



Bank Sohar SAOG

BANK SOHAR SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

Registered office and principal place of business:

Bank Sohar Building
P.O.Box 44, Hai Al - Mina
PC 114, Muscat
Sultanate of Oman



Board of Directors Report for the nine months ended 30 September 2017

Our Valued Shareholders,

On behalf of the Board of Directors of Bank Sohar (SAOG), I am pleased to present the results of the Bank as at 30 September 2017.

The Bank's net profit for the nine months ended 30 September 2017 amounted to OMR 18.976 million as compared to OMR 12.944 million during the same period in 2016, a growth of 46.60%. The Bank is continuing with its efforts to achieve sustainable and profitable growth despite the volatile liquidity situation in the domestic market as a result of low oil prices and a decline in government spending.

The Bank's total operating income increased by 3.40% from OMR 53.069 million in the first nine months of 2016 to OMR 54.871 million for the same period in 2017. Net operating income increased by 1.21% from OMR 28.429 million in the first nine months of 2016 to OMR 28.772 million in 2017. During the first nine months of 2017, other operating income grew by 3.77% to OMR 17.928 million compared to OMR 17.277 million in the first nine months of 2016. The bank is focused on its strategy and on continuing its efforts to optimally deliver and achieve sustainable growth.

Gross loans of the Bank have increased by 9.72% from OMR 1.869 billion as at 30 September 2016 to OMR 2.050 billion as at 30 September 2017. Net loans and advances grew by 9.62% to OMR 2.004 billion as at 30 September 2017 from OMR 1.828 billion as at 30 September 2016. Total assets also grew, achieving an increase of 4.97% from OMR 2.474 billion as at 30 September 2016 to OMR 2,597 billion as at 30 September 2017. Customer deposits declined marginally by 1.15% to OMR 1.564 billion as at 30 September 2017 compared to OMR 1.582 billion as at 30 September 2016. The Bank's market share of private sector credit was 9.73% as at 31 August 2017 compared to 9.48% as at 30 September 2016, while its share of private sector deposits was 8.68% as at 31 August 2017 compared to 8.76% as at 30 September 2016.

Bank Sohar closed a successful third quarter in line with its objectives to steer Oman's banking sector along the path of innovation and create products that guarantee banking excellence. This past quarter gave renewed impetus to the Bank's long term strategy to evolve beyond conventional banking and embrace global trends for deploying cutting-edge technology in customer service and product development. Its significant strides in these areas won the Bank nation wide acclaim when it was awarded the "Excellence in Corporate Leadership Award" at the Alam Al Iktisad Wal Amaal (AIWA) Oman's Best Performing Companies Ceremony.

The third quarter heralded a fresh spate of progressive strategies that showcased Bank Sohar's strong retail operations. Leading the line-up of successes in consumer banking activities was the Bank's Al Mumayaz Savings Scheme 2017 that churned out scores of winners. The program witnessed the draws being conducted at various locations within the Sultanate including Salalah and Saham, allowing the Bank to interact and get feedback from customers on a direct basis.

In keeping with global banking trends, Bank Sohar continued to make rapid advancements in its shift towards digitization, underscoring its commitment to provide customers with the most superior and efficient financial solutions. With an efficient and reliable mobile network and chain of e-channels such as



its ubiquitous bilingual, one-minute mobile banking app, Bank Sohar already has the competitive edge in the digital segment. The Bank's online presence also witnessed extensive activity this quarter through frequent social media contests that promoted active engagement with customers including announcing the names of the Renaissance Day Facebook Competition and the launch of its "I Pledge Facebook Competition" that focused on promoting Road Safety.

In addition, Bank Sohar's CSR focus remained strong under the refreshed social development slogan Sohar Al Atta, through which road safety activities were held at schools as well as generous donations made to several charitable institutions and aid organisations. These initiatives have been the centre of the Bank's community driven objective to fuel the growth of resilient and productive communities. Bank Sohar's contributions benefited charities devoted to assisting under-served communities such as the visually and hearing impaired, physically challenged members of society as well as social organisations focussed on advocacy and awareness.

Community service was an area of much emphasis and well-planned effort for the Bank's Islamic Banking Window (Sohar Islamic) as well. Chief among its CSR led initiatives were generating support for a roadshow at Sohar Islamic's Salalah branch and donations towards charitable organisations working for orphans.

Islamic Banking as an industry is continuing its growth in acceptability and market size in Oman. Sohar Islamic is also growing its business and has posted a significant growth in business in the first nine months of 2017. It also continues to conduct various Shari'a training programs to staff. These sessions provide an excellent platform for staff to enhance their knowledge of Shari'a compliant products.

Our focus remain on growing SME financing by offering attractive program based products with quick turnaround processing time. The Bank continues to focus on growing its regional and global banking relationships and to this end we have strengthened our work force in the Financial Institutions Department in the third quarter of the year; as this will inevitably assist the Bank in opening up new banking relationships and grow business synergies with global banks in the area of trade finance, treasury dealings and correspondent banking as per the Bank's defined strategy.

As planned the Bank successfully closed the additional Tier 1 issue of perpetual capital securities of RO 100 million during the third quarter with oversubscription. The Capital Market Authority approved the results of the issue and agreed the allotment to successful subscribers in line with the terms and conditions of the prospectus. It was subsequently listed on the Muscat Securities Market during September 2017.

On behalf of the Board of Directors, management and staff of the Bank, I would like to thank the Central Bank of Oman and the Capital Market Authority for their astute regulation and guidance. Above all, I would like to express my humble gratitude and pay tribute to His Majesty Sultan Qaboos Bin Said for his wise and discerning leadership that has firmly set Oman on the path of progress and sustainable development.

