the fees are charged, which is generally at the time when the policies are written.

- *Dividend income*

Dividend income is recognised when the right to receive payment is established.

- *Life business*

Premiums are taken into income over the term of the policies to which they relate. Unearned premiums represent the proportion of premiums written relating to periods of insurance subsequent to the reporting date. For short term policies, premiums are pro-rated by reference to the unexpired term of cover. An appropriate actuarial reserve is determined by the appointed independent actuary following their annual investigation of the life fund and is calculated initially on a statutory basis to comply with the reporting requirements under the Insurance Companies Law of 1979.

In addition, provision is made where necessary for any further loss expected to arise on unexpired risks after taking into account future investment income on related insurance funds, to cover anticipated liabilities arising from existing contracts.

- *General business*

Premiums are taken into income over the terms of the policies. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

- *Revenue from contracts with customers*

The Company has adopted IFRS 15 with effect from 1 January 2018. The accounting policy is set out as below:

The Company recognizes revenue from contracts with customer based in a five step model as set out in IFRS 15:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition (continued)

- *Revenue from contracts with customers (continued)*

Step 1. Identify the contact(s) with customer: A contract is defined as an agreement between two or more parties that create enforceable rights and obligations and sets out the criteria for every contact that must be met.

Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amount collected on behalf of the third parties.

Step 4. Allocate the transaction price to the performance obligation in the contract: For a contract that has more than one performance obligation, the Company will allocate the transaction price to each performance obligation on an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

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

The Company satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs; or
2. The Company's performance creates or enhances an asset that the customer controls as the assets is created or enhanced; or
3. The Company performance does not create an assets with an alternative use the Company and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue is recognized at the point in the time at which the performance obligation is satisfied.

When the Company satisfied a performance obligation by delivering the promised goods or services it create a contract assets based on the amount of consideration earned by the performance. Where the amount of consideration received from customer exceeds the amount of revenue recognized this gives to a contract liability.

Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

Revenue is recognized the income statement to the extent that is probable that economic benefits will follow to the Company and revenue costs, if applicable, can be measured reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition (continued)

- *Rental and leasing Income*

Rental and leasing income arising from operating leases on investment properties is accounted on a straight line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature.

2.19 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are shown as off-balance sheet items in these financial statements.

2.20 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair value adjustments are recorded in the profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.21 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 Bank'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 profit or loss.

2.22 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet 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.

2.23 Dividends

Dividend distribution to the Parent Company's shareholders is recognised as a liability in these financial statements in the period in which the dividends are approved by the Parent company's shareholders.

2.24 Directors' remuneration

Directors' remuneration is calculated based on the Group profit for the year (before Directors' remuneration), applying the overall limits set out by the current regulations governing the determination of Directors' remuneration including sitting fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Earnings per share

The Group and the Parent Company presents basic 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 and the Parent Company by the weighted average number of ordinary shares outstanding during the period.

2.26 Insurance contracts

(a) Classification

The Group issues contracts that transfer insurance risk and classifies contracts as insurance contracts when these transfer significant insurance risk. Such contracts may also transfer financial risk.

The Group classifies investment contracts as those contracts that transfer financial risk with no significant insurance risk.

The Group issues certain insurance contracts which contain a Discretionary Participation Feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the company; and
- that are contractually based on the surplus generated on a specified pool of contracts.

There are no local statutory regulations which set out the bases for the determination of the amounts on which the additional discretionary benefits are based, the amounts payable being determined by the subsidiary company's board of directors on an annual basis.

(b) Recognition and measurement

Life and medical insurance contracts are classified into five main categories. In addition, the Group writes short term individual medical and personal accident policies.

Group medical policies are short term medical insurance contracts underwritten on a group basis, the lives covered usually being employees of a common employer. These contracts protect the company's customers (the employer) from losses resulting from medical treatment of employees as a result of ill-health or accident, covering both hospitalisation and out-patient expenses. The bulk of hospital claims are disbursed directly by the subsidiary to healthcare providers. There are no maturity or surrender benefits for these polices.

For all these contracts, premiums are recognised as revenue when the policy or endorsement is issued, but are deemed to be earned proportionally over the period of coverage. The portion of premium written on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned premium liability. Premiums are shown before deduction of commission and excluding taxes levied on premiums.

Claims are charged to statement of comprehensive income as incurred, based on the estimated liability for compensation owed to policy holders. Claims reported are recognised at the time of being reported. A separate provision for incurred but not reported claims is made based on the subsidiary's experience relating to claims reporting patterns in the past.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Insurance contracts (continued)

(b) Recognition and measurement (continued)

As indicated above an unearned premiums reserve is set up at the valuation date for premiums which will deem to be earned in future periods. The subsidiary also tests whether the liability so set up is adequate to meet expected future claims.

Liability adequacy test

The subsidiary carries out a liability adequacy test to ensure the adequacy of contract liabilities as set out in the financial statements. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. The results of the tests indicate that the liability recognised is adequate.

General insurance contracts

For general insurance contracts, premiums are taken into income over the terms of the policies. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is recognised in the statement of comprehensive income in order that revenue is recognised over the period of risk.

Unearned premium is calculated based on higher of 1/365 method or the amount calculated at 45% of the net retained premiums for the year for all classes of business as required by the Insurance Companies Law of Oman. Acquisition costs and reinsurance commissions are recognised as expenses or income over the period of the policy by deferring it using 1/365 method.

Estimates have to be made for both the expected ultimate costs of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of comprehensive income as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at the reporting date are made on the basis of individual case estimates. In addition, a provision based on the subsidiary's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the accounting year in which the change in provision or settlement is made.

Allowances in claims liability

Some insurance contracts permit the company to collect excess, depreciation, or sell a (usually damaged) vehicle or a property required in settling a claim (i.e. salvage). The subsidiary may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

Estimates of excess, depreciation, salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvaged vehicles or property acquired are recognised in outstanding claims when the liability is accrued. The allowance for salvage is the amount that can reasonably be recovered from the disposal of the vehicle or property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Insurance contracts (continued)

(b) Recognition and measurement (continued)

Allowances in claims liability (continued)
Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

2.27 Premiums and insurance balances receivable

Premiums and insurance balances receivable are initially recognised at fair value and subsequently are stated at amortised cost using the effective interest method less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the subsidiary will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2.28 Deferred acquisition costs and commission income

Deferred acquisition costs (DAC)
Direct and indirect costs incurred during the financial period arising from the writing of long term life insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums.

Subsequent to initial recognition, these costs are amortised on a straight line basis based on the term of expected future premiums, currently estimated as four years.

Direct and indirect costs incurred for writing short term life and medical insurance contracts are deferred and this is built into the 'unexpired risk reserve' shown in the statement of financial position.

Acquisition costs for writing of general insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. Subsequent to initial recognition, these costs are amortised over the period of the policy (generally one year) using 1/365 method.

Amortisation is recorded in the statement of comprehensive income. Changes in the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period and is treated as a change in an accounting estimate.

Deferred reinsurance commission incomes (DCI)
Commission incomes attributable to the unexpired reinsurance ceded premiums for short time life and medical are deferred and it is built into "reinsurers' share of unexpired risk reserve" in the statement of financial position.

Commission incomes attributable to the unexpired reinsurance ceded premiums for general insurance are deferred to the extent that these are recoverable out of future ceded premiums.

Subsequent to initial recognition, these incomes are amortised over the period of the policy (generally one year) using 1/365 method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Business combination

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 the 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 fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.30 Discontinued operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or,
- Is a subsidiary acquired exclusively with a view to resale

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.30 Discontinued operations (continued)

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in note 31. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

2.31 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transaction with any of the Group's other components, whose operating results are reviewed regularly by the Group's management committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance. Identification of segments is disclosed in note 2.6 and reportings are disclosed in note 33.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the financial statements, as per IFRS, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the reporting date and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities.

3.1 Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3.2 Measurement of the expected credit loss allowance

The measurement of expected credit loss (ECL) allowance under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

3.2 Measurement of the expected credit loss allowance (continued)

- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

3.3 Useful lives of property and equipment, intangible assets and investment properties

Depreciation/ amortization is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

3.4 Taxes

The Group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments. The amount of such provisions is based on factors such as experience of previous tax assessments and interpretations of tax regulations by the Group 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.

3.5 Impairment loss on investments in subsidiaries and associates

The Group reviews its investments in subsidiaries and associates periodically and evaluates the objective evidence of impairment. Objective evidence includes the performance of the subsidiaries, associate, the future business model, local economic conditions and other relevant factors. Based on the objective evidences, the Group determines the need for impairment loss on investments in subsidiaries and associates.

3.6 Insurance contracts - key sources of estimation uncertainty

The estimation of the ultimate liability arising from claims made under insurance contracts is a key estimate made in measuring liabilities under insurance contracts and especially under group medical, group life and group credit life contracts. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims.

For individual life, Individual Credit Life and Group Credit Life incurred but not reported (IBNR) claims have been calculated as two months expected or estimated claims.

For IBNR of group life and group medical claims, the claim projection methods used are Development factor method for reported losses, Development factor method for paid losses, Initial Expected Burning Cost or Initial Expected Loss Ratio method and Bornhuetter-Ferguson methods for paid or reported losses. After reviewing calendar-year and accident-year diagnostics, actual versus expected calendar year development, qualitative information and the general characteristics of each class of business, actuarial methods have been selected to project ultimate loss by accident or report year. Loss development factors have been selected using historical loss and claim development experience which form the basis for loss payment and reporting and claims development patterns used to project future emergence of

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

3.6 Insurance contracts - key sources of estimation uncertainty (continued)

losses for the development projection methods. Initial and ultimate selected losses are based on the results of the projection methods by claim cohort month, and are based on judgement reflecting the range of estimates produced by the methods and the strengths and weaknesses of each method. The projections are applied to losses evaluated as of 31 December 2018. Gross unpaid amounts are obtained by reducing the selected ultimate losses by the gross amounts paid as at 31 December 2018. Net unpaid claims estimates are arrived at after deducting the ceded case reserves and ceded IBNR estimates. The ceded IBNR estimates are derived based on a review of ceded case ratios and paid claims ratios.

For general insurance claims, IBNR has been arrived at by using a combination of the chain ladder method, Expected Loss Ratio Method and the Bornhuetter-Ferguson Method. These methods have been used to determine the pattern of reporting claims which has then been modified to determine IBNR reserves.

Unallocated Loss Adjustment Expenses has been added to the IBNR reserves for Group Life, Group Medical and General Insurance business. For UAE and Kuwait group life and group medical portfolio, an assumption of 0.25% has been applied for the ULAE reserve while for Oman group life and group medical porfolio, an assumption of 0.5% has been applied. For ULAE reserve of General insurance business, an assumption of 5% of Gross IBNR Claims has been applied.

Additional unexpired risk reserve (AURR) calculation is based on projected ultimate loss ratio estimate of the current year which is projected onto the next year. The required reserve for the unexpired business is estimated by multiplying this loss ratio by the premium that is expected to be earned in that next year.

The determination of the liabilities under long-term insurance contracts (which basically consist of individual life policies and credit life policies issued for the whole loan period on a single premium basis) is dependent on a number of estimates made by the Group with respect to:

- Mortality and disability
- Investment returns / discount rate
- Expenses
- Surrender

Impairment of premiums and insurance balances receivable

An estimate of the collectible amount of premiums and insurance balances receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due, based on historical recovery rates.

3.7 Assessment of significant influence

In cases where the Group holds less than the 20% voting rights, management exercises significant judgment which takes into account certain factors laid down by IAS 28 to reach a conclusion on whether the entity has significant influence.

Management has assessed the level of influence that the Group has on Bank Muscat SAOG and determined that it has significant influence, because of the board representation and contractual terms even though the shareholding is below 20%. Accordingly, this investment has been classified as an associate. Please refer to note 8 (d) (ii) for more details.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

4.1 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 following 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.

- IFRS 15 Revenue from Contracts with Customers
- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions
- IAS 40 (amendments) Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 1 Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures

The adoption of these standards and interpretations has not resulted in any major changes to the Group's accounting policies except IFRS 15 "Revenue from Contracts with Customers" whose effects on the Group's consolidated financial statements are mentioned below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Since insurance contracts are scoped out of IFRS 15, the Group has applied IFRS 15 only on Income from policy fees using the modified retrospective application. The Group has estimated an impact of RO 567 thousand towards advance income as of 1 January 2018 which has been shown as adjustment to the opening equity of the Group as at 1 January 2018.

At the Parent Company level, the estimated impact is RO 417 thousand towards advance income as of 1 January 2018 which has been shown as adjustment to the opening equity of the Parent Company as at 1 January 2018.

4.2 Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Group but are not yet mandatory for the year ended 31 December 2018:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9: Prepayments features with negative compensation
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

4.2 Standards issued but not yet effective (continued)

- Amendments to IAS 28: Long-term interests in associates and joint ventures
- Annual Improvements 2015-2017 Cycle (issued in December 2017)
  - IFRS 3 Business Combinations
  - IFRS 11 Joint Arrangements
  - IAS 23 Borrowing Costs
  - IAS 12 Income Taxes

The IASB Standards and Interpretations that have been issued but are not yet mandatory are expected to have a material impact on the Group's financial statements are explained in detailed below:

IFRS 17 - Insurance Contracts: In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a Company of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Group plans to adopt the new standard on the required effective date.

The Group started a project to implement IFRS 17 and has been performing a high-level impact assessment of IFRS 17. The Group expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

IFRS 16 – Leases: The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. The Group and Parent Company is still in the process of assessing the potential impact of IFRS 16 on these consolidated and separate financial statements.