Abdullah Humaid Al Mamary
Chairman

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**

AS AT 30 SEPTEMBER 2017

(RO'000)

	Note	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
ASSETS				
Cash and balances with Central Bank	B1	57,350	119,613	93,655
Due from banks and other money market placements	B2	122,822	98,642	166,107
Loans, advances and financing, net	B3	2,005,116	1,913,075	1,828,447
Investments	B4	369,444	351,271	348,921
Property, equipment and fixtures		17,012	15,724	14,248
Investment properties		2,900	2,900	2,900
Other assets	B5	22,595	18,876	19,975
TOTAL ASSETS		2,597,239	2,520,101	2,474,253
LIABILITIES				
Due to banks and other money market borrowings	B6	559,910	575,547	487,864
Customers' deposits	B7	1,563,603	1,531,689	1,581,805
Other liabilities	B8	29,730	29,046	28,502
Subordinated loans		35,654	86,615	86,146
Compulsorily convertible bonds	B9	2,429	4,805	4,858
Certificates of deposit		18,686	18,513	18,686
TOTAL LIABILITIES		2,210,012	2,246,215	2,207,861
SHAREHOLDERS' EQUITY				
Share capital	B10	178,465	160,450	160,450
Share premium	B10	17,607	17,193	17,193
Legal reserve		18,905	18,905	16,994
General reserve		988	988	988
Special Reserve	B11	775	-	-
Fair value reserve		(542)	(772)	(2,099)
Subordinated loans reserve		-	50,000	40,000
Retained earnings		71,029	27,122	32,866
TOTAL SHAREHOLDERS' EQUITY		287,227	273,886	266,392
Perpetual Tier 1 Capital Securities	B12	100,000	-	-
TOTAL EQUITY		387,227	273,886	266,392
TOTAL LIABILITIES & EQUITY		2,597,239	2,520,101	2,474,253
Net assets per share (in baizas)		160.94	170.70	166.03
CONTINGENT LIABILITIES	B13.a	424,755	432,729	404,685
COMMITMENTS	B13.b	243,760	319,899	329,440

The interim condensed financial statements were approved and authorised for issue by the Board of Directors on 25 October 2017 and signed on their behalf by:

Chairman

Board member

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

(Unaudited)

(RO'000)

		For the nine months ended		For the three months ended	
		30 September	30 September	30 September	30 September
		2017	2016	2017	2016
	Note				
Interest income	C1	80,115	65,531	28,025	23,826
Interest expense	C2	(45,795)	(31,760)	(15,243)	(12,806)
Net interest income		34,320	33,771	12,782	11,020
Net income from Islamic financing and investing activities	C7	2,623	2,021	1,027	619
Other operating income	C3	17,465	16,785	5,465	5,190
Gains from available for sale investments		463	492	23	188
TOTAL OPERATING INCOME		54,871	53,069	19,297	17,017
Staff costs		(15,615)	(14,887)	(5,303)	(4,750)
Other operating expenses	C4	(8,990)	(8,342)	(2,946)	(2,635)
Depreciation		(1,494)	(1,411)	(482)	(488)
TOTAL OPERATING EXPENSES		(26,099)	(24,640)	(8,731)	(7,873)
NET OPERATING INCOME		28,772	28,429	10,566	9,144
Impairment on available for sale investments		(1,520)	(5,652)	(664)	(2,481)
Portfolio impairment allowance	C5	(1,048)	(1,816)	(186)	(483)
Specific impairment allowance, net	B3	(3,841)	(6,056)	(910)	(1,354)
NET PROFIT BEFORE TAX		22,363	14,905	8,806	4,826
Income tax expense		(3,387)	(1,961)	(1,396)	(695)
NET PROFIT FOR THE PERIOD		18,976	12,944	7,410	4,131
OTHER COMPREHENSIVE INCOME					
Items which will be reclassified to profit or loss in subsequent periods					
Net movement in fair value of available for sale investments, net of income tax		230	5,109	603	2,823
Total other comprehensive income for the period, net of income tax		230	5,109	603	2,823
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		19,206	18,053	8,013	6,954
Basic earnings per share for the period – in baizas	C6	10.633	7.253	4.152	2.315
Basic earnings per share for the period (annualized)–in baizas	C6	14.216	9.688	16.473	9.209
Diluted earnings per share for the period – in baizas	C6	10.568	7.214	4.118	2.298
Diluted earnings per share for the period (annualized)–in baizas	C6	14.129	9.636	16.339	9.143
Net Profit for the period					
Conventional banking		18,562	12,541	7,148	4,008
Islamic banking		414	403	262	123
Total		18,976	12,944	7,410	4,131



INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(Unaudited)
(RO'000)