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been early adopted by the Group, are not expected to have a material impact on the Group's and Parent Company's financial statements.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

4.3 Changes in accounting policy

During the year, the Group has changed its accounting policy for investment properties from cost model to fair value model. The changes in the accounting policy were necessary due to the business model of real estate subsidiary of the Group. With the change in accounting policy, the financial statement will provide more reliable and relevant information about the activities of the Group. These amendments have been applied retrospectively. The following is the summary of changes in the Group and Parent Company's financial statements due to change in its accounting policy:

Effect on the Group's financial statements:

- Statement of financial position as at 31 December 2016

	Previously reported as on 31 December 2016 (RO '000)	Adjustment (RO '000)	Restated as on 31 December 2016 (RO '000)
Investment properties	10,475	1,005	11,480
Retained earnings	32,578	1,005	33,583

- Statement of financial position as at 31 December 2017

	Previously reported as on 31 December 2017 (RO '000)	Adjustment (RO '000)	Restated as on 31 December 2017 (RO '000)
Investment properties	14,609	1,300	15,909
Retained earnings	59,648	1,300	60,948

- Statement of comprehensive income for the year ended 31 December 2017

	Previously reported for year ended 31 December 2017 (RO '000)	Adjustment (RO '000)	Restated for the year ended 31 December 2017 (RO '000)
Investment income (note 26)	3,272	49	3,321
Depreciation & amortization (note 29)	5,537	246	5,783
Net impact on comprehensive income		295	

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

4.3 Changes in accounting policy (continued)

Effect on the Parent Company's financial statements:

- Statement of financial position as at 31 December 2016

	Previously reported as on 31 December 2016 (RO '000)	Adjustment (RO '000)	Restated as on 31 December 2016 (RO '000)
Investment properties	9,143	1,011	10,154
Retained earnings	42,008	1,011	43,019

- Statement of financial position as at 31 December 2017

	Previously reported as on 31 December 2017 (RO '000)	Adjustment (RO '000)	Restated as on 31 December 2017 (RO '000)
Investment in subsidiaries	228,398	276	228,674
Retained earnings	77,214	276	77,490

- Statement of comprehensive income for the period ended 31 December 2017

	Previously reported for year ended 31 December 2017 (RO '000)	Adjustment (RO '000)	Restated for the year ended 31 December 2017 (RO '000)
Investment income (note 26)	5,287	(1,011)	4,276
Share of profits from subsidiaries	22,236	276	22,512
Net impact on comprehensive income		(735)	

5. CASH AND CASH EQUIVALENTS

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

	Group		Parent Company	
	2018	2017	**2018**	2017
	(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
Balances with banks and money at call	**212,686**	169,531	**2,363**	878
Deposits with banks (note 6)	**121,637**	154,036	**-**	-
Due to banks – current accounts (note 17)	**(15,207)**	(4,011)	**-**	-
Capital deposits (note 6)	**(500)**	(500)	**-**	-
	318,616	319,056	**2,363**	878

6. DEPOSITS WITH BANKS

	Group		Parent Company	
	2018	2017	**2018**	2017
	(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
Money market placements	**83,978**	93,747	**-**	-
Current accounts	**7,294**	15,121	**-**	-
Capital deposits with CBO	**500**	500	**-**	-
Deposits with Banks and leasing companies	**29,865**	39,668	**-**	-
Subordinated deposits	**-**	5,000	**-**	-
	121,637	154,036	**-**	-

At 31 December 2018, 71% of the Banking subsidiary's placements were with eight banks rated in the range of Aa3 to Baa3 and 22% of the placements were with Oman Housing Bank SAOC, which is owned by Government (2017– 81% of the Bank's placements were with Oman Housing Bank SAOC, which is owned by Government).

Capital deposits represents RO 500,000 (2017 - RO 500,000) being a capital deposit with the Central Bank of Oman in terms of regulations applicable to the banking subsidiary which earn interest at 1.5% (2017–1%) per annum. This deposit cannot be withdrawn without prior approval of the Central Bank of Oman.

Deposits are held with leasing companies and commercial banks in the Sultanate of Oman, Kuwait and United Arab Emirates, denominated in Rial Omani of RO 14,925,000 (2017 – RO 24,669,610), Kuwaiti dinar of RO 1,274,000 (2017 – 1,274,000) and denominated in UAE Dirhams of RO 13,743,069 (2017 – RO 13,694,407) and carry effective annual interest rates ranging between 2% to 5% per annum (2017 - 1.85% to 5% per annum).

7. PREMIUM AND INSURANCE BALANCES RECEIVABLE

Group	2018 Life (RO'000)	2018 General (RO'000)	2018 Total (RO'000)	2017 Life (RO'000)	2017 General (RO'000)	2017 Total (RO'000)
Premium receivable	**29,781**	**3,279**	**33,060**	24,547	3,027	27,574
Reinsurance balances receivable	**11,013**	**105**	**11,118**	10,059	732	10,791
	40,794	**3,384**	**44,178**	34,606	3,759	38,365
Allowance for impaired debts	**(735)**	**(321)**	**(1,056)**	(696)	(207)	(903)
	40,059	**3,063**	**43,122**	33,910	3,552	37,462
Movement in allowance for impaired debts						
At 1 January	**696**	**208**	**904**	537	149	686
Provided during the year	**78**	**117**	**195**	199	64	263
Written off during the year	**(39)**	**(4)**	**(43)**	(40)	(6)	(46)
At 31 December	**735**	**321**	**1,056**	696	207	903

8. INVESTMENT SECURITIES

As at the reporting date, investment securities comprised the following:

	Group 2018 (RO'000)	Group 2017 (RO'000)	Parent Company 2018 (RO'000)	Parent Company 2017 (RO'000)
Financial assets at fair value through profit or loss (note a)	**8,260**	12,090	**767**	977
Financial assets at fair value through other comprehensive income (note b)	**42,406**	96,898	**1,504**	18,699
Investments at amortised cost (note c)	**125,133**	123,866	**-**	-
	175,799	232,854	**2,271**	19,676

8. INVESTMENT SECURITIES (continued)

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

As at the reporting date, financial assets designated at fair value through profit or loss comprised the following:

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Quoted investments				
Local investments by sector				
Financial sector	**5,927**	4,073	**-**	169
Services	**-**	1,362	**-**	-
Industrial	**1,096**	496	**485**	485
Local quoted investments	**7,023**	5,931	**485**	654
Foreign quoted investments	**171**	20	**15**	20
Quoted investments	**7,194**	5,951	**500**	674
Unquoted local investments	**799**	5,677	**-**	-
Unquoted foreign investments	**267**	462	**267**	303
Total financial assets designated at fair value through profit or loss	**8,260**	12,090	**767**	977

(b) Financial assets at fair value through other comprehensive income

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Local investments				
Quoted investments (cost)	**37,879**	91,351	**-**	17,341
Fair value reserve	**(6,625)**	(9,894)	**-**	-
Unquoted investments (cost)	**1,149**	2,074	**861**	861
Fair value reserve	**583**	416	**581**	435
Total local investments	**32,986**	83,947	**1,442**	18,637
Foreign investments				
Quoted investments (cost)	**9,858**	12,770	**-**	-
Fair value reserve	**(1,256)**	(693)	**-**	-
Unquoted investments (cost)	**1,693**	1,797	**205**	205
Fair value reserve	**(875)**	(923)	**(143)**	(143)
Total foreign investments	**9,420**	12,951	**62**	62
Total investments at fair value through other comprehensive (FVTOCI) income	**42,406**	96,898	**1,504**	18,699

8. INVESTMENT SECURITIES (continued)

Investments amounting to RO 23.20 million (2017 – RO 60.56 million) are held in the name of associate companies / brokers in trust on behalf of the Group.

(c) Investment at amortised cost

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Treasury bills				
- held by the banking subsidiary	**-**	38,000	**-**	-
Oman Government Development Bonds and Sukuks				
- held by the banking subsidiary	**122,262**	85,847	**-**	-
Banks and Corporate Bonds				
- held by insurance subsidiary	**2,871**	19	**-**	-
Total investments at amortised cost	**125,133**	123,866	**-**	-

(d) Investments in associates

As at the reporting date, investments in associates represented holdings in the following companies registered in the Sultanate of Oman:

Group	**Country of incorporation**	**Holding (%)**	**2018 Carrying Value (RO'000)**	**Holding (%)**	**2017 Carrying value (RO'000)**
Quoted					
Bank Muscat SAOG (ii)					
(Principal activity: Banking)	Oman	**9.60%**	**130,919**	-	-
National Finance Company SAOG (NFC)(iii)					
(Principal activity: Leasing)	Oman	**34.60%**	**31,517**	25.20%	12,572
Al Ahlia Insurance Company SAOG (Ahlia)					
(Principal activity: Insurance)	Oman	**24.30%**	**10,531**	24.30%	10,354
Takaful Oman Insurance SAOG (Takaful)					
(Principal activity: Insurance)	Oman	**18.14%**	**3,728**	17.35%	3,232
			176,695		26,158

8. INVESTMENT SECURITIES (continued)

(d) Investments in associates (continued)

Group	Country of incorporation	Holding (%)	2018 Carrying Value (RO'000)	Holding (%)	2017 Carrying value (RO'000)
Unquoted					
International General Insurance Holding Limited (Principal activity: Re-insurance)	United Arab Emirates	**20.00%**	**24,400**	20.00%	30,440
Ubhar Capital SAOC (Principal activity: Investment)	Oman	**36.00%**	**5,465**	36.00%	5,331
National Finance House B.S.C (Principal activity: Leasing).	Bahrain	**17.47%**	**3,045**	17.47%	2,926
Modern Steel Mill LLC (Principal activity: Steel production)	Oman	**19.49%**	**2,725**	19.49%	3,868
Horizon (AD) Investment Ltd (iv) (Principal activity: Schools and education)	Cayman Islands	**14.85%**	**5,560**	14.85%	2,845
Shamal Plastic Industries LLC (Principal activity: Plastics)	Oman	**15.00%**	**679**	15.00%	730
Gulf Acrylic Industries LLC (Principal activity: Plastics)	Oman	**15.00%**	**486**	15.00%	509
			42,360		46,649
Total			**219,055**		72,807

8. INVESTMENT SECURITIES (continued)

(d) Investments in associates (continued)

Parent	2018 Holding (%)	2018 Carrying Value (RO'000)	2017 Holding (%)	2017 Carrying value (RO'000)
Quoted				
National Finance Company SAOG (NFC) (iii)	**34.60%**	**31,517**	25.20%	12,572
Al Ahlia Insurance Company SAOG (Ahlia) (i)	**-**	**-**	24.30%	10,354
Takaful Oman Insurance SAOG (Takaful) (i)	**-**	**-**	17.35%	3,232
		31,517		26,158
Unquoted				
International General Insurance Holding Limited (i) and (v)	**-**	**-**	20.00%	30,440
Ubhar Capital SAOC	**36.00%**	**5,465**	36.00%	5,331
National Finance House B.S.C.(i)	**-**	**-**	17.47%	2,926
Modern Steel Mill LLC(i) and (vi)	**-**	**-**	19.49%	3,868
Shamal Plastic Industries LLC (i)	**-**	**-**	15.00%	730
Gulf Acrylic Industries LLC (i)	**-**	**-**	15.00%	509
		5,465		43,804
Total		**36,982**		69,962

All the Group's quoted associate companies' shares are listed on the Muscat Securities Market (MSM).The quoted price of investments in associate companies as of the reporting date amounted to RO 149.85 million (2017 - RO 21.16 million).

Group associates worth 62.2 million are held in the name of associate company in trust on behalf of the Group.

(i) At the beginning of the year, Parent Company transferred associates worth RO 52.06 million to its wholly owned subsidiary.

(ii) During the year, the Group acquired additional stake in Bank Muscat SAOG (the Bank). Subsequently, the Bank appointed a representative of the Group on the Bank's Board, establishing the Group's significant influence on the Bank. As a result, the Group changed its accounting classification of its investment in the Bank from FVTOCI to investment in an associate and accordingly, the fair value reserve prevailing as at the date of change in status, was released to retained earnings. As of the date of change in accounting classification, the Company held 9.14% of the share capital of the Bank (this has subsequently increased to 9.60% as of the reporting date).

8. INVESTMENT SECURITIES (continued)

(d) Investments in associates (continued)

In accordance with the requirements of IFRS 3, the Group recognised a gain on bargain purchase amounting to RO 15.1 million at the point in time when the significant influence was established, being the difference between the consideration paid and the Group's share in the Bank's provisional fair value of assets. At this stage, management has performed initial accounting for the acquisition of the Bank by applying purchase method of accounting because the fair values to be assigned to the Bank's identifiable assets and liabilities can only be determined provisionally due to an independent purchase price allocation (PPA) being carried out on certain assets not being finalised when these financial statements are issued. In accordance with the provisions of IFRS 3, the Group will recognise any adjustments to these provisional values as a result of completing the initial accounting within twelve months of the acquisition date. If the final fair values of identifiable assets are materially different from the provisional values as a result of the finalisation of the PPA exercise, the 2018 results would be restated to include the effect of the adjusted fair values.

Give the strategic importance of the investment and the resulting accounting treatment, the Group has also engaged another independent consultant to conduct the fair valuation of the Bank. The purpose of such an exercise is to ensure that in-house PPA assessment does not materially diverge from the PPA exercise conducted by the independent consultant.

(iii) During the year, the Parent Company subscribed to the rights issue of NFC, investing RO 7.01 million and further purchased additional 9.4% stake for RO 9.8 million.

(iv) During the year, a subsidiary invested additional RO 2.67 million in Horizon (AD) Investment Ltd.

(v) During 2018, the Group recorded an impairment loss towards its investment in IGI amounting to RO 7.7 million (2017: nil) on account of challenging business conditions impacting the overall profitability of IGI. Impairment was recorded based on a financial model which is developed based on a price to book based valuation using an average of price to book ratio of peer business houses. A reduction in the average price to book ratio by 5% would have increased the impairment charge by RO 1 million, keeping all other factors constant.

(vi) During 2018, the Group recorded an impairment loss towards its investment in MSM amounting to RO 1.1 million (2017: nil) on account of challenging business conditions impacting the overall profitability of MSM. Impairment was recorded based on a financial model which is developed based on a four year business plan of MSM and projected into perpetuity using the free cash flows available at the end of the fourth year. The cash flows have been discounted by applying a discount rate of 13.7% over the projection period and a growth rate of 3% has been assumed. An increase in the discount rate by 1% would have increased the impairment charge by RO 0.3 million, keeping all other factors constant.