	Share capital	Share premium	Legal reserve	General reserve	Special reserve	Fair value reserve	Subordinated loans reserve	Retained earnings	Total Shareholders' Equity	Perpetual Tier 1 Capital Securities	Total Equity
Balance as at 1 January 2017	160,450	17,193	18,905	988	-	(772)	50,000	27,122	273,886	-	273,886
Total comprehensive income for the period											
Net profit for the period	-	-	-	-	-	-	-	18,976	18,976	-	18,976
Other comprehensive income for the period											
Impairment of available for sale investments, net of income tax	-	-	-	-	-	1,495	-	-	1,495	-	1,495
Net change in fair value of available for sale investments, net of income tax	-	-	-	-	-	(1,276)	-	-	(1,276)	-	(1,276)
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	-	11	-	-	11	-	11
Total other comprehensive income for the period	-	-	-	-	-	230	-	-	230	-	230
Issue of bonus shares for 2016	16,045	-	-	-	-	-	-	(16,045)	-	-	-
Dividends paid for 2016	-	-	-	-	-	-	-	(8,022)	(8,022)	-	(8,022)
Conversation of CCB to share capital	1,970	414	-	-	-	-	-	-	2,384	-	2,384
Issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	-	-	-	100,000	100,000
Additional Tier 1 coupon	-	-	-	-	-	-	-	(195)	(195)	-	(195)
Issue expenses - Additional Tier 1 capital	-	-	-	-	-	-	-	(32)	(32)	-	(32)
Provision on restructured loans	-	-	-	-	775	-	-	(775)	-	-	-
Transfers ⁽¹⁾	-	-	-	-	-	-	(50,000)	50,000	-	-	-
Balance as at 30 September 2017	178,465	17,607	18,905	988	775	(542)	-	71,029	287,227	100,000	387,227
Balance as at 1 January 2016	144,144	16,702	16,994	988	-	(7,208)	40,000	41,542	253,162	-	253,162
Total comprehensive income for the period											
Net profit for the period	-	-	-	-	-	-	-	12,944	12,944	-	12,944
Other comprehensive income for the period											
Impairment of available for sale investments, net of income tax	-	-	-	-	-	5,379	-	-	5,379	-	5,379
Net change in fair value of available for sale investments, net of income tax	-	-	-	-	-	78	-	-	78	-	78
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	-	(348)	-	-	(348)	-	(348)
Total other comprehensive income for the period	-	-	-	-	-	5,109	-	-	5,109	-	5,109
Issue of bonus shares for 2015	14,414	-	-	-	-	-	-	(14,414)	-	-	-
Dividends paid for 2015	-	-	-	-	-	-	-	(7,206)	(7,206)	-	(7,206)
Conversation of CCB to share capital	1,892	491	-	-	-	-	-	-	2,383	-	2,383
Balance as at 30 September 2016	160,450	17,193	16,994	988	-	(2,099)	40,000	32,866	266,392	-	266,392

Note: Appropriation to legal reserve is made on an annual basis.

(1) Release of subordinated loans reserve on maturity of the subordinated loan



INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(Unaudited)
(RO'000)

	30 September 2017	30 September 2016
OPERATING ACTIVITIES		
Net profit, before tax	22,363	14,905
Adjustments for:		
Depreciation	1,494	1,411
Impairment for credit losses	4,889	7,872
Impairment on available for sale investments	1,520	5,652
Gains on sale of available for sale investments	(445)	(492)
Loss on sale of fixed assets	-	(17)
Income from Islamic investment activities	(432)	(344)
Interest on investments	(5,396)	(3,218)
Interest accrued on subordinated loans and compulsorily convertible bonds	3,967	3,367
Cash from operating activities before changes in operating assets and liabilities	27,960	29,136
Due from banks and other money market placements	11,236	13,819
Loans, advances and financing	(97,025)	(189,201)
Investment in held for trading securities	(25,612)	112
Other assets	(3,533)	(5,260)
Due to banks and other money market borrowings	211,867	70,354
Customers' deposits	31,914	117,326
Certificate of deposits	173	678
Other liabilities	148	253
Cash from operating activities	157,128	37,217
Income tax paid	(3,230)	(3,975)
Net cash from operating activities, net of tax	153,898	33,242
INVESTING ACTIVITIES		
Purchase of investments, net	(19,115)	(2,367)
Proceeds from sale/redemption of investments	15,983	13,686
Acquisition of property, equipment and fixtures	(2,784)	(2,237)
Proceeds from sale of property, equipment and fixtures	-	17
Interest received on investments	5,627	3,450
Net cash from / (used in) investing activities	(289)	12,549
FINANCING ACTIVITIES		
Dividends paid	(8,022)	(7,206)
Interest paid on subordinated loans and compulsorily convertible bonds	(4,921)	(3,420)
Issue of subordinated loans	-	35,000
Redemption of subordinated loans	(50,000)	-
Perpetual Tier 1 Capital Securities	100,000	-
Issue expenses of Perpetual Tier 1 Capital Securities	(32)	-
Net cash from financing activities	37,025	24,374
NET CHANGE IN CASH AND CASH EQUIVALENTS	190,634	70,165
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	120,071	266,690
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	310,705	336,855
REPRESENTING:		
Cash and balances with Central Bank (other than capital deposit)	56,850	93,655
Due from banks and other money market placements due within 90 days	104,454	134,731
Investments securities maturing within 90 days	185,248	203,979
Due to banks and other money market borrowings within 90 days	(35,847)	(95,510)
	310,705	336,855

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)****A1 Legal status and principal activities**

Bank Sohar SAOG (“the Bank”) was established in the Sultanate of Oman on 4 March 2007 as a public joint stock company. It is primarily engaged in commercial, investment and Islamic banking activities through a network of 28 conventional and 5 Islamic banking branches in the Sultanate of Oman. The Bank operates under commercial, investment and Islamic banking licences issued by the Central Bank of Oman (CBO) and are covered by its deposit insurance scheme. The Bank started commercial operations on 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman. The Bank has its primary listing on the Muscat Securities Market.

The Bank obtained its license to operate an Islamic Banking Window (Sohar Islamic) on 30 April 2013. Sohar Islamic offers a full range of Islamic banking services and products. The principal activities of the window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Istisna'a and Salam and providing commercial banking services, investment and other activities permitted under the Islamic Banking Regulatory Framework (IBRF).

The Bank employed 707 employees as at 30 September 2017 (31 December 2016: 702; 30 September 2016: 706).

A2 Basis of preparation

These interim condensed financial statements are prepared in accordance with International Accounting Standard No. 34 – “Interim Financial Reporting”. The Bank also prepares its interim condensed financial statements to comply with the requirements of the Oman Commercial Companies Law of 1974, as amended, the disclosure requirements of the Capital Market Authority (CMA), the applicable regulations of CBO and the Bank’s Articles of Association. The interim condensed financial statements do not include all information and disclosures required in the annual financial statements and should be read together with the annual financial statements for the year ended 31 December 2016.

In accordance with Royal Decree 69/2012 that amended the Banking Law 2000, CBO has issued circular no. IB – 1, which promulgated a complete Islamic Banking Regulatory Framework. The framework identifies the permissible forms of trade-related methods of financing, including purchase of goods by banks from their customers and immediate resale to them at appropriate profit on a deferred payment basis. The purchases and sales of goods arising under these arrangements are not reflected in these interim condensed financial statements, but are restricted to the amount of facility actually utilized and the appropriate portion of profit thereon.

The preparation of interim condensed financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim condensed financial statements, the significant judgements made by management in applying the Bank’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2016.

The financial results of Sohar Islamic have been reflected in these interim condensed financial statements for reporting purposes after eliminating inter branch transactions / balances. A complete set of standalone financial statements for Sohar Islamic, prepared under Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), is included in the Bank’s annual report.

These interim condensed financial statements are expressed in Omani Riyals (RO) and are rounded off to the nearest thousands, except where indicated otherwise.



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)

A3 Significant accounting policies

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2016 except for the adoption of the following new standards mentioned below, which have had no significant financial impact on the interim condensed financial statements in the current or prior periods and are expected to have no significant effect in future periods:

A3.1 Standards, amendments and interpretations effective in 2016 and relevant for the Bank's operations

For the period ended 30 September 2017, the Bank has adopted the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2017.

The following standards, amendments and interpretations became effective from 1 January 2016:

- Amendments to IAS 27, 'Separate financial statements' on the equity method.
- Amendments to IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- Amendments to IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.

The adoption of these new and revised standards and interpretations has not resulted in any major change to the Bank's accounting policies and has not affected the amounts reported in the current and prior periods.

A3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning after 1 January 2017 or later. The Bank has, however, not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 30 September 2017:

- *IFRS 15 'Revenue from contracts with customers' (Annual periods beginning on or after 1 January 2018):* The standard was issued in May 2014 and establishes a new five-step model that will apply to 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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. A full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.
- *IFRS 9 'Financial instruments' (Annual periods beginning on or after 1 January 2018):* In July 2014, IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Early adoption is permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Bank started implementing IFRS 9 in the first quarter of 2017 to ensure it is ready to adopt the standard by 2018.
- *IFRS 16 'Leases' (Annual periods beginning on or after 1 January 2019):* In January 2016 IASB issued IFRS 16, which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 'Leases'. Early adoption is permitted, provided the new revenue standard, IFRS 15 'Revenue from Contracts with customers', was adopted earlier or is adopted at the same date as IFRS 16.



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)

B1 Cash and balances with Central Bank

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Cash	15,041	16,883	16,447
Capital deposit with CBO	504	505	503
Balance with CBO	41,805	102,225	76,705
	<u>57,350</u>	<u>119,613</u>	<u>93,655</u>

The capital deposit with CBO cannot be withdrawn without its approval.

B2 Due from banks and other money market placements

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
<i>Local currency:</i>			
Money market placements	-	10,159	40,177
	<u>-</u>	<u>10,159</u>	<u>40,177</u>
<i>Foreign currency:</i>			
Money market placements	93,604	42,354	84,700
Lending to banks	18,375	29,654	31,529
Demand balances	10,896	16,623	9,858
	<u>122,875</u>	<u>88,631</u>	<u>126,087</u>
	122,875	98,790	166,264
Portfolio impairment allowance on lending to banks	(53)	(148)	(157)
	<u>122,822</u>	<u>98,642</u>	<u>166,107</u>

The movement in the portfolio impairment allowance on lending to banks is analysed below:

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Balance at beginning of the period	148	110	110
Provided / (release) during the period (note C5)	(95)	38	47
	<u>53</u>	<u>148</u>	<u>157</u>



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)

B3 Loans, advances and financing, net

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Corporate	1,400,396	1,351,878	1,276,799
Retail	649,887	602,625	591,936
	<hr/>	<hr/>	<hr/>
Gross loans, advances and financing	2,050,283	1,954,503	1,868,735
Portfolio impairment allowance	(24,437)	(23,294)	(22,357)
Specific impairment allowance, including contractual interest not recognised	(20,730)	(18,134)	(17,931)
	<hr/>	<hr/>	<hr/>
Net loans, advances and financing	2,005,116	1,913,075	1,828,447
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Gross loans, advances and financing include RO 137,901,988 (31 December 2016: RO 96,835,189; 30 September 2016: RO 86,371,736) under Islamic mode of financing through Sohar Islamic financing activities.

Loans, advances and financing comprise:

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Loans	1,771,407	1,715,199	1,655,491
Overdrafts	125,136	111,674	102,501
Loan against trust receipts	106,851	85,816	81,011
Bills discounted	46,889	41,814	29,732
	<hr/>	<hr/>	<hr/>
Gross loans, advances and financing	2,050,283	1,954,503	1,868,735
Portfolio impairment allowance	(24,437)	(23,294)	(22,357)
Specific impairment allowance, including contractual interest not recognised	(20,730)	(18,134)	(17,931)
	<hr/>	<hr/>	<hr/>
Net loans, advances and financing	2,005,116	1,913,075	1,828,447
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)

B3 Loans, advances and financing, net (continued)

The movement in the impairment allowance on loans, advances and financing is:

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Portfolio impairment allowance			
Balance at beginning of period	23,294	20,588	20,588
Provided during the period (note C5)	1,143	2,706	1,769
Balance at the end of the period	24,437	23,294	22,357
Specific impairment allowance			
1) Loan loss provision			
Balance at beginning of period	12,923	10,861	10,861
Provided during the period	11,739	13,551	10,631
Written back due to recovery	(7,898)	(7,816)	(4,575)
Written off during the period	(24)	(41)	(41)
Transfer (to) / from memoranda accounts	(2,091)	(3,632)	(3,753)
Balance at the end of the period (a)	14,649	12,923	13,123
2) Contractual interest not recognised			
Balance at beginning of period	5,211	4,598	4,598
Not recognised during the period	2,274	2,275	1,661
Written back due to recovery	(1,404)	(828)	(1,451)
Transfer to memoranda accounts	-	(834)	-
Balance at end of the period (b)	6,081	5,211	4,808
Total impairment (a) + (b)	20,730	18,134	17,931

The portfolio impairment allowance was established to meet credit risks inherent within loans, advances and financing at a portfolio level.