8. INVESTMENT SECURITIES (continued)

(d) Investments in associates (continued)

Total assets, liabilities and revenues of the Group's associates are shown below, along with the Group's share of the results of these associates:

Name of the associate	Assets (RO'000)	Liabilities (RO'000)	Revenues (RO'000)	Share of results (RO'000)
2018				
National Finance Company SAOG	**441,994**	**338,300**	**42,347**	**3,047**
Ubhar Capital SAOC	**20,326**	**5,102**	**2,887**	**164**
Associates relating to the Parent Company				**3,211**
Bank Muscat SAOG [8(d)(ii)]	**12,288,039**	**10,360,297**	**446,736**	**4,734**
Horizon (AD) Investment Ltd	**40,383**	**4,746**	**9,888**	**181**
International General Insurance Holding Limited	**348,543**	**229,434**	**70,000**	**2,038**
Al Ahlia Insurance Company SAOG	**82,291**	**43,005**	**22,403**	**955**
Takaful Oman Insurance SAOG	**40,460**	**4,755**	**9,907**	**365**
National Finance House B.S.C.	**57,196**	**42,392**	**3,314**	**226**
Modern Steel Mill LLC	**15,077**	**1,028**	**25,041**	**41**
Gulf Acrylic Industries LLC	**2,022**	**1,097**	**3,058**	**3**
Shamal Plastic Industries LLC	**1,692**	**322**	**3,723**	**(2)**
Associates relating to the Group				**11,752**
2017				
National Finance Company SAOG	206,526	157,646	18,610	1,794
International General Insurance Holding Limited	343,112	222,772	59,601	980
Al Ahlia Insurance Company SAOG	75,281	36,727	22,476	761
Takaful Oman Insurance SAOG	16,321	427	4,574	196
National Finance House B.S.C.	54,180	39,354	5,918	214
Modern Steel Mill LLC	16,116	1,400	12,405	215
Gulf Acrylic Industries LLC	2,506	1,401	3,170	27
Ubhar Capital SAOC	20,735	5,823	3,136	291
Shamal Plastic Industries LLC	2,522	759	3,794	36
Associates sold/ reclassified as FVOCI during the year	-	-	-	2,367
Associates relating to the Parent Company				6,881
Horizon (AD) Investment Ltd	10,154	3,240	3,851	115
Associates relating to the Group				6,996

8. INVESTMENT SECURITIES (continued)

(e) Investments in subsidiaries

As at the reporting date, investments held by the Parent Company in subsidiaries are:

	Country of Incorporation	2018 Holding %	2018 Carrying value (RO'000)	2017 Holding %	2017 Carrying value (RO'000)
Oman Arab Bank SAOC (Principal activity: Banking)	Oman	**50.99%**	**144,977**	50.99%	140,503
National Life and General Insurance Co SAOG (Principal activity: Insurance)	Oman	**73.45%**	**51,283**	73.45%	46,813
Oman National Investment Corporation SAOC (i) (Principal activity: Investments)	Oman	**99.60%**	**90,489**	99.00%	38,514
Oman Real Estate Investment & Services saoc (Principal activity: Investments)	Oman	**100.00%**	**18,669**	99.98%	607
Salalah Resorts SAOC (Principal activity: Integrated Tourism Project)	Oman	**99.99%**	**163**	99.99%	173
Al Jabal Al Aswad Investment LLC (Principal activity: Real Estate)	Oman	**99.98%**	**107**	99.98%	100
Budva Beach Properties doo (Principal activity: Tourism project)	Montenegro	**100.00%**	**2,014**	100.00%	1,964
Total investments in subsidiaries			**307,702**		228,674

(I) During the year, parent company invested additional RO 60 million in Oman National Investment Corporation SAOC.

(II) During the year, parent company invested additional RO 14 million in Oman Real Estate Investment & Services Company SAOC

8. INVESTMENT SECURITIES (continued)

(e) Investments in subsidiaries

Total assets, liabilities and revenues of the Group's subsidiaries are shown below, along with the Group's share of the results:

	Assets (RO'000)	Liabilities (RO'000)	Revenues (RO'000)	Share of results (RO'000)
Name of the subsidiary				
2018				
Oman Arab Bank SAOC	**2,328,818**	**1,971,942**	**121,075**	**13,783**
National Life and General Insurance Co SAOG	**161,314**	**107,655**	**130,247**	**6,781**
Oman National Investment Corporation SAOC	**274,415**	**183,531**	**21,084**	**10,157**
Salalah Resorts SAOC	**381**	**237**	**-**	**(10)**
Oman Real Estate Investment and Services SAOC	**23,389**	**4,740**	**5,851**	**4,091**
Al Jabal Al Aswad Investment LLC (including Budva Beach Properties doo)	**3,651**	**1,529**	**-**	**(69)**
Total				**34,733**
2017				
Oman Arab Bank SAOC	2,138,999	1,833,451	109,241	13,390
National Life and General Insurance Co SAOG	141,968	92,504	116,098	8,136
Oman National Investment Corporation SAOC	150,371	111,458	3,807	1,140
Salalah Resorts SAOC	458	227	-	(101)
Oman Real Estate Investment and Services SAOC	16,557	16,168	569	3
Al Jabal Al Aswad Investment LLC (including Budva Beach Properties doo)	3,517	1,452	-	(56)
Total				22,512

9. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers extended by the banking subsidiary were as follows:

Group	2018 (RO' 000)	2017 (RO' 000)
Corporate loans		
Term loans	**813,128**	698,937
Overdrafts	**136,148**	146,469
Bills discounted	**79,355**	74,965
Islamic finance	**85,996**	50,119
	1,114,627	970,490
Personal loans		
Consumer loans	**443,355**	431,166
Mortgage loans	**283,065**	249,475
Overdrafts	**612**	755
Credit cards	**3,815**	8,052
Islamic finance	**36,562**	33,034
	767,409	722,482
Gross loans and advances	**1,882,036**	1,692,972
Less: allowance for loan impairment and unrecognised contractual interest (note 9(b))	**(55,219)**	(50,459)
Net loans and advances	**1,826,817**	1,642,513

(b) Allowance for loan impairment and unrecognised contractual interest

The movement in the allowance for loan impairment and unrecognised contractual interest was as follows:

Group 2018	Allowance for loan impairment (RO'000)	Unrecognised contractual interest (RO'000)	Total (RO'000)
At 1 January	**43,147**	**7,312**	**50,459**
Provided during the year	**13,754**	**3,838**	**17,592**
Amounts written off	**(4,424)**	**(2,139)**	**(6,563)**
Amounts released/recovered	**(4,881)**	**(1,388)**	**(6,269)**
At 31 December	**47,596**	**7,623**	**55,219**

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Allowance for loan impairment and unrecognised contractual interest (continued)

Group 2017	Allowance for loan impairment (RO'000)	Unrecognised contractual interest (RO' 000)	Total (RO' 000)
At 1 January	43,788	6,275	50,063
Provided during the year	8,276	3,299	11,575
Amounts written off	(2,342)	(705)	(3,047)
Amounts released/recovered	(6,575)	(1,557)	(8,132)
At 31 December	43,147	7,312	50,459

Loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 51,509,684 (2017: RO 50,272,537).

(c) All loans and advances were made to customers within the Sultanate of Oman. The concentration of loans and advances by sector is as follows:

Group	**2018** **RO' 000**	2017 RO' 000
Personal loans	**767,409**	722,482
Construction	**237,479**	280,754
Manufacturing	**112,822**	114,990
Mining and quarrying	**146,901**	127,172
Services	**114,877**	89,845
Import trade	**63,668**	50,448
Transportation	**114,979**	76,472
Electricity, water and gas	**54,920**	51,827
Wholesale and retail trade	**65,748**	51,786
Financial institutions	**60,114**	43,901
Agriculture and allied activities	**5,486**	5,492
Export trade	**429**	1,066
Lending to non-residents	**2,048**	1,305
Others	**135,156**	75,432
	1,882,036	1,692,972

10. OTHER ASSETS

	Group		Parent Company	
	2018	2017	**2018**	2017
	(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
Customers' indebtedness against acceptances	**31,721**	25,021	**-**	-
Interest receivable	**16,803**	9,346	**-**	-
Prepayments	**3,888**	3,204	**1,712**	700
Positive fair value of derivatives (note 37)	**249**	321	**-**	-
Others	**8,609**	14,400	**1,130**	152
	61,270	52,292	**2,842**	852

11. (a) INVESTMENT PROPERTIES

Group	**Land and buildings (RO'000)**	**Capital work-in-progress (RO'000)**	**Total (RO'000)**
At 1 January 2017 (restated)	1,276	-	1,276
Additions	9,900	4,733	14,633
At 1 January 2018 (restated)	**11,176**	**4,733**	**15,909**
Additions	**-**	**6,232**	**6,232**
Capitalised during the year	**10,842**	**(10,842)**	**-**
Disposals	**(7,291)**	**-**	**(7,291)**
Unrealised gain (note 26)	**3,373**	**-**	**3,373**
Transferred to property and equipment (note 11(c))	**(1,180)**	**-**	**(1,180)**
At 31 December 2018	**16,920**	**123**	**17,043**

The Group has conducted fair valuations of its investment properties (land and buildings) through reputed property valuation companies in Oman (Cavendish Maxwell and Brokers International LLC), who are specialist in valuing the land and buildings. Closing carrying values are adjusted to reflect the fair valuations done. The land and buildings are beneficially owned by the Group but are registered in the name of Parent Company.

During the year, "OMINVEST BUSINESS CENTER" (OBC) was completed and accordingly, RO 10.8 million in "capital work-in-progress" was transferred to "land and buildings".

11. (a) INVESTMENT PROPERTIES (continued)

The Group has entered into operating lease arrangements for certain sections of OBC and is earning rental income.

The management has determined that the portion of OBC occupied by the Group is insignificant.

At the reporting date, the fair value was determined using rental yield approach (level 3) and the management determined that the fair value is not materially different from the carrying values as of 31 December 2018.

11. (b) PROJECTS WORK IN PROGRESS

At 31 December 2018, projects work in progress includes:

Group	**2018 (RO' 000)**	2017 (RO' 000)
Salalah Resorts SAOC		
Initial stage	**168**	168
Consultancy charges	**2,581**	2,581
Provision for impairment	**(2,749)**	(2,749)
	-	-
Budva Beach Properties doo, Montenegro:		
Cost of land	**5,231**	5,231
Consultancy and other costs	**961**	935
Foreign currency translation reserve	**(1,070)**	(905)
Provision for impairment of land	**(1,862)**	(1,862)
	3,260	3,399

At 31 December 2018, the Group has recognised RO 0.132 million (2017: RO 0.398 million) of foreign currency translation reserve on Budva Beach Properties doo, Montenegro on translation of their financial statements into Rials Omani. During the year, Group has fully provided for the Foreign currency translation reserve.

The movement in provision for impairment of work-in-progress is as follows:

	2018 (RO' 000)	2017 (RO' 000)
At 1 January	**4,611**	4,611
Charged during the year	**-**	-
At 31 December	**4,611**	4,611

11. (c) PROPERTY AND EQUIPMENT

	Land and buildings (RO'000)	Furniture, fixtures and equipment (RO'000)	Motor vehicles (RO'000)	Capital work in progress (RO'000)	Total (RO'000)
Group					
Cost:					
At 1 January 2017	21,571	33,986	1,033	1,243	57,833
Additions	-	4,837	20	259	5,116
Transfers	-	607	-	(607)	-
Disposals	-	(103)	(5)	-	(108)
At 1 January 2018	**21,571**	**39,327**	**1,048**	**895**	**62,841**
Additions	**2,730**	**5,954**	**91**	**680**	**9,455**
Capitalised during the year	**-**	**231**	**-**	**(231)**	**-**
Transferred from investment properties (note 11(a))	**1,180**	**-**	**-**	**-**	**1,180**
Disposals	**-**	**(4,293)**	**(39)**	**-**	**(4,332)**
At 31 December 2018	**25,481**	**41,219**	**1,100**	**1,344**	**69,144**
Depreciation:					
At 1 January 2017	2,164	24,917	563	-	27,644
Charge for the year	590	3,625	133	-	4,348
Disposals	-	(42)	(5)	-	(47)
At 1 January 2018	**2,754**	**28,500**	**691**	**-**	**31,945**
Charge for the year	**603**	**4,060**	**118**	**-**	**4,781**
Disposals	**-**	**(4,248)**	**(61)**	**-**	**(4,309)**
At 31 December 2018	**3,357**	**28,312**	**748**	**-**	**32,417**
Carrying value					
At 31 December 2018	**22,124**	**12,907**	**352**	**1,344**	**36,727**
At 31 December 2017	18,817	10,827	357	895	30,896

11. (c) PROPERTY AND EQUIPMENT (continued)

	Furniture, fixtures and equipment (RO'000)	Motor vehicles (RO'000)	Total (RO'000)
Parent Company			
Cost:			
At 1 January 2017	861	40	901
Additions	3	-	3
Disposals	-	-	-
At 1 January 2018	**864**	**40**	**904**
Additions	**412**	**-**	**412**
Disposals	**(335)**	**-**	**(335)**
At 31 December 2018	**941**	**40**	**981**
Depreciation:			
At 1 January 2017	**737**	**21**	758
Charge for the year	109	11	120
Disposals	-	-	-
At 1 January 2018	**846**	**32**	**878**
Charge for the year	**26**	**8**	**34**
Disposals	**(335)**	**-**	**(335)**
At 31 December 2018	**537**	**40**	**577**
Carrying value:			
At 31 December 2018	**404**	**-**	**404**
At 31 December 2017	18	8	26

12. INTANGIBLE ASSETS

	Trade name (RO'000)	Hospital network (RO'000)	License (RO'000)	Other Intangibles (RO'000)	Total (RO'000)
Group					
Cost					
At 1 January 2017	9,117	7,597	2,631	-	19,345
Additions	-	-	-	190	190
At 1 January 2018	**9,117**	**7,597**	**2,631**	**190**	**19,535**
Additions	**-**	**-**	**-**	**184**	**184**
At 31 December 2018	**9,117**	**7,597**	**2,631**	**374**	**19,719**
Amortisation:					
At 1 January 2017	-	692	599	-	1,291
Charge for the year	-	507	439	-	946
At 1 January 2018	**-**	**1,199**	**1,038**	**-**	**2,237**
Charge for the year	**-**	**506**	**439**	**-**	**945**
At 31 December 2018	**-**	**1,705**	**1,477**	**-**	**3,182**
Carrying value					
At 31 December 2018	**9,117**	**5,892**	**1,154**	**374**	**16,537**
At 31 December 2017	9,117	6,398	1,593	190	17,298

The Group carried out an impairment test as at the reporting date of its intangibles with indefinite lives relating to intangibles acquired as a result of business combination. The results showed no impairment.

Goodwill / other intangible asset was recorded by insurance subsidiary on account of the acquisition of Inayah TPA LLC in December 2017 on provisional basis due to an independent valuation being carried out on certain assets not being finalised when the 2017 financial statements were issued. Had the valuation been finalised, the 2017 financial statements would have had other intangibles of RO 184,000. No adjustment has been made to the figures reported in the prior year as the amount is not material to the consolidated financial statements.

13. (a) SHARE CAPITAL

	2018 (RO'000)	2017 (RO'000)
Authorized 900,000,000 ordinary shares of RO 0.100 each (31 December 2017 - 900,000,000 ordinary shares of RO 0.100 each)	**90,000**	90,000
Issued and fully paid 769,306,980 ordinary shares of RO 0.100 each (31 December 2017 – 699,369,982 shares of RO 0.100 each)	**76,931**	69,937

At the Annual General Meeting of the shareholders of the Parent Company held on 27 March 2018 stock dividend of 69,936,998 (2017 – RO 63,579,089 shares at 100 baisa per share were approved to be issued by transferring RO 6,993,700 (2017 – RO 6,357,909) from share premium to share capital.

Shareholders of the Parent Company who own 10% or more of its shares at the reporting date are as follows:

	2018		2017	
	Holding %	Shares	Holding %	Shares
Ubhar Capital – Asset Management/ Local Trust	**24.08%**	185,285,961	24.08%	168,389,783
Al Hilal Investment Co. LLC	**20.09%**	154,539,896	20.09%	140,490,816
Civil Service Employees' Pension Fund	**11.58%**	89,110,516	11.45%	80,081,904

13. (b) PERPETUAL TIER 1 CAPITAL BONDS

During the year, the Parent Company issued perpetual bonds of RO 60.6 million. The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Parent Company has an option to defer the payment of interest. Any interest not paid due to such an election by the Parent Company shall constitute Optionally Deferred Payments. Optionally Deferred Payments shall themselves bear interest as if they constituted the principal of the Bonds at the Prevailing Interest Rate.

These bonds constitute direct, unconditional, subordinated and unsecured obligations of the Parent Company and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. These bonds do not have a fixed or final maturity date and are redeemable by the Parent Company at its sole discretion on 4 June 2023 (the "First Call Date") or after every 12 months thereafter.

On 29 December 2016, the banking subsidiary issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the banking subsidiary's discretion. The bonds form part of Tier 1 Capital of the banking subsidiary and comply with Basel-3 and Central Bank of Oman regulation.

The Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the banking subsidiary and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the banking subsidiary at its sole discretion on 29 January 2021 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

13. (b) PERPETUAL TIER 1 CAPITAL BONDS (continued)

Additionally, on 17 October 2018, the Banking subsidiary issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.

13. (c) TREASURY SHARES

Group	**2018 (RO'000)**	2017 (RO'000)
1st January	**81,464**	-
Acquired during the year	**-**	81,464
31st December	**81,464**	81,464

During 2017, a subsidiary company acquired 24% shareholding of the company. These shares are held by an associate company under trust on behalf of the subsidiary. Treasury shares are own equity instruments that are reacquired and recognized at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

14. RESERVES

(a) Share Premium

This reserve is available for distribution to the shareholders.

During the year, stock dividend of 69,936,998 (2017 – RO 63,579,089 shares at 100 baisa per share were approved to be issued by transferring RO 6,993,700 (2017 – RO 6,357,909) from share premium to share capital.

(b) Legal reserve

As required by Article 106 of the Commercial Companies Law of Oman, the Parent Company and each of its Omani subsidiaries are required to transfer 10% of their profit for the year to this reserve until such time as the legal reserve amounts to at least one third of the respective entity's paid-up share capital. The reserve is not available for distribution. The balance at the end of the year represents amounts relating to the Parent Company and its share of the legal reserve of its Omani subsidiaries.

(c) General reserve

This discretionary reserve held by the banking subsidiary is available for distribution.

15. OTHER NON-DISTRIBUTABLE RESERVES

GROUP	Capital reserve RO'000	Contingency reserve RO'000	Special reserve RO'000	Subordinate debt reserve RO'000	Foreign currency revaluation reserve RO'000	Revaluation reserve RO'000	Total RO'000
At 1 January 2017	17,846	1,409	1,224	27,535	(1,343)	1,748	48,419
Other comprehensive expense	-	-	-	-	398	-	398
Transfer (to) / from retained earnings	3,886	652	184	(23,456)	(2)	(1,514)	(20,250)
At 1 January 2018	**21,732**	**2,061**	**1,408**	**4,079**	**(947)**	**234**	**28,567**
Other comprehensive income	**-**	**-**	**-**	**-**	**(132)**	**-**	**(132)**
Impairment of Forex reserve	**-**	**-**	**-**	**-**	**1,070**	**-**	**1,070**
Transfer (to) / from retained earnings	**-**	**1,190**	**588**	**2,040**	**-**	**-**	**3,818**
At 31 December 2018	**21,732**	**3,251**	**1,996**	**6,119**	**(9)**	**234**	**33,323**

PARENT	Contingency reserve RO'000	Special reserve RO'000	Subordinate debt reserve RO'000	Foreign currency revaluation reserve RO'000	Revaluation reserve RO'000	Total RO'000
At 1 January 2017	1,409	1,224	27,535	(1,343)	1,748	30,573
Other comprehensive income	-	-	-	398	-	398
Transfer (to) / from retained earnings	652	184	(23,456)	(2)	(1,514)	(24,136)
At 1 January 2018	**2,061**	**1,408**	**4,079**	**(947)**	**234**	**6,835**
Other comprehensive income	**-**	**-**	**-**	**(132)**	**-**	**(132)**
Impairment of Forex reserve	**-**	**-**	**-**	**1,070**	**-**	**1,070**
Transfer (to) / from retained earnings	**1,190**	**588**	**2,040**	**-**	**-**	**3,818**
At 31 December 2018	**3,251**	**1,996**	**6,119**	**(9)**	**234**	**11,591**

Capital reserve

Oman Arab Bank SAOC, the banking subsidiary, had increased its paid up share capital through capitalisation of retained profits and issue of rights in previous years. The Parent Company's share of the increased paid up share capital through capitalisation of retained profits was transferred to a non-distributable capital reserve in the Group's financial statements.

15. OTHER NON-DISTRIBUTABLE RESERVES (continued)

Contingency reserve

In accordance with article 10 (bis) (2)(c) and 10 (bis) (3)(b) of Regulations for Implementing Insurance Companies Law (Ministerial Order 5/80), as amended, 10% of the net outstanding claims in case of the general insurance business amounting to RO 448,441 (2017 - RO 365,116) and 1% of the life assurance premiums for the year in case of life insurance business amounting to RO 1,171,698 (2017 – RO 1,002,070) at the reporting date is transferred from retained earnings to a contingency reserve. The reserves shall not be used except by prior approval of the Capital Market Authority.

Special reserve

During 2015, the banking subsidiary sold its old head office premises at Ruwi since the head office operations have moved to the new premises at Al Ghubrah. The profit on sale of the premises has been set aside as a special reserve, which requires prior approval of the CBO for any distribution.

On 20 June 2017, the CBO issued a circular in relation to the reserve requirements for restructured accounts. In accordance with the circular, a reserve should be computed at 10% for all the restructured accounts. Accordingly, the Group has transferred the required amount from retained earnings to special reserve.

Subordinated debt reserve

The subordinated debt reserve has been created by a transfer of 20% of the subordinated bonds out of the profit after tax for the year. The CBO requires that a reserve be set aside annually for the subordinated bonds and loans which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated bonds and loans. During 2017, the subordinated bonds amounting to RO 50 million matured in May 2017 and accordingly, proportionate reserve was released to retained earnings.

Foreign currency translation reserve

As at the reporting date, the assets and liabilities of the foreign subsidiary entities are translated into the functional currency of the Group (the Rial Omani) at the rate of exchange ruling at the reporting date and its profit or loss is translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a foreign currency translation reserve in other comprehensive income. During the year, RO 1.07 million is transferred to profit and loss account.

Revaluation reserve

The revaluation reserve represents the Parent Company's share of the revaluation reserve arising from the revaluation by associated companies.

16. DIVIDEND PROPOSED

Parent Company

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the forthcoming Annual General Meeting, to be held on 27 March 2019, a cash dividend of RO 0.020 per share (2017 - RO 0.015 per share) amounting to RO 15,386,140 (2017 - RO 10,490,548) and a stock dividend of RO 0.005 per share (2017 – RO 0.010 per share) amounting to RO 3,846,535 (2017 –RO 6,993,699) in respect of year ended 31 December 2018 is to be proposed by the Board of Directors.

16. DIVIDEND PROPOSED (continued)

Parent Company (continued)

The financial statements for the year ended 31 December 2018 do not reflect proposed dividend, which will be accounted for in shareholders' equity as an appropriation of share premium / retained profits in the year ending 31 December 2019.

17. DUE TO BANKS

As at the reporting date, due to banks are as follows:

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Due to banks – current accounts	**15,207**	4,011	**-**	-
Terms loans	**222,800**	127,800	**228,800**	139,300
	238,007	131,811	**228,800**	139,300

Term loans are unsecured and carry an average interest rate of % (2017: 4.04%).

The maturity profile of terms loans is as follows:

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Due within one year	**87,650**	80,300	**93,650**	91,800
Due in more than one year	**135,150**	47,500	**135,150**	47,500
	222,800	127,800	**228,800**	139,300

18. DEPOSITS FROM CUSTOMERS

a) By type

	2018 (RO'000)	2017 (RO'000)
Term deposits	**863,995**	733,782
Demand and call accounts	**708,266**	732,635
Saving accounts	**290,507**	272,011
	1,862,768	1,738,428

18. DEPOSITS FROM CUSTOMERS (continued)

b) By sector

	2018 (RO'000)	2017 (RO'000)
Private	**1,349,378**	1,343,536
Government	**513,390**	394,892
	1,862,768	1,738,428

Islamic customer's deposits

Included in the above customers' deposits are the following Islamic customer deposits:

	2018 (RO'000)	2017 (RO'000)
Wakalah acceptances	**105,700**	72,008
Current accounts – Qard	**12,714**	14,679
Mudarabah accounts	**3,730**	3,218
	122,144	89,905

19. INSURANCE FUNDS

31 December 2018	**Gross (RO '000)**	**Reinsurers' share (RO '000)**	**Net (RO '000)**
Actuarial / mathematical and unexpired risk reserve – life assurance	**45,399**	**(17,893)**	**27,506**
Unexpired risk reserve – general insurance	**7,564**	**(515)**	**7,049**
Closing claims outstanding (including IBNR)	**25,048**	**(9,721)**	**15,327**
	78,011	**(28,129)**	**49,882**
31 December 2017			
Actuarial / mathematical and unexpired risk reserve – life assurance	39,393	(14,540)	24,853
Unexpired risk reserve – general insurance	6,364	(401)	5,963
Closing claims outstanding (including IBNR)	22,422	(8,655)	13,767
	68,179	(23,596)	44,583

19. INSURANCE FUNDS (continued)

Movement during the year:

	2018 (RO '000)	2017 (RO '000)
Actuarial / mathematical and unexpired reserve (Life assurance):		
At 1 January	**24,853**	25,521
Movement in the statement of comprehensive income	**2,653**	(668)
At 31 December	**27,506**	24,853
Unexpired risk reserves (General Insurance)		
At 1 January	**5,963**	3,812
Movement in the statement of comprehensive income	**1,086**	2,151
At 31 December	**7,049**	5,963

The amount in the provision for outstanding claims and the related reinsurers' share is as follows

Group **31 December 2018**	**Gross outstanding claims (RO '000)**	**Reinsurers' share of outstanding claims (RO '000)**	**Net outstanding claims (RO '000)**
At 1 January (including IBNR)	22,422	(8,655)	13,767
Claims provided during the year	101,157	(41,452)	59,704
Claims paid during the year	(98,531)	40,386	(58,144)
Closing claims outstanding (including IBNR)	25,048	(9,721)	15,327

Group 31 December 2017	Gross outstanding claims (RO '000)	Reinsurers' share of outstanding claims (RO '000)	Net outstanding claims (RO '000)
At 1 January (including IBNR)	20,580	(8,765)	11,815
Claims provided during the year	89,943	(36,386)	53,557
Claims paid during the year	(88,101)	36,496	(51,605)
Closing claims outstanding (including IBNR)	22,422	(8,655)	13,767

19. INSURANCE FUNDS (continued)

Substantially all of the claims are expected to be paid within twelve months of the reporting date. The amounts due from reinsurers are contractually due within three months from the date of submission of accounts to the reinsurer.

The Group estimates its insurance liabilities and reinsurance assets principally based on previous experience. IBNR estimates for the life business are based on an independent actuary's report. Claims requiring Court or arbitration decisions are estimated individually.

20. SUBORDINATED DEBT

In order to enhance the capital adequacy and to meet the funding requirements, the banking subsidiary has raised capital in the form of subordinated loans.

	2018	2017
	RO'000	RO'000
Subordinated loans	**20,000**	20,000

The Banking subsidiary obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity.