All loans and advances require payment of interest, some at fixed rates and others at rates that reprise prior to maturity. Interest reserve account is maintained to comply with rules; regulations and guidelines issued by CBO on loans, advances and financing that are impaired. As of 30 September 2017, loans and advances on which interest was not being accrued or where interest was reserved amounted to RO 38,488,758 (31 December 2016: RO 33,082,070; 30 September 2016: RO 30,808,055).

B4 Investments

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Held for trading investments	85,883	60,271	44,596
Available for sale investments	216,503	237,784	252,545
Held to maturity investments	67,058	53,216	51,780
	369,444	351,271	348,921

In the case of equity investments classified as available for sale, a significant or prolonged decline in the value of securities below its cost is evidence that it is impaired. A decline in the value of a security below its cost by over 35% is considered significant and a decline in the value of a security below its cost for a continuous period of twelve months is considered prolonged.

During the period ended 30 September 2017, the Bank recorded an impairment charge of RO 1,520 thousands (31 December 2016: 7,305 thousand; 30 September 2016: RO 5,652 thousands) and disposed of investments on which impairment charges totalling RO 3,861 thousands (31 December 2016: 4,332 thousand; 30 September 2016: RO 3,991 thousands) were recorded earlier.



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B4 Investments (continued)

B4.a Held for trading investments includes:

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Government development bonds – Oman	80,492	54,926	39,187
Sukuk trust certificates – secured	5,391	5,345	5,409
	85,883	60,271	44,596

B4.b Available for sale investments include:

	Carrying / fair value 30 September 2017 (Unaudited)	Cost 30 September 2017 (Unaudited)	Carrying / fair value 31 December 2016 (Audited)	Cost 31 December 2016 (Audited)	Carrying / fair value 30 September 2016 (Unaudited)	Cost 30 September 2016 (Unaudited)
Unquoted securities	1,881	1,915	1,356	1,390	1,356	1,390
Quoted securities	29,598	33,616	41,662	48,093	47,320	53,914
Treasury bills	185,024	184,800	194,766	194,820	203,869	203,889
	216,503	220,331	237,784	244,303	252,545	259,193

- The carrying / fair value of available for sale investments are stated after reclassifying RO 3.641 million to the interim condensed statement of comprehensive income as impairments (31 December 2016: RO 5.981 million; 30 September 2016: RO 4.670 million).
- Unquoted securities include an investment of RO 1,881,519 (31 December 2016: RO 1,356,095; 30 September 2016: RO 1,356,095) in the Oman Development Fund SAOC (“Fund”). The Fund was incorporated on 7 May 2014 under license no. 1196427 with the Bank being the founder shareholder. The purpose of the Fund is to identify mid-segment industrial and manufacturing sectors that leverage Oman’s unique advantages such as its infrastructure, tax treaties, geography and natural mineral resources for potential investment opportunities. During the period the Bank invested RO 525,424 in line with the other investors in the fund. The Bank currently holds a nil 16.9% stake in the Fund (31 December 2016: 16.9%; 30 September 2016: 16.9%). The Bank has an Investment Management Agreement with the Fund.
- Treasury bills include investments in USD Treasury bills of RO 185.02 million (31 December 2016: RO 184.88 million; 30 September 2016: RO 154.04 million) assigned as collaterals against the Bank’s borrowings.

B4.c Held to maturity investments include:

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Quoted	62,471	50,184	46,140
Unquoted	4,587	3,032	5,640
	67,058	53,216	51,780



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B5 Other assets

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Acceptances	10,299	8,989	11,169
Prepayments	3,036	2,506	2,765
Receivables	3,138	1,813	1,887
Deferred tax asset	-	170	172
Positive fair value of derivatives	2,067	3,185	703
Others	4,055	2,213	3,279
	22,595	18,876	19,975

B6 Due to banks and other money market borrowings

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
<i>Local currency:</i>			
Money market borrowings	15,110	22,001	-
Demand balances	32,244	2,549	1,254
	47,354	24,550	1,254
<i>Foreign currency:</i>			
Money market borrowings	317,820	454,401	390,013
Demand balances	1,677	-	9
Syndicated borrowings	193,059	96,596	96,588
	512,556	550,997	486,610
	559,910	575,547	487,864

B7 Customers' deposits

	30 September 2017 (Unaudited)			31 December 2016 (Audited)			30 September 2016 (Unaudited)		
	Conventional banking	Islamic banking	Total	Conventional banking	Islamic banking	Total	Conventional banking	Islamic banking	Total
<i>Retail customers:</i>									
Term deposits	87,142	6,107	93,249	61,896	5,697	67,593	58,332	4,128	62,460
Demand deposits	28,380	2,449	30,829	17,753	1,853	19,606	20,357	2,189	22,546
Saving deposits	239,015	11,943	250,958	249,425	11,240	260,665	245,496	33,433	278,929
Margin deposits	-	-	-	-	-	-	-	30	30
<i>Corporate customers:</i>									
Term deposits	679,058	92,317	771,375	791,292	45,844	837,136	801,717	28,962	830,679
Demand deposits	375,332	5,809	381,141	305,258	5,944	311,202	367,117	5,269	372,386
Saving deposits	-	21,485	21,485	-	22,578	22,578	-	-	-
Margin deposits	8,081	6,485	14,566	7,656	5,253	12,909	7,276	7,499	14,775
	1,417,008	146,595	1,563,603	1,433,280	98,409	1,531,689	1,500,295	81,510	1,581,805