21. OTHER LIABILITIES

	Group		**Parent Company**	
	2018	2017	**2018**	2017
	(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
Liabilities against acceptances	**21,691**	25,021	**-**	-
Accrued expenses and other payables	**39,800**	93,189	**2,529**	1,932
Interest payable	**21,266**	18,027	**579**	126
Cheques and trade settlement payable	**5,329**	3,364	**-**	-
Staff end of service benefits (note 30)	**1,767**	2,021	**297**	308
Interest and commission received in advance	**1,497**	1,349	**-**	-
Negative fair value of derivatives (note 37)	**154**	290	**-**	-
	91,504	143,261	**3,405**	2,366

22. TAXATION

(a) Recognised in the statements of comprehensive income

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Statement of comprehensive income				
Current year	**7,429**	6,234	**418**	-
Prior year	**13**	143	**-**	-
Current tax expense for the year	**7,442**	6,377	**418**	-
Deferred tax	**449**	(62)	**(410)**	-
Tax expense	**7,891**	6,315	**8**	-
Statement of financial position				
Current year	**7,586**	6,299	**418**	-
Deferred tax (asset) / liability	**172**	(219)	**(410)**	-
	7,758	6,080	**8**	-
Deferred tax asset/(liability)				-
At 1 January	**219**	118	**-**	
Movement for the year	**(391)**	101	**410**	-
At 31 December	**(172)**	219	**410**	-

The Group is subject to income tax at the rate of 15% of taxable income (2017: 15%)

(b) Reconciliation of income tax expense

The following is a reconciliation of income tax calculated at the applicable tax rate with the income tax expense:

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Profit before tax from continuing operations	**53,463**	40,232	**34,370**	27,128
Income tax at the rates mentioned above	**8,019**	6,035	**5,156**	4,069
Tax-exempt revenues	**(5,225)**	(1,410)	**(6,019)**	(4,987)
Non-deductible expenses	**3,336**	1,424	**1,702**	898
Deferred tax expense not recognised	**1,174**	92	**-**	20
Current tax-prior year	**13**	143	**-**	-
Deferred tax – prior year	**(771)**	27	**(831)**	-
Others	**1,345**	4	**-**	-
Income tax expense	**7,891**	6,315	**8**	-

22. TAXATION (continued)

(c) Movement

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
At 1 January	**6,080**	4,966	**-**	-
Provided during the year - current	**7,442**	6,377	**418**	-
Provided during the year - deferred	**449**	(62)	**(410)**	-
Recognised in other comprehensive income (deferred tax)	**(58)**	(39)	**-**	-
Paid during the year	**(6,155)**	(5,162)	**-**	-
At 31 December	**7,758**	6,080	**8**	-

(d) Movement of deferred tax asset / (liability)

Particulars	**As at 1 January 2018 (RO'000)**	**Recognised in other comprehensive income (RO'000)**	**Recognised in income statement (RO'000)**	**As at 31 December 2018 (RO'000)**
Property, plant and equipment	**(144)**	**-**	**(508)**	**(652)**
Amortisation of intangibles	**(21)**	**-**	**-**	**(21)**
Revaluation reserve	**(68)**	**-**	**-**	**(68)**
Provision for decline in value of overseas investments	**8**	**-**	**(8)**	**-**
Revaluation of investments in real estate	**23**	**-**	**(535)**	**(512)**
Provision for doubtful debts	**173**	**-**	**47**	**220**
Foreign exchange fluctuation reserve on investment in subsidiary	**-**	**-**	**161**	**161**
Fair value reserve on available for sale investments	**134**	**58**	**-**	**192**
Provision on due from related party	**-**	**-**	**256**	**256**
Tax losses	**114**	**-**	**138**	**252**
Total	**219**	**58**	**(449)**	**(172)**

22. TAXATION (continued)

(d) Movement of deferred tax asset / (liability) (continued)

Particulars	As at 1 January 2017 (RO'000)	Recognised in other comprehensive income (RO'000)	Recognised in income statement (RO'000)	As at 31 December 2017 (RO'000)
Property, plant and equipment	(67)	-	(77)	(144)
Amortisation of intangibles	(17)	-	(4)	(21)
Revaluation reserve	(54)	-	(14)	(68)
Provision for decline in value of overseas investments	25	-	(17)	8
Revaluation of investments in real estate	12	-	11	23
Provision for doubtful debts	109	-	64	173
Unrealised gain on local unquoted investments	(130)	-	130	-
Fair value reserve on available for sale investments	95	39	-	134
Offset of deferred tax assets and liabilities	145	-	(31)	114
Total	118	39	62	219

The Group has impairment on investments as at 31 December 2018 of approximately RO 8 million. The Group is not recognizing a deferred tax asset on the basis that that the income of the Group companies is predominantly exempt from income tax and it will not have sufficient taxable profit against which reversal of such impairment can be utilized in the foreseeable future.

Parent company **2018**	**As at 1 January 2018 (RO'000)**	**Recognised in income statement (RO'000)**	**At 31 December 2018 (RO'000)**
Property, plant and equipment	**-**	**(7)**	**(7)**
Provisions	**-**	**256**	**256**
Foreign exchange fluctuation reserve on investment in subsidiary	**-**	**161**	**161**
Total	**-**	**410**	**410**

22. TAXATION (continued)

(d) Movement of deferred tax asset / (liability) (continued)

Parent company 2017	As at 1 January 2017 (RO'000)	Recognised in income statement (RO'000)	At 31 December 2017 (RO'000)
Unrealized gain on foreign quoted investments	(8)	8	-
Property, plant and equipment	(7)	7	-
Unrealised gain on local unquoted investments	(130)	130	-
Tax losses	145	(145)	-
Total	-	-	-

Parent Company

The assessments of the Company have been completed by the Secretariat General for Taxation up to and including the tax year 2009.

The assessments of the tax returns filed for the years 2010 to 2017 has not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believes that any additional taxes that may arise on completion of the tax assessments for the open tax years will not be significant to the Company's financial position at 31 December 2018.

Status of tax assessments of subsidiaries

The tax assessments of subsidiaries are at different stages of completion. Management is not aware and does not expect any additional tax liabilities to be incurred relating to the open tax years.

23. GROSS PREMIUMS AND PREMIUMS CEDED TO REINSURERS

2018	**Life (RO '000)**	**General (RO '000)**	**Total (RO '000)**
Group			
Gross written premiums	**117,170**	**17,425**	**134,595**
Movement in unearned premiums	**(6,007)**	**(1,199)**	**(7,206)**
Gross premium, earned	**111,163**	**16,226**	**127,389**
Reinsurance premiums ceded	**(50,690)**	**(1,347)**	**(52,037)**
Movement in unearned premiums	**3,353**	**114**	**3,467**
Premium ceded to reinsurers	**(47,337)**	**(1,233)**	**(48,570)**
Net insurance premium revenue	**63,826**	**14,993**	**78,819**

23. GROSS PREMIUMS AND PREMIUMS CEDED TO REINSURERS (continued)

2017	Life (RO '000)	General (RO '000)	Total (RO '000)
Group			
Gross written premiums	100,206	14,396	114,602
Movement in unearned premiums	3,537	(2,041)	1,496
Gross premium, earned	103,743	12,355	116,098
Reinsurance premiums ceded	(41,700)	(1,138)	(42,838)
Movement in unearned premiums	(2,869)	(110)	(2,979)
Premium ceded to reinsurers	(44,569)	(1,248)	(45,817)
Net insurance premium revenue	59,174	11,107	70,281

24. INTEREST INCOME

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Loans and advances to customers	**93,064**	83,668	**-**	-
Oman Government Development Bonds	**4,895**	2,211	**-**	-
Placements with banks and other money market placements	**3,027**	2,902	**-**	-
Other interest income	**1,251**	817	**8,539**	2,599
	102,237	89,598	**8,539**	2,599

25. INTEREST EXPENSE

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Time deposits	**24,772**	23,323	**-**	-
Subordinated bonds	**1,100**	2,087	**-**	-
Call accounts	**3,128**	1,826	**-**	-
Savings accounts	**2,255**	2,801	**-**	-
Bank borrowings	**11,498**	7,571	**7,892**	5,648
	42,753	37,608	**7,892**	5,648

26. INVESTMENT INCOME

	Group		Parent Company	
	2018	2017	**2018**	2017
	(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
Dividend from investments	**4,737**	4,775	**78**	88
Quoted local investments				
Profit / (loss) on sale	**(66)**	148	**16**	73
Changes in fair value	**(688)**	(234)	**-**	7
Unquoted local investments				
Changes in fair value	**(8)**	(506)	**-**	-
Quoted foreign investments				
Profit on sale	**(22)**	(903)	**-**	(477)
Changes in fair value	**-**	(50)	**-**	(3)
Unquoted foreign investments				
Gain/(loss) on sale	**(3)**	166	**(10)**	166
Changes in fair value	**(2)**	(38)	**(2)**	(38)
Investment properties				
Realised gains on investment properties	**1,926**	49	**-**	-
Unrealised gains on investment properties (note 4.3)	**3,373**	-	**-**	-
Provision on Forex reserve	**(1,070)**	-	**(1,070)**	-
Rental income	**204**	241	**-**	-
Realised gain on sale of subsidiary	**-**	-	**-**	4,752
Realised loss on sale of associates	**-**	(327)	**-**	(292)
Net gains from subsidiary associates (refer note below)	**6,279**	-	**-**	-
	14,660	3,321	**(988)**	4,276

Note: This amount includes bargain gain (refer 8(d)(ii)) net of impairment in associates (refer 8(d) (v) and 8(d)(vi)).

27. FEE AND COMMISSION INCOME – NET

	Group		Parent Company	
	2018	2017	**2018**	2017
	(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
Fee and commission income	**26,765**	24,438	**-**	-
Fee and commission expense	**(11,898)**	(10,224)	**-**	-
	14,867	14,214	**-**	-

28. OTHER OPERATING INCOME

	Group		Parent Company	
	2018	2017	**2018**	2017
	(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
Foreign exchange (net)	**6,079**	5,791	**-**	-
Other income	**555**	1,411	**2,224**	729
(Loss)/gain on sale of property and equipment	**(8)**	1	**-**	-
	6,626	7,203	**2,224**	729

29. OPERATING EXPENSES

	Group		Parent Company	
	2018	2017	**2018**	2017
	(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
Staff costs (refer below)	**38,111**	35,383	**3,637**	3,242
Other operating expenses	**20,692**	18,909	**892**	659
Depreciation and amortisation	**5,726**	5,293	**728**	120
Directors' sitting fees and remuneration:				
Parent Company	**200**	200	**200**	200
Subsidiaries (net of intra-group adjustments)	**323**	287	**-**	-
	65,052	60,072	**5,457**	4,221
Staff costs:				
Salaries	**32,184**	29,798	**3,178**	2,862
End of service benefits	**432**	400	**67**	60
Social security costs	**2,210**	2,125	**49**	87
Other costs	**3,285**	3,060	**343**	233
	38,111	35,383	**3,637**	3,242

30. END OF SERVICE BENEFITS

In accordance with the Labour Law of Oman, the Group and Parent Company accrues for employees' end of service benefits for its non-Omani employees.

Movements in the liability recognised in the financial statements are as follows:

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
At 1 January	**2,021**	2,990	**308**	251
Charge for the year	**432**	400	**67**	60
Paid during the year	**(686)**	(1,369)	**(78)**	(3)
At 31 December (note 21)	**1,767**	2,021	**297**	308

The above balance is recorded under other liabilities in the statement of financial position.

31. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the number of shares outstanding during the year.

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Profit for the year attributable to equity holders	**30,521**	20,834	**34,362**	27,128
Less: Perpetual Tier 1 interest and issue expenses	**(3,914)**	(1,186)	**(4,003)**	(1,186)
Profit for the year attributable to equity holders of the Group / Parent Company after intererst on Perpetual Tier 1 capital bonds	**26,607**	19,648	**30,359**	25,942
Weighted average number of shares outstanding during the year	**584,673,305**	744,616,042	**769,306,980**	769,306,980
Basic earnings per share (RO)	**0.046**	0.026	**0.039**	0.034

During the period, the Parent Company issued stock dividend of 69,936,998 (2017 – 63,579,089) shares without consideration. According to IAS 33 - Earnings per share, the weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for stock dividend. In the present financial statement, the issue of stock dividend has been treated as if it had occurred at the beginning of 2017 and the basic earnings per share was recalculated accordingly. At Group level, shares held by subsidiary are eliminated. As there were no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

32. NET ASSETS PER SHARE

The calculation of net assets per share is as follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
	(RO'000)	(RO'000)	**(RO'000)**	(RO'000)
Equity attributable to shareholders of the parent (RO'000)	**179,898**	165,320	**247,973**	246,277
Number of shares outstanding at the end of the year	**584,673,305**	531,521,186	**769,306,980**	699,369,981
Net assets per share (RO)	**0.308**	0.311	**0.322**	0.352

Note: 'Number of shares outstanding at the end of the year' is arrived at after deducting treasury shares (note 13(c)).

33. SEGMENTAL INFORMATION

The Group is organised into four main business segments:

1) Banking Segment – incorporating corporate, retail and treasury and investment banking activities carried out by the Group's banking subsidiary; and
2) Investment Segment – incorporating investment activities for both short-term and long-term purposes.
3) Insurance Segment – incorporating insurance related activities for Life and General Insurance.
4) Real Estate Segment – incorporating activities in real estate sector.

Transactions between the business segments are on normal commercial terms and conditions and are entered between the subsidiaries and the rest of the Group. Such transactions are eliminated on consolidation.

	Investments (RO '000)	**Banking (RO '000)**	**Insurance (RO '000)**	**Real Estate (RO '000)**	**Adjustments (RO '000)**	**Total (RO '000)**
2018						
Segment revenues	**68,803**	**121,705**	**130,247**	**5,837**	**(49,061)**	**277,531**
Segment results	**45,173**	**27,032**	**9,232**	**3,984**	**(39,850)**	**45,571**
Segment assets	**626,985**	**2,328,818**	**161,314**	**27,420**	**(382,455)**	**2,762,082**
2017						
Segment revenues	40,529	109,241	118,606	1,628	(32,574)	237,430
Segment results	27,992	26,262	8,404	875	(29,616)	33,917
Segment assets	470,164	2,138,999	141,968	21,832	(320,370)	2,452,593

34. RELATED PARTY TRANSACTIONS

Transactions with related parties defined in International Accounting Standard 24 – Related Party Disclosures and Code of Corporate governance issue by Capital Market Authority are as follows:

Group - 2018	Directors RO'000	Associates RO'000	Key management RO'000	Other Related parties RO'000	Non-controlling interests RO'000
Statement of comprehensive income					
Interest and commission income	251	1,457	-	1,296	478
Interest expense	-	630	-	1,710	523
Directors sitting fees and remuneration	523	-	-	-	-
Premiums Received	11	306	1	766	-
Claims Paid	-	163	-	732	-
Operating expenses & CAPEX	-	357	1	1,203	-
Staff cost (including bonus)	-	-	3,792		
End of service benefits	-	-	81	-	-
Statement of financial position					
Loans and advances	4,799	25,060	-	31,332	33,460
Current and other deposit accounts	1,536	26,939	-	6,325	878
Premiums and other receivables	397	-	9	210	-
Payables & Deposits	35	8,491	-	430	-
Off balance sheet					
Letters of credit and guarantees	-	-	-	3,610	155,661

34. RELATED PARTY TRANSACTIONS (continued)

Group – 2017	Directors (RO'000)	Associates (RO'000)	Key management (RO'000)	Other related parties (RO'000)	Non-controlling interests (RO'000)
Statement of comprehensive income					
Interest and commission income	256	1,041	-	1,335	312
Interest expense	-	117	-	35	561
Directors' sitting fees and remuneration	487	-	-	-	-
Premium & RI Share in claims	7	293	1	719	-
Claims		119	-	475	
Staff costs	-	-	3,503	-	-
Terminal benefits	-	-	343	-	-
Operating expenses	-	358	2	653	78
Statement of financial position					
Loans and advances	6334	32,263	-	24,834	35,725
Current and deposits from customers	1,903	19,413	-	6,642	1534
Insurance balance receivable	8	104	11	173	-
Payables & Deposits	1	278	-	471	-
Off balance sheet					
Letters of credit and guarantees	-	-	-	3,090	153,179

The Banking subsidiary has a management agreement with Arab Bank plc, Jordan, which owns 49% of the Banking subsidiary's share capital. In accordance with the terms of the management agreement, Arab Bank plc provides banking related technical assistance and other management services, including secondment of managerial staff. The annual management fee is RO 90 thousand (2017- RO 80 thousands).

During the year, Parent company bought Securities worth RO 9.76 million from its shareholder and subsidiary company sold a part of investment property to a Group associate company for RO 3.4 million.

34. RELATED PARTY TRANSACTIONS (continued)

Parent - 2018	Subsidiaries (RO'000)	Associates (RO'000)	Directors (RO'000)	Key management (RO'000)	Other related parties (RO'000)
Statement of comprehensive income					
Directors' sitting fees and remuneration	-	-	200	-	-
Dividend from Subsidiary companies	10,638	-	-	-	-
Dividend from Associates companies	996	-	-	-	-
Sale of Associate companies	52,059	-	-	-	-
Perpetual bond issue	2,300	-	-	-	-
Brokerage and other fees	-	41	-	-	-
Operating expenses & CAPEX	19	-	-	-	980
Interest income	8,539	-	-	-	-
Other income (rent charge)	13	-	-	-	-
Interest expenses	519	-	-	-	1,655
Premiums	111	-	-	-	
Claims	40	-	-	-	-
Staff cost (including bonus)	-	-	-	1,445	-
End of service benefits	-	-	-	19	-
Purchase of Investments		-	-	-	9,760
Statements of financial position					
Property and equipment	-	-	-	-	-
Bank borrowings	6,000	134,800	-	-	-
Bank balances	1,603	-	-	-	-
Due from subsidiaries	188,260	-	-	-	-
Payables	3	-	-	-	-

34. RELATED PARTY TRANSACTIONS (continued)

Parent - 2017	Subsidiaries (RO'000)	Directors (RO'000)	Key management (RO'000)	Other related parties (RO'000)
Statement of comprehensive income				
Directors' sitting fees and remuneration	-	200		-
Staff cost recharge	333	-	-	-
Staff cost	-	-	1,251	-
Terminal benefits	-	-	81	-
Operating expenses	-	-	-	8
Interest expenses	652	-	-	-
Premiums	108	-	-	-
Claims	52	-	-	-
Dividend from subsidiary companies	2,992	-	-	-
Sale of investment property	11,146	-	-	-
Rental and other income	142	-	-	-
Interest Income	2,599	-	-	-
Brokerage to associate company	-	-	-	38
Dividend from associate companies	-	-	-	3,448
Statements of financial position				
Bank borrowings	11,500	-	-	-
Bank balances	604	-	-	-
Due from subsidiaries	67,875	-	-	-

35. FIDUCIARY ACTIVITIES

As at 31 December 2018, balances stated at cost arising from fiduciary activities are as follows:

	Group		Parent Company	
	2018 (RO'000)	2017 (RO'000)	**2018 (RO'000)**	2017 (RO'000)
Investments syndicated by the Group and registered in its name:				
Parent Company	**686**	716	**686**	716
	686	716	**686**	716

35. FIDUCIARY ACTIVITIES (continued)

These investments are held beneficially for and on behalf of investors and, accordingly, are not treated as assets of the Group and the Parent Company. These are included in the Group's and Parent company's financial statements as off balance sheet items.

36. CONTINGENT LIABILITIES & COMMITMENTS

(a) Letters of credit and guarantees

The Group is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Grou exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for loans and advances.

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	2018	2017
	RO'000	RO'000
Guarantees	**574,594**	635,198
Letters of credit	**210,776**	262,250
Unutilised commitment of facilities	**1,854**	62,767
	787,224	960,215

Letters of credit and guarantees amounting to RO 464,392,178 (2017: RO 557,458,987) were counter guaranteed by other banks.

36. CONTINGENT LIABILITIES & COMMITMENTS (continued)

(a) Letters of credit and guarantees (continued)

The table below analyses the concentration of contingent liabilities by economic sector:

	2018 RO'000	2017 RO'000
Construction	319,586	322,321
Utilities	187,620	236,007
Export trade	154,109	235,188
Government	23,472	45,064
Import trade	80,184	25,303
Transportation	4,206	16,046
Wholesale and retail trade	9,375	11,711
Services	3,023	2,823
Manufacturing	2,114	2,929
Mining & quarrying	1,681	56
	785,370	897,448

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The banking subsidiary has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Banking subsidiary makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Banking subsidiary had certain unresolved legal claims which are not expected to have any significant implication on the Group financial statements.

The Insurance subsidiary, consistent with the majority of insurers, is subject to litigation in the normal course of its business. The Insurance subsidiary, based on independent legal advice, does not believe that the outcome of the court cases will have a material impact on its income or financial position.

Insurance contingencies

At 31 December 2018, there were contingent liabilities in respect of guarantees issued by commercial banks on behalf of the Group amounting to RO 444,143 (2017 – RO 337,106) given in the normal course of business from which it is anticipated that no material liabilities will arise.

Capital Commitments

At 31 December 2018, the capital commitments of the Group are at RO 5,084,296 (2017 : RO 10,255,000)

37. DERIVATIVES

A derivative financial instrument is a financial contract between two parties when payments are dependent upon movement in price in one or more underlying financial instrument, reference rate or index.

Group

At the reporting date, there were outstanding forward foreign exchange contracts, all maturing within one year, entered into on behalf of customers for the sale and purchase of foreign currencies. These financial instruments have been recognised at prices in active markets for identical assets or liabilities. These fair values and the notional contracted amounts are summarised below:

	Positive fair value RO'000	Negative fair value RO'000	Notional amount RO'000	Within 3 months RO'000	3 - 12 months RO'000
31 December 2018	**(note 10)**	**(note 21)**			
Purchase contracts	**249**	**-**	**78,458**	**59,384**	**19,188**
Sale contracts	**-**	**(154)**	**(78,354)**	**(59,396)**	**(19,072)**
	249	**(154)**	**104**	**(12)**	**116**
31 December 2017					
Purchase contracts	321	-	33,548	26,104	7,444
Sale contracts	-	(290)	(33,516)	(26,085)	(7,431)
	321	(290)	32	19	13

Derivative financial instruments are fair valued as level 2.

38. RESTRICTIONS ON TRANSFER OF ASSETS

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Group has identified to the Capital Market Authority certain specific bank deposits, investments and loans to policyholders included in the statement of financial position at a total value of RO 30,884,931 (2017 - RO 28,730,476). Under the terms of the legislation, the Group can transfer these assets only with the prior approval of the Capital Market Authority.

In accordance with the law governing the operation of insurance companies within the United Arab Emirates, and Kuwait the Group has identified to the Insurance Authority, Abu Dhabi – UAE and The Ministry of Commerce and Industry, Kuwait certain specific fixed deposits of RO 459,034 (2017 - RO 441,405) and RO 1,274,000 (2017-1,274,000) respectively which are included in the statement of financial position. Under the terms of the legislation, the Group can transfer these assets only with the prior approval of the respective authorities.

The Group has provided bank guarantee of RO 50,000 (2017 - RO 50,000) to the Oman Unified Bureau for the Orange Card which is secured by a fixed deposit.

The Group has an overdraft facility of RO 1,900,000 with Ahli Bank SAOG for which the Group has provided negative pledge confirmation over its current assets and an undertaking not to create any encumbrance on its assets to any other lenders.

39. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

Group - 2018	Sultanate of Oman (RO'000)	North America (RO'000)	UK and Europe (RO'000)	Other countries (RO'000)	Total (RO'000)
Assets					
Balances with banks and money at call	205,041	-	376	7,269	212,686
Deposits with banks	69,110	670	2,131	49,726	121,637
Premium and insurance balance receivables	17,086	-	-	26,036	43,122
Re-insurance share in Insurance Funds	11,873	-	-	16,256	28,129
Investment securities	167,208	20	48	8,523	175,799
Investments in associates	186,047	-	-	33,008	219,055
Investment properties	17,043	-	-	-	17,043
Loans and advances to customers	1,826,817	-	-	-	1,826,817
Other assets	59,050	-	14	2,206	61,270
Projects work in progress	-	-	3,260	-	3,260
Property and equipment	36,230	-	-	497	36,727
Intangible assets	16,164	-	-	373	16,537
Total assets	2,611,669	690	5,829	143,894	2,762,082
Liabilities					
Due to banks	235,031	-	875	2,101	238,007
Deposits from customers	1,862,768	-	-	-	1,862,768
Insurance funds	37,962	-	-	40,049	78,011
Subordinated debts	20,000	-	-	-	20,000
Other liabilities	76,286	-	40	15,178	91,504
Taxation	7,758	-	-	-	7,758
Total liabilities	2,239,805	-	915	57,328	2,298,048

39. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES (continued)

Group - 2017	Sultanate of Oman (RO'000)	North America (RO'000)	UK and Europe (RO'000)	Other countries (RO'000)	Total (RO'000)
Assets					
Balances with banks and money at call	162,949	-	133	6,449	169,531
Deposits with banks	85,595	779	13,380	54,282	154,036
Premium and insurance balance receivables	14,900	-	-	22,562	37,462
Re-insurance share in Insurance Funds	39	-	6,215	17,342	23,596
Investment securities	220,652	34	50	12,118	232,854
Investments in associates	39,440	-	-	33,367	72,807
Investment properties	15,909	-	-	0	15,909
Loans and advances to customers	1,642,513	-	-	0	1,642,513
Other assets	52,160	-	14	118	52,292
Projects work in progress	-	-	3,399	0	3,399
Property and equipment	30,525	-	-	371	30,896
Intangible assets	17,298	-	-	0	17,298
Total assets	2,281,980	813	23,191	146,609	2,452,593
Liabilities					
Due to banks	128,480	-	430	2,901	131,811
Deposits from customers	1,738,428	-	-	0	1,738,428
Insurance funds	23,927	-	-	44,252	68,179
Subordinated debts	20,000	-	-	0	20,000
Other liabilities	143,244	-	17	0	143,261
Taxation	6,080	-	-	0	6,080
Total liabilities	2,060,159	-	447	47,153	2,107,759

39. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES (continued)

	Sultanate of Oman (RO'000)	North America (RO'000)	UK and Europe (RO'000)	Other countries (RO'000)	Total (RO'000)
Parent Company – 2018					
Assets					
Balances with banks and money at call	**2,361**	**-**	**-**	**2**	**2,363**
Investment securities	**1,927**	**20**	**48**	**276**	**2,271**
Investments in associates	**36,982**	**-**	**-**	**-**	**36,982**
Investments in subsidiaries	**305,688**	**-**	**2,014**	**-**	**307,702**
Dues from subsidiaries	**186,892**	**-**	**1,368**	**-**	**188,260**
Other assets	**2,842**	**-**	**-**	**-**	**2,842**
Property and equipment	**404**	**-**	**-**	**-**	**404**
Total assets	**537,096**	**20**	**3,430**	**278**	**540,824**
Liabilities					
Due to banks	**228,800**	**-**	**-**	**-**	**228,800**
Other liabilities	**3,405**	**-**	**-**	**-**	**3,405**
Taxation	**8**	**-**	**-**	**-**	**8**
Total liabilities	**232,213**	**-**	**-**	**-**	**232,213**
Parent Company – 2017					
Assets					
Balances with banks and money at call	849	-	28	1	878
Investment securities	19,291	34	50	301	19,676
Investments in associates	36,596	-	-	33,366	69,962
Investments in subsidiaries	226,710	-	1,964	-	228,674
Dues from subsidiaries	66,564	-	1,311	-	67,875
Investments in property	-	-	-	-	-
Other assets	736	-	-	116	852
Property and equipment	26	-	-	-	26
Total assets	350,772	34	3,353	33,784	387,943
Liabilities					
Due to banks	139,300	-	-	-	139,300
Other liabilities	2,366	-	-	-	2,366
Total liabilities	141,666	-	-	-	141,666

40. INTEREST RATE SENSITIVITY ANALYSIS

The Group's and the Parent company's interest rate sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier, are as follows:

	Average effective interest rate %	Within 6 months (RO'000)	6 to 12 months (RO'000)	Over 1 year (RO'000)	Not exposed to interest rate risk (RO'000)	Total (RO'000)
Group – 2018						
Assets						
Balances with banks and money at call	1.00	-	-	500	212,186	212,686
Deposits with banks	1.72	83,978	-	-	37,659	121,637
Premium and insurance balance receivables	-	-	-	-	43,122	43,122
Re-insurance share in Insurance funds	-	-	-	-	28,129	28,129
Investment securities:						
- At amortised cost	4.57	-	20,000	102,262	-	122,262
- Investments	-	-	-	25,317	28,220	53,537
Investments in associates	Nil	-	-	-	219,055	219,055
Investment properties	-	-	-	-	17,043	17,043
Loans and advances to customers	5.27	709,569	11,683	1,105,565	-	1,826,817
Other assets	-	15,957	-	-	45,313	61,270
Projects work in progress	-	-	-	-	3,260	3,260
Property and equipment	-	-	-	-	36,727	36,727
Intangible assets	-	-	-	-	16,537	16,537
Total assets		809,504	31,683	1,233,644	687,251	2,762,082
Liabilities						
Due to banks	4.61	69,000	23,650	139,150	6,207	238,007
Deposits from customers	1.73	521,776	253,627	173,190	914,175	1,862,768
Insurance funds	-	-	-	-	78,011	78,011
Other liabilities	-	45,594	9,644	35,465	801	91,504
Subordinated bonds	5.5	-	-	20,000	-	20,000
Taxation	-	-	-	-	7,758	7,758
Total liabilities		636,370	286,921	367,805	1,006,952	2,298,048

40. INTEREST RATE SENSITIVITY ANALYSIS (continued)

	Average effective interest rate %	Within 6 months (RO'000)	6 to 12 months (RO'000)	Over 1 year (RO'000)	Not exposed to interest rate risk (RO'000)	Total (RO'000)
Group – 2017						
Assets						
Balances with banks and money at call	1	-	-	500	169,031	169,531
Deposits with banks	0.94	93,747	-	-	60,289	154,036
Premium and insurance balance receivables	-	-	-	-	37,462	37,462
Re-insurance share in Insurance funds	-	-	-	-	23,596	23,596
Investment securities:						
- At amortised cost	1.67	23,000	19,000	81,847	109,007	232,854
- Investments						
Investments in associates	Nil	-	-	-	72,807	72,807
Investment properties	-	-	-	-	15,909	15,909
Loans and advances to customers	5.08	521,230	159,155	962,128	-	1,642,513
Other assets	-	8,657	-	-	43,635	52,292
Projects work in progress	-	-	-	-	3,399	3,399
Property and equipment	-	-	-	-	30,896	30,896
Intangible assets	-	-	-	-	17,298	17,298
Total assets		646,634	178,155	1,044,475	583,329	2,452,593
Liabilities						
Due to banks	3.74	30,000	50,300	47,500	4,011	131,811
Deposits from customers	1.58	426,011	331,338	175,924	805,155	1,738,428
Insurance funds		-	-	-	68,179	68,179
Other liabilities	-	64,300	-	-	78,961	143,261
Subordinated bonds	5.50	-	-	20,000	-	20,000
Taxation	-	-	-	-	6,080	6,080
Total liabilities		520,311	381,638	243,424	962,386	2,107,759