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B8 Other liabilities

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Coupon payable on Perpetual capital securities	127	-	-
Acceptances	10,299	8,989	11,169
Staff entitlements	3,613	3,350	2,932
Income tax payable	3,103	3,219	2,246
Negative fair value of derivatives	1,185	2,982	680
Deferred tax liabilities	138	-	-
Other accruals and provisions	11,265	10,506	11,475
	29,730	29,046	28,502

B9 Compulsorily convertible bonds

Compulsorily convertible bonds of RO 7.150 million carrying an annual coupon rate of 4.5% were issued on 28 April 2013 as part of a dividend distribution. These bonds have to be converted into ordinary shares of the Bank in three equal instalments at the end of 3rd, 4th and 5th years from the date of issuance at a conversion price derived by applying a discount of 20% to the 3 months average share price of the Bank on the Muscat Securities Market prior to the date of conversion. Accordingly during 2016 and 2017, one-third of these bonds, amounting to RO 2.38 million each year were converted into ordinary shares of the Bank. The current outstanding with accrued interest as of 30 September 2017 amounts to RO 2,429 million (31 December 2016: RO 4,805 million; 30 September 2016: RO 4,858 million).

B10 Share capital

The authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (31 December 2016: 2,000,000,000 of RO 0.100 each; 30 September 2016: 2,000,000,000 of RO 0.100 each). The issued and paid up share capital of the Bank is 1,784,646,242 shares of RO 0.100 each (31 December 2016: 1,604,499,341 shares of RO 0.100 each; 30 September 2016: 1,604,499,341 shares of RO 0.100 each).

In the Annual General Meeting held on 30 March 2017, the shareholders approved the Board's recommendation to distribute bonus shares equal to 10% of issued and paid up share capital as at 31 December 2016, resulting in the issuance of 160,449,934 new shares.

During April 2017, one-third of the compulsorily convertible bonds amounting to RO 2.38 million was converted into ordinary shares of the Bank resulting in the issuance of 19,696,967 shares amounting to RO 1.97 million. The balance of RO 0.41 million was credited to share premium account.

As of 30 September 2017, the following shareholders held 10% or more of the Bank's capital, either individually or together with related parties:

	<i>Number of shares</i>	<i>% Holding</i>
Oman Investment & Finance Co. SAOG	277,013,306	15.52%
The Royal Court of Affairs	260,005,713	14.57%

B11 Special Reserve

As required by CBO circular BSD/2017/BKUP/Banks & FLCs/467, the Bank reserved 10% of the outstanding exposure of a restructured facility that is not classified as a non-performing loan.



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B12 Perpetual Tier 1 Capital Securities

The Bank issued Perpetual Tier 1 Capital Securities amounting to OMR 100 million on 25th September 2017. The securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. They do not have a fixed or final maturity date. The Bank may at its discretion and after prior consent from the relevant regulatory authority, exercise its option to redeem the securities in full (not in part) on the first Call Date i.e the 5th anniversary of the Issue Date, and on every fifth anniversary thereafter, again subject to the prior consent of the regulatory authorities.

The Tier 1 Capital Securities bear interest on their nominal amount from the issue date to the first Call Date at a fixed annual rate of 7.75%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity. The Bank at its sole discretion may elect not to distribute interest and this is not considered as an event of default. If the Bank does not pay interest on the Tier 1 Capital Securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its ordinary shares or any of its other Common Equity Tier 1 Instruments or securities, ranking junior to or pari passu with the Tier 1 Capital Securities unless and until it has paid one interest payment in full on the Tier 1 Capital Securities. The Tier 1 Capital Securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders of the Securities in certain circumstances.

B13 Contingent liabilities and commitments

B13.a Contingent liabilities

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

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Guarantees	387,149	378,092	364,297
Documentary letters of credit	37,606	54,637	40,388
	424,755	432,729	404,685

B13.b Commitments

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash obligations.

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Capital commitments	1,105	2,653	2,597
Credit related commitments	242,655	317,246	326,843
	243,760	319,899	329,440



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B14 Related party transactions

In the ordinary course of business the Bank enters into transactions with certain of its directors, shareholders, senior management, Shari'a supervisory board, Shari'a reviewer and companies in which they have a significant interest. These transactions are conducted on an arm's length basis and are approved by the Bank's management and Board of Directors.

The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Key management personnel			
Loans, advances and financing at the end of the period	2,626	3,502	3,517
Loans disbursed during the period	312	472	287
Loans repaid during the period	(410)	(765)	(701)
Deposits at the end of the period	804	610	808
Deposits received during the period	1,400	333	452
Deposits repaid during the period	(1,171)	(786)	(828)
Interest income during the period	89	154	107
Other related parties			
Loans, advances and financing at the end of the period	4,744	4,967	1,243
Loans disbursed during the period	12,209	30,987	27,075
Loans repaid during the period	(12,220)	(42,408)	(42,220)
Deposits at the end of the period	10,998	12,631	13,976
Deposits received during the period	10,836	19,323	18,601
Deposits repaid during the period	(12,385)	(13,089)	(11,017)
Interest income during the period	276	322	128
Interest expense during the period	427	339	254
Key management personnels' compensation			
Salaries and other short term benefits	2,295	3,192	2,526
Post-employment benefits	70	162	84
Directors' sitting fees and remuneration	189	202	190
Shari'a Supervisory Board members	32	52	39

The aggregate amount of balances and the income and expenses generated with shareholders holding 10% or more of the Banks' shares are as follows:

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Loans, advances and financing at the end of the period	-	7,002	10,000
Loans disbursed during the period	5,580	87,393	61,232
Loans repaid during the period	(23,765)	(79,205)	(61,232)
Deposits at the end of the period	341	5,595	3,706
Deposits received during the period	7	1,477	1
Deposits repaid during the period	(5,261)	-	(419)
Interest income during the period	62	326	253
Interest expense during the period	12	-	11

As at 30 September 2017, no loan given to any related party is impaired (31 December 2016: Nil; 30 September 2016: Nil).



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B15 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- i) In the accessible principal market for the asset or liability; or
- ii) In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Bank considers that the fair value of financial instruments was not significantly different to their carrying value (including accrued interest) at each of those dates. The table below sets out the classification and fair value of each class of financial assets and liabilities:

At 30 September 2017 (Unaudited)	Loans and receivables	Held to maturity	Available for sale	Held for trading	Total carrying (including accrued interest)/fair value
Assets					
Cash and balances with CBO	57,350	-	-	-	57,350
Due from banks and other money market placements	122,822	-	-	-	122,822
Loans, advances and financing	2,005,116	-	-	-	2,005,116
Investments	-	67,058	216,503	85,883	369,444
Other assets (excluding prepayments)	19,559	-	-	-	19,559
Total	2,204,847	67,058	216,503	85,883	2,574,291
Liabilities					
Due to banks and other money market borrowings					559,910
Customers' deposits					1,563,603
Other liabilities (excluding other accruals & provisions)					18,465
Compulsorily convertible bonds					2,429
Certificates of deposit					18,686
Subordinated loans					35,654
Total					2,198,747



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B15 Fair value of financial instruments (continued)

At 31 December 2016 (Audited)	Loans and receivables	Held to maturity	Available for sale	Held for trading	Total carrying (including accrued interest)/fair value
Assets					
Cash and balances with CBO	119,613	-	-	-	119,613
Due from banks and other money market placements	98,642	-	-	-	98,642
Loans, advances and financing	1,913,075	-	-	-	1,913,075
Investments	-	53,216	237,784	60,271	351,271
Other assets (excluding prepayments)	16,370	-	-	-	16,370
Total	2,147,700	53,216	237,784	60,271	2,498,971
Liabilities					
Due to banks and other money market borrowings					575,547
Customers' deposits					1,531,689
Other liabilities (excluding other accruals & provisions)					18,540
Compulsorily convertible bonds					4,805
Certificates of deposit					18,513
Subordinated loans					86,615
Total					2,235,709

At 30 September 2016 (Unaudited)	Loans and receivables	Held to maturity	Available for sale	Held for trading	Total carrying (including accrued interest)/fair value
Assets					
Cash and balances with CBO	93,655	-	-	-	93,655
Due from banks and other money market placements	166,107	-	-	-	166,107
Loans, advances and financing	1,828,447	-	-	-	1,828,447
Investments	-	51,780	252,545	44,596	348,921
Other assets (excluding prepayments)	17,210	-	-	-	17,210
Total	2,105,419	51,780	252,545	44,596	2,454,340
Liabilities					
Due to banks and other money market borrowings					487,864
Customers' deposits					1,581,805
Other liabilities (excluding other accruals & provisions)					17,027
Compulsorily convertible bonds					4,858
Certificates of deposit					18,686
Subordinated loans					86,146
Total					2,196,386



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B15 Fair value of financial instruments (continued)

The table below analyses financial instruments measured at fair value at the end of the reporting period:

30 September 2017 (Unaudited)	Investment securities	Positive fair value of derivatives	Negative fair value of derivatives	Total
Level 1	89,392	-	-	89,392
Level 2	211,113	2,067	(1,185)	211,995
Level 3	1,881	-	-	1,881
	<u>302,386</u>	<u>2,067</u>	<u>(1,185)</u>	<u>303,268</u>

31 December 2016 (Audited)	Investment securities	Positive fair value of derivatives	Negative fair value of derivatives	Total
Level 1	63,761	-	-	63,761
Level 2	232,938	3,185	(2,982)	233,141
Level 3	1,356	-	-	1,356
	<u>298,055</u>	<u>3,185</u>	<u>(2,982)</u>	<u>298,258</u>

30 September 2016 (Unaudited)	Investment securities	Positive fair value of derivatives	Negative fair value of derivatives	Total
Level 1	49,402	-	-	49,402
Level 2	246,383	703	(680)	246,406
Level 3	1,356	-	-	1,356
	<u>297,141</u>	<u>703</u>	<u>(680)</u>	<u>297,164</u>



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B16 Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts, analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

As at 30 September 2017 (Unaudited)	Positive Fair Value	Negative Fair Value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	More than 1 year
Forward foreign exchange purchase contracts	684	505	564,776	274,757	290,019	-
Interest rate swaps	1	1	5,775	-	5,775	-
Options	271	271	197,368	153,016	44,352	-
Forward foreign exchange sales contracts	1,383	680	563,990	274,699	289,291	-
Interest rate swaps	1	1	5,775	-	5,775	-
Options	271	271	197,368	153,016	44,352	-

As at 31 December 2016 (Audited)	Positive Fair Value	Negative Fair Value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	More than 1 year
Forward foreign exchange purchase contracts	2,446	496	535,746	407,501	128,245	-
Interest rate swaps	9	9	10,395	4,620	-	5,775
Options	189	189	41,868	20,502	21,366	-
Forward foreign exchange sales contracts	739	2,486	538,113	409,191	128,922	-
Interest rate swaps	9	9	10,395	4,620	-	5,775
Options	189	189	41,868	20,502	21,366	-

As at 30 September 2016 (Unaudited)	Positive Fair Value	Negative Fair Value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	More than 1 year
Forward foreign exchange purchase contracts	108	492	412,986	178,434	234,552	-
Interest rate swaps	2	2	10,395	-	4,620	5,775
Options	437	437	323,358	281,489	41,869	-
Forward foreign exchange sales contracts	595	188	415,926	178,385	237,541	-
Interest rate swaps	2	2	10,395	-	4,620	5,775
Options	437	437	323,358	281,489	41,869	-

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C1 Interest income

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Loans and advances to customers	72,786	61,773	25,165	22,512
Due from banks and other money market placements	1,933	540	850	173
Investments	5,396	3,218	2,010	1,141
	<u>80,115</u>	<u>65,531</u>	<u>28,025</u>	<u>23,826</u>

C2 Interest expense

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Customers' deposits	(30,153)	(21,179)	(9,682)	(8,965)
Subordinated loans	(3,852)	(3,171)	(1,025)	(1,397)
Due to banks and other money market borrowings	(11,675)	(7,214)	(4,509)	(2,390)
Compulsorily convertible bonds	(115)	(196)	(27)	(54)
	<u>(45,795)</u>	<u>(31,760)</u>	<u>(15,243)</u>	<u>(12,806)</u>

C3 Other operating income

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Fees and commission	12,499	12,180	3,926	4,263
Net gains from foreign exchange dealings	4,247	3,100	1,419	823
Profit on sale of fixed assets	-	17	-	-
Bad debt recovery written off earlier	70	74	40	60
Dividends income	667	1,414	98	44
Net gains from HFT investments	(18)	-	(18)	-
	<u>17,465</u>	<u>16,785</u>	<u>5,465</u>	<u>5,190</u>

C4 Other operating expenses

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Operating and administration costs	(6,869)	(6,330)	(2,268)	(2,014)
Occupancy cost	(1,900)	(1,783)	(653)	(600)
Directors sitting fees *	(189)	(190)	(13)	(10)
Shari'a supervisory board remuneration and sitting fees	(32)	(39)	(12)	(11)
	<u>(8,990)</u>	<u>(8,342)</u>	<u>(2,946)</u>	<u>(2,635)</u>

* include remuneration of RO 130,000 (31 December 2016: RO 131,600; 30 September 2016: RO 131,600) related to 2016 paid during the current period.

C5 Portfolio impairment allowance

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
(Provided) / released during the period:				
- on loans and advances	(1,143)	(1,769)	(260)	(475)
- on lending to banks	95	(47)	74	(8)
	<u>(1,048)</u>	<u>(1,816)</u>	<u>(186)</u>	<u>(483)</u>



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(RO'000)

C6 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing net profit for the period by the weighted average number of shares outstanding during the period.

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Net profit for the period	18,976	12,944	7,410	4,131
Weighted average number of shares outstanding during the period (in thousands)	1,784,646	1,784,646	1,784,646	1,784,646
Basic earnings per share (in baizas)	10.633	7.253	4.152	2.315
Basic earnings per share annualized (in baizas)	14.216	9.688	16.473	9.209

In the Annual General Meeting held on 30 March 2017, the shareholders approved the Board's recommendation to distribute 10% bonus shares resulting in the issuance of 160,449,934 new shares.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders (after adjusting for interest on the compulsorily convertible bonds, net of income tax) for the period by the weighted average number of ordinary shares including the dilutive potential of ordinary shares that would be issued on the conversion of the compulsorily convertible bonds into ordinary shares.

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Net profit for the period	18,976	12,944	7,410	4,131
Interest on convertible bonds, net of income tax	97	172	23	48
	19,073	13,116	7,433	4,179
Weighted average number of shares outstanding during the period after dilution (in thousands)	1,804,844	1,818,214	1,804,844	1,818,214
Diluted earnings per share (in baizas)	10.568	7.214	4.118	2.298
Diluted earnings per share annualized (in baizas)	14.129	9.636	16.339	9.143

The reconciliation of weighted average number of shares shown under basic earnings and diluted earnings are as follow:

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Weighted average number of shares outstanding during the period	1,784,646	1,784,646	1,784,646	1,784,646
Dilutive potential of ordinary shares to be issued on the conversion of convertible bonds	20,198	33,568	20,198	33,568
Weighted average number of shares outstanding during the period after dilution	1,804,844	1,818,214	1,804,844	1,818,214



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
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(Unaudited)
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C7 Net income from Islamic financing and investing activities

C7.a Income earned from Islamic financing and investing activities

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Financing to customers	4,679	2,752	1,765	1,027
Due from banks and other money market placements	36	3	17	-
Investments	432	344	182	117
	<u>5,147</u>	<u>3,099</u>	<u>1,964</u>	<u>1,144</u>

C7.b Profit paid to depositors / money market borrowings

	For the nine months ended		For the three months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Profit paid to depositors	2,375	925	899	475
Profit paid to banks and other money market borrowings	149	153	38	50
	<u>2,524</u>	<u>1,078</u>	<u>937</u>	<u>525</u>
Net income from Islamic financing and investing activities	<u><u>2,623</u></u>	<u><u>2,021</u></u>	<u><u>1,027</u></u>	<u><u>619</u></u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)

D Financial risk management

D1 Liquidity risk

D1.1 Exposure to liquidity risk

The table below summarises the maturity profile of the Bank's assets and liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

30 September 2017 (Unaudited)	Within