40. INTEREST RATE SENSITIVITY ANALYSIS (continued)

	Average effective interest rate %	Within 6 months (RO'000)	6 to 12 months (RO'000)	Over 1 year (RO'000)	Not exposed to interest rate risk (RO'000)	Total (RO'000)
Parent – 2018						
Assets						
Balances with banks and money at call	Nil	**-**	**-**	**-**	**2,363**	**2,363**
Investment securities	Nil	**-**	**-**	**-**	**2,271**	**2,271**
Investments in associates	Nil	**-**	**-**	**-**	**36,982**	**36,982**
Investments in subsidiaries	Nil	**-**	**-**	**-**	**307,702**	**307,702**
Due from subsidiaries	Nil	**-**	**-**	**-**	**188,260**	**188,260**
Other assets	Nil	**-**	**-**	**-**	**2,842**	**2,842**
Property and equipment	Nil	**-**	**-**	**-**	**404**	**404**
Total assets		**-**	**-**	**-**	**540,824**	**540,824**
Liabilities						
Bank borrowings	**4.61**	**70,000**	**23,650**	**135,150**	**-**	**228,800**
Other liabilities	Nil	**-**	**-**	**-**	**3,405**	**3,405**
Taxation		**-**	**-**	**-**	**8**	**8**
Total liabilities		**70,000**	**23,650**	**135,150**	**3,413**	**232,213**
Parent – 2017						
Assets						
Balances with banks and money at call	Nil	-	-	-	878	878
Investment securities	Nil	-	-	-	19,676	19,676
Investments in associates	Nil	-	-	-	69,962	69,962
Investments in subsidiaries	Nil	-	-	-	228,674	228,674
Due from subsidiaries	Nil	-	-	-	67,875	67,875
Other assets	Nil	-	-	-	852	852
Property and equipment	Nil	-	-	-	26	26
Total assets		-	-	-	387,943	387,943
Liabilities						
Bank borrowings	3.74	37,500	54,300	47,500	-	139,300
Other liabilities	Nil	-	-	-	2,366	2,366
Total liabilities		37,500	54,700	47,100	2,366	141,666

41. ASSETS AND LIABILITIES MATURITY PROFILE

	Within 3 months (RO'000)	3 to 12 months (RO'000)	1 to 5 years (RO'000)	Over 5 years (RO'000)	Total (RO'000)
Group - 2018					
Assets					
Balances with banks and money at call	170,816	19,328	10,056	12,486	**212,686**
Deposits with banks	87,241	4,172	30,224	-	**121,637**
Premium and insurance balance	-	43,122	-	-	**43,122**
Re-insurance share in insurance funds	-	28,129	-	-	**28,129**
Investment securities	11,857	45,317	47,131	71,494	**175,799**
Investments in associates	-	-	-	219,055	**219,055**
Loans and advances to customers	400,197	160,820	449,912	815,888	**1,826,817**
Other assets	48,979	11,001	1,258	32	**61,270**
Investment properties	-	-	17,043	-	**17,043**
Projects work in progress	-	-	-	3,260	**3,260**
Property and equipment	-	-	-	36,727	**36,727**
Intangible assets	-	-	-	16,537	**16,537**
Total assets	**719,090**	**311,889**	**555,624**	**1,175,479**	**2,762,082**
Liabilities					
Due to banks	60,407	42,450	117,550	17,600	**238,007**
Deposits from customers	369,851	695,819	362,033	435,065	**1,862,768**
Insurance funds	-	-	78,011	-	**78,011**
Other liabilities	45,594	9,644	35,465	801	**91,504**
Subordinated bonds	-	-	20,000	-	**20,000**
Taxation	5,572	573	1,613	-	**7,758**
Total liabilities	**481,424**	**748,486**	**614,672**	**453,466**	**2,298,048**

41. ASSETS AND LIABILITIES MATURITY PROFILE (continued)

	Within 3 months (RO'000)	3 to 12 months (RO'000)	1 to 5 years (RO'000)	Over 5 years (RO'000)	Total (RO'000)
Group - 2017					
Assets					
Balances with banks and money at call	131,476	15,660	12,449	9,946	169,531
Deposits with banks	104,337	16,235	33,464	-	154,036
Premium and insurance balance	-	37,462	-	-	37,462
Re-insurance share in insurance funds	-	23,596	-	-	23,596
Investment securities	59,089	34,520	86,104	53,141	232,854
Investments in associates	-	-	-	72,807	72,807
Loans and advances to customers	190,626	212,046	436,272	803,569	1,642,513
Other assets	43,383	8,700	191	18	52,292
Investment properties	-	-	-	15,909	15,909
Projects work in progress	-	-	-	3,399	3,399
Property and equipment	-	-	-	30,896	30,896
Intangible assets	-	-	-	17,298	17,298
Total assets	528,911	348,219	568,480	1,006,983	2,452,593
Liabilities					
Due to banks	25,811	58,500	47,500	-	131,811
Deposits from customers	427,395	539,644	435,949	335,440	1,738,428
Insurance funds	-	68,179	-	-	68,179
Other liabilities	41,660	94,857	6,259	485	143,261
Subordinated bonds	-	-	20,000	-	20,000
Taxation	5,987	93	-	-	6,080
Total liabilities	500,853	761,273	509,708	335,925	2,107,759

41. ASSETS AND LIABILITIES MATURITY PROFILE (continued)

	Within 3 months (RO'000)	3 to 12 months (RO'000)	1 to 5 years (RO'000)	Over 5 years (RO'000)	Total (RO'000)
Parent Company – 2018					
Assets					
Balances with banks and money at call	**2,363**	**-**	**-**	**-**	**2,363**
Investment securities	**500**	**-**	**1,771**	**-**	**2,271**
Investments in associates	**-**	**-**	**-**	**36,982**	**36,982**
Investments in subsidiaries	**-**	**-**	**-**	**307,702**	**307,702**
Investment properties	**-**	**-**	**-**	**-**	**-**
Other assets	**2,842**	**-**	**-**	**-**	**2,842**
Property and equipment	**-**	**-**	**-**	**404**	**404**
Due from subsidiaries	**-**	**188,260**	**-**	**-**	**188,260**
Total assets	**5,705**	**188,260**	**1,771**	**345,088**	**540,824**
Liabilities					
Due to banks	**51,200**	**42,450**	**117,550**	**17,600**	**228,800**
Other liabilities	**3,109**	**-**	**296**	**-**	**3,405**
Taxation	**8**	**-**	**-**	**-**	**8**
Total liabilities	**54,317**	**42,450**	**117,846**	**17,600**	**232,213**
Parent Company – 2017					
Assets					
Balances with banks and money at call	878	-	-	-	878
Investment securities	18,014	-	1,662	-	19,676
Investments in associates	-	-	-	69,962	69,962
Investments in subsidiaries	-	-	-	228,674	228,674
Investment properties	-	-	-	-	-
Other assets	852	-	-	-	852
Property and equipment	-	-	-	26	26
Due from subsidiaries	-	67,875	-	-	67,875
Total assets	19,744	67,875	1,662	298,662	387,943
Liabilities					
Due to banks	29,300	62,500	47,500	-	139,300
Other liabilities	2,058	-	308	-	2,366
Total liabilities	31,358	62,500	47,808	-	141,666

42. FINANCIAL RISK MANAGEMENT POLICIES

42.1 Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the evaluation, analysis, acceptance and management of risk or combination of risks. As taking risk is core to the financial business and operational risks are an inevitable consequence of any business, the Group's aim is to achieve an appropriate balance between risk and return while minimising the potential adverse effects on the Group's financial performance of the respective Group companies.

The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk in both the trading and the banking book of the respective Group Company. Risk Management is carried out by the Risk Management team in accordance with documented policies approved by the Board of Directors of the respective Group Company.

The principal types of risks at the Group and Parent Company are credit risk, liquidity risk, market risk (market price risk, interest rate risk and currency risk) and operational risk.

42.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities at the banking subsidiary and investment activities and other assets in the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees given by the banking subsidiary.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected 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 details of concentrations of credit risk based on counterparties by industry are disclosed in the geographical concentration is disclosed in Note 39.

The Group manages, limits and controls concentrations of credit risk – in particular, to individual counterparties and Groups, and to industries and countries.

The banking subsidiary structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit & Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors of the banking subsidiary.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the banking subsidiary considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the banking subsidiary's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. Besides assessing the qualitative characteristics, the banking subsidiary's assessment of probability of default of

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.2 Credit risk (continued)

individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004 and the special dispensation for specific projects of Government owned entities. In addition, the banking subsidiary assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

42.2.1 Risk mitigation policies

Some other specific control and mitigation measures are outlined below:

(a) Definition of default
The banking subsidiary considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

(b) Incorporation of forward-looking information
The banking subsidiary incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Bank formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

Given the nature of the Bank's exposures and availability of historical statistically reliable information, the bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Moody's for each rating category. The Bank links TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The methodology takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category, and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

(c) Measurement of ECL
The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD estimates are estimates at a certain date, and are calculated using the banks internal recovery data after consideration of the contractual maturities of exposures and estimated prepayment rates.

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.2 Credit risk (continued)

42.2.1 Risk mitigation policies (continued)

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12-month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

EAD represents the expected exposure in the event of a default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts 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 is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Bank calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. At 31 December 2018, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 66.67%:16.66%:16.67% respectively.

(d) Credit risk profile
The banking subsidiary monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a certain rating scale. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal ratings map as follows:

Internal rating grade	Internal classification
Investment grade	
Rating grade 1	Standard
Rating grade 2	Standard
Rating grade 3	Standard
Rating grade 4	Standard
Rating grade 5	Standard

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.2 Credit risk (continued)

42.2.1 Risk mitigation policies (continued)

(d) Credit risk profile (continued)

Internal rating grade	Internal classification
Sub-investment grade	
Rating grade 6	Standard
Rating grade 7	Standard
Rating grade 8	Standard
Rating grade 9	Standard
Rating grade 10	Standard
SM	Special Mention
Classified	
SS	Sub-standard
DD	Doubtful
LS	Loss

The credit risk profile, based on internal credit ratings, was as follows:

	Due from banks RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items RO 000
Stage 1 (12-month ECL)				
Rating grades 1 to 5	326,948	3,025	523,485	159,094
Rating grade 6 to 7	222,072	-	202,977	39,191
Rating grade 8 to 9	137	-	442,111	78,928
Rating grade 10	3	-	32,709	63,998
Equity investments	-	466	-	-
Carrying amount (net)	**549,160**	**3,491**	**1,201,282**	**341,211**
Stage 2 (Lifetime ECL but not credit-impaired)				
Rating grades 1 to 5	-	-	91,416	110,728
Rating grade 6 to 7	-	-	77,976	79,691
Rating grade 8 to 9	-	-	131,488	221,491
Rating grade 10	-	-	56,599	17,449
Special Mention	-	-	313,453	92,465
Carrying amount (net)	**-**	**-**	**670,932**	**521,824**

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.2 Credit risk (continued)

42.2.1 Risk mitigation policies (continued)

(d) Credit risk profile (continued)

	Due from banks RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items RO 000
Sub-Standard	-	-	2,307	-
Doubtful	-	-	4,934	-
Loss	-	-	28,413	-
Carrying amount (net)	**-**	**-**	**35,654**	**-**
Sub-Standard	-	-	2,307	-

The above analysis is reported net of the following provisions for impairment:

Stage	Due from banks RO 000	Investment securities RO 000	Loans and advances RO 000	Credit related contingent items RO 000
Stage 1	538	12	7,202	119
Stage 2	-	-	24,067	346
Stage 3	-	-	15,847	-
Total	**538**	**12**	**47,116**	**465**

Stage 3 financial assets represent assets for which there is objective evidence that the Bank will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation.

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.2 Credit risk (continued)

42.2.1 Risk mitigation policies (continued)

(d) Credit risk profile (continued)

The banking subsidiary's internal credit rating grades along with the respective PDs are as below:

Internal rating grades	Internal rating grade description	12 M PD (Corporate) (%)	12 M PD (Retail) (%)
1	Exceptional	0.079	0.03
2	Excellent	0.124	0.03
3	Very Strong	0.194	0.03
4	Strong	0.303	0.153
5	Strong	0.594	0.188
6	Acceptable	0.744	0.201
7	Acceptable	1.163	0.561
8	Average	1.817	1.132
9	Average	2.833	1.645
10	Marginal	4.503	18.919

Economic variable assumptions

The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2018.

Key drivers	ECL scenario and assigned weightage	2019	2020	2021	2022	2023
GDP growth (% change)	Base (66.6%)	2.05%	3.60%	2.95%	3.41%	3.85%
	Upside (16.7%)	5.63%	3.91%	4.00%	4.10%	4.21%
	Downside(16.7%)	2.06%	2.06%	2.09%	2.83%	3.57%
Oil revenue (%GDP)	Base (66.6%)	24.26%	24.71%	27.84%	29.65%	31.42%
	Upside (16.7%)	38.49%	31.63%	32.02%	32.41%	32.84%
	Downside (16.7)	24.30%	24.30%	24.43%	27.36%	30.30%

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.2 Credit risk (continued)

42.2.1 Risk mitigation policies (continued)

(d) Credit risk profile (continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. 'Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

(e) Collateral

The Banking subsidiary employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- charges over business assets such as premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are generally unsecured. Additionally, in order to minimise the credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(f) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The relationship managers remain in close contact with the borrowers. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Risk Management Department.

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.2 Credit risk (continued)

42.2.1 Risk mitigation policies (continued)

(g) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

An analysis of the loans and advances for which collaterals or other credit enhancements are held is as follows:

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not paid RO'000	Non performing loans RO'000	Gross Loans RO'000
Loans and advances with collateral available	**490,013**	**90,369**	**36,489**	**616,871**
Loans and advances with guarantees available	**29,479**	**-**	**7,906**	**37,385**
Balance as at 31 December 2018	**519,492**	**90,369**	**44,395**	**654,256**
Balance as at 31 December 2017	489,451	107,740	34,379	631,570

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.2 Credit risk (continued)

42.2.2 Maximum exposure to credit risk of the banking subsidiary before collateral held or other credit enhancements

Items on the statement of financial position	2018 RO' 000	2017 RO' 000
Cash and balances with Central Bank of Oman	**194,801**	161,987
Due from banks	**91,272**	108,868
Loans and advances		
Corporate loans	**1,120,627**	981,990
Personal loans	**767,409**	722,482
Other assets	**48,507**	46,280
Held to collect / held to maturity investment		
Government Development Bonds	**122,263**	85,847
Treasury Bills	**-**	38,000
	2,344,879	2,145,454
Off-balance sheet items		
Letters of credit	**210,776**	262,250
Guarantees	**437,579**	481,340
Financial guarantees	**137,015**	153,858
	785,370	897,448
Unutilized loan commitments	**1,854**	62,767
	787,224	960,215

The above table represents the worst-case scenario of credit risk exposure to the Bank at 31 December 2018 and 31 December 2017 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition, credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

a) 61% (2017 – 59%) of the inter-bank placements is with a local bank rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.

b) Loans and advances represent 78 % (2017 – 77 %) of the total on-balance sheet items. Of the total loans and advances 80 % (2017 - 86 %) are neither past due nor impaired.

c) The impaired loans represent 2.7 % (2017 – 2.9 %) of the total loans as at 31 December 2018. The impaired personal loans constitute 0.60 % of the total loans at 31 December 2018 compared to 0.58 % at 31 December 2017.

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.2 Credit risk (continued)

42.2.3 Loans and advances renegotiated

These arrangements include extended payment arrangements, deferral of payments and modification of interest rates. Following restructuring, a previously past due loan account is reclassified as a normal loan and managed with other similar loans which are neither past due nor impaired. The restructuring arrangements are based on the criteria and indicators which in the judgement of the management will indicate that the payment will most likely continue.

42.2.4 Debt securities

The Bank's investments in debt securities are mainly in Government Development Bonds or treasury bills denominated in Rial Omani issued by the Government of Oman. The Bank also invests in debt securities issued by other banks based on their individual external credit rating. These investments are made to deploy the surplus liquid funds with maximum return.

42.2.5 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The value of assets obtained by the Bank by taking possession held as collateral as security at 31 December 2018 is RO 803,000 (2017 – RO 183,000).

42.3 Market risk

The Group and the Parent Company take on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates for the banking subsidiary.

The market risks on investments listed in the securities markets for the Parent Company are monitored by the Board and Management committees. The Management committee monitor the risks, allocations and returns from local and foreign investments through regular meetings. The Management of the Parent Company has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the investment activities.

42.3.1 Market price risk measurement techniques

The Group and Parent Company manages its market risk in the trading book using various techniques such as position limits, stop loss limits and regular monitoring of risk statistical data.

The impact of 10% change in the market price of the quoted equities and funds which are part of the financial assets at fair value through profit or loss at 31 December 2018 is 0.26% of the Group's total revenues (2017 – 0.27%).

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.3 Market risk (continued)

42.3.1 Market price risk measurement techniques (continued)

The Parent Company is exposed to equity securities price risk because of investments held and classified as investments at fair value through profit or loss and available for sale financial assets. The Parent Company manages its market risk from its investing activities by diversification based on extensive research on equity or fund positions. Market risks are measured against management targets, past trends in world indices and market specific indices, before taking positions and subsequently monitored regularly.

The impact of 10% change in the market price of the quoted equities which are classified as financial assets at fair value through profit or loss at 31 December 2018 is 0.14% of the Parent company's total revenues (2017 – 0.19%).

42.3.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching/re-pricing of assets and liabilities. The Group is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The banking subsidiary's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the banking subsidiary's profitability. The table in Note 40 summarises the Group's exposure to the interest rate risks. It includes the Group's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

For managing its interest rate risk in the banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year. The EaR at 31 December 2018 is 2.49 % (2017 – 2.36%).

The Parent company's interest rate risk exposure is summarised in a table in Note 40.

42.3.3 Currency risk

Currency risk arises where the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Group enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors of the respective Group Company.

The Group's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The individual Group company's management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an on going basis by the management and in the case of the banking subsidiary, the Assets and Liabilities Committee (ALCO).

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.3 Market risk (continued)

42.3.3 Currency risk (continued)

Oman operates with a fixed exchange rate, and the Omani Rial is pegged to the US Dollar at $2.6008 per Omani Rial. Accordingly, currency risk arises on assets not denominated in Rial Omani or currencies linked to the US Dollar.

The Parent company's exposure to assets denominated in foreign currencies (excluding US Dollars which the Rials Omani is pegged to) was 0.62% (2017 - 0.68%) of the total assets at the reporting date. Management regularly monitors the currency risk by reviewing the positions and within the overall context of its investment guidelines.

The net open position of the Group and Parent Company at the year-end is set out below:

Foreign currency exposures

	Group		Parent Company	
	2018	2017	**2018**	2017
Assets denominated in US Dollars (included assets denominated in GCC currency pegged with US Dollars)	**124,594**	136,053	**131**	30,678
Percentage of total assets	**4.51%**	5.55%	**0.02%**	7.91%
Assets denominated in other foreign currencies	**7,259**	9,769	**3,352**	2,628
Percentage of total assets	**0.26%**	0.40%	**0.62%**	0.68%

42.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Group maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Group holds certain liquid assets as part of its liquidity risk management strategy.

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.5 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to the individual Group Company's management at the reporting date. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted by the Group and Parent Company in deriving the fair values are as follows:

42.5.1 Current account balances due to and from banks

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

42.5.2 Loans and advances

The estimated fair value of loans whose interest rates are materially different from the prevailing market interest rates is determined by discounting the contracted cash flows using market interest rates currently charged on similar loans. The fair value of non-performing loans approximates to the book value as adjusted for allowance for loan impairment. For the remainder, the fair value is taken as being equivalent to the carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

42.5.3 Investments at fair value through profit or loss and other comprehensive income

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. The total amount of changes in value estimated using valuation techniques that were recognised in the statement of comprehensive income during the year.Where quoted market price do not exist and when investments are in closely held entities, the management of the Parent Company presents such investments at cost less impairment losses, by factoring all known elements which could influence the unrealisation for each investment individually. These elements would include both internal and external factors.

42.5.4 Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which is equal to the carrying value of those liabilities. The estimated fair value of fixed rate deposits whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contractual cash flows using the market interest rates currently offered for similar deposits.

42.5.5 Derivatives

The banking subsidiary usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.6 Capital management

The Banking subsidiary's objectives of capital management are:

- to comply with the capital requirements set by the regulator i.e. the Central Bank of Oman;
- to safeguard the Bank's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The principal objective of the CBO capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a Bank's statement of financial position, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS).

CBO requires the banks registered in the Sultanate of Oman to maintain the capital adequacy at a minimum of 12% based on guidelines of the Basel II accord from December 2010 onwards. In addition, CBO mandated the banks in Oman to maintain a Capital Conservation Buffer (CCB) under Basel III of 0.625% in addition to the minimum capital of 12% from 1 January 2014 to 1 January 2019. Additional CCB of 0.625% must be maintained annually between 1 January 2017 and 1 January 2019.

	2018 **RO'000**	2017 RO'000
Capital		
Common Equity Tier 1 (CET 1)	**267,887**	260,267
Additional Tier 1	**72,553**	30,000
Total Tier 1	**340,440**	290,267
Tier 2	**28,756**	32,756
Total capital base	**369,196**	323,023
Risk weighted assets		
Credit risk	**2,056,297**	1,885,048
Market risk	**25,775**	30,713
Operational risk	**148,375**	143,438
Total risk weighted assets	**2,230,447**	2,059,199
Capital adequacy ratio %	**16.55%**	15.69%
CET 1 ratio	**12.01%**	12.64%
Tier 1 Capial ratio	**15.26%**	14.10%

The Tier 1 capital consists of paid-up capital, reserves and perpetual bonds. The Tier 2 capital consists of the subordinated bonds and ECL on stage 1 and stage 2 exposures in line with the circular BSD/CB/FLC/2018/17.

The insurance company was in compliance with the regulatory solvency requirements.

42. FINANCIAL RISK MANAGEMENT POLICIES (continued)

42.6 Capital management (continued)

The Parent company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During 2018, the Parent company's strategy, which was unchanged from 2017, was to maintain the gearing ratio at an acceptable level. The gearing ratio at 31 December 2018 and 2017 for the Parent Company was 47.73% and 35.98% respectively.

	2018	2017
	RO' 000	RO' 000
Total borrowings	**228,800**	139,300
Less: bank balances and cash	**-2,363**	-878
Net debt	**226,437**	138,422
Total equity	**247,973**	246,277
Total capital	**474,410**	384,699
Gearing ratio	**47.73%**	35.98%

43. INSURANCE RISK MANAGEMENT POLICIES

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. In addition the Group has entered into reinsurance contracts in order to mitigate the impact that large individual claims may have on its net results.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

43. INSURANCE RISK MANAGEMENT POLICIES (continued)

Short-duration life insurance contracts

(a) Frequency and severity of claims

These contracts are mainly issued to:

- Employers, providing cover against death, disability or (in the case of group medical policies) health of their employees.
- Financial institutions, providing cover against death of their borrowers.

In the case of group life contracts issued to employers, the risk is affected by the nature of the industry in which the employer operates. The risk of death and disability will vary by industry. Undue concentration of risk by industry will therefore increase the risk of a change in the underlying average mortality or morbidity of employees in a given industry, with significant effects on the overall insurance risk.

For short term group life and group credit life contracts the Group guarantees the premium rate for a period of one year and has a right to change these rates thereafter. In such contracts it therefore minimises its exposure to mortality risk.

Insurance risk under disability contracts is also dependent on economic conditions in the industry. Historical data indicates that recession and unemployment in an industry will increase the number of claims for disability benefits as well as reducing the rate of recovery from disability.

The Group attempts to manage this risk through its underwriting, claims handling and reinsurance policy.

The Group also mitigates the risk by entering into reinsurance contracts under which the Group cedes risks such as death, accidental death benefit and permanent total disability above RO 10,000.

For its group medical business the risk is mitigated by entering into reinsurance contracts under which the Group reinsures 50% of it's Oman medical portfolio and 40% of its UAE medical portfolio on quota share treaty (in 2017 it was reinsured 50% of its Oman and 40% of its UAE medical portfolio on quota share).

(b) Sources of uncertainty in the estimation of future claim payments
Other than for the testing of the adequacy of the liability representing the unexpired risk at the reporting date, there is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration.

(c) Process used to decide on assumptions
Assumptions are generally reviewed once a year at the time of the actuarial valuation. Estimates of expenses are based on an expense study done for the year 2018.

Reinsurance risk

Consistent with other insurance companies, in order to minimise financial exposure arising from large claims, the Group, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess-of-loss reinsurance contracts.

43. INSURANCE RISK MANAGEMENT POLICIES (continued)

Reinsurance risk (continued)

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers. The Group only deals with reinsurers as mandated under the board approved Reinsurance Management strategy manual.

The Group places business only with reinsurers having a minimum rating of “BBB” from Standard & Poor’s or “B+” from A. M. Best except regional reinsurers.

Financial risk in insurance subsidiary

The Group is exposed to a range of financial risks through its financial assets, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are interest rate risk, equity price risk and credit risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Group manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts. The framework essentially consists of an investment strategy which provides for investment of funds representing a particular category of insurance liabilities in line with the nature of those liabilities.

The Group periodically produces reports showing the extent of compliance with the investment strategy which is reviewed by management and corrective action taken where necessary to rebalance the portfolio.

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

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. Consequently, differences can arise between carrying values and fair value estimates.

Group

The fair values of on balance sheet financial instruments, except for investments in subsidiaries and associates, are not significantly different from the carrying values included in the financial statements. The fair value of investments in associates based on the closing market prices on the Muscat Securities Market at the reporting date is set out below:

	Carrying value (RO’000)	Fair value (RO’000)	Difference (RO’000)
Investments in associates (note 8(d))			
2018	**176,695**	**149,847**	**26,848**
2017	26,158	21,161	4,997

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial investments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Transfers between levels

During the reporting period ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

As at 31 December 2018

Group	**Level 1 (RO'000)**	**Level 2 (RO'000)**	**Level 3 (RO'000)**	**Total (RO'000)**
Financial assets at fair value through profit or loss	**7,194**	**-**	**-**	**7,194**
Financial assets at fair value through other comprehensive income	**39,856**	**-**	**2,550**	**42,406**
Investment properties	**-**	**-**	**17,043**	**17,043**
Derivative financial instruments				
Purchase contracts	**-**	**249**	**-**	**249**
Sale contracts	**-**	**(154)**	**-**	**(154)**
Parent Company				
Financial assets at fair value through profit or loss	**500**	**-**	**267**	**767**
Financial assets at fair value through other comprehensive income	**-**	**-**	**1,504**	**1,504**

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2017

Group	Level 1 (RO'000)	Level 2 (RO'000)	Level 3 (RO'000)	Total (RO'000)
Financial assets at fair value through profit or loss	5,951	-	6,139	12,090
Financial assets at fair value through other comprehensive income	93,534	-	3,364	96,898
Investment properties	-	-	15,909	15,909
Derivative financial instruments				
Purchase contracts	-	321		321
Sale contracts	-	(290)		(290)
Parent Company				
Financial assets at fair value through profit or loss	674		303	977
Financial assets at fair value through other comprehensive income	17,341	-	1,358	18,699

Level 1 financial instruments above are valued using quoted bid prices in an active market.

Level 2 above includes financial instruments which are valued using discounted cash flows method. Cash flows are discounted at a rate that reflects risk profile of the counter parties.

Level 3 above includes investment properties and financial instruments. For the valuation techniques used to value investment properties, please refer to note 11 (a). Financial instruments classified under level 3 are valued based on unobservable inputs which reflects assumptions the market participants would use when pricing these shares, including assumption of risk.

NOTES

Oman International Development and Investment Company SAOG

PO Box 3886, PC 112, Sultanate of Oman
Tel.: +968 2476 9500 Fax: +968 2495 1620
www.ominvest.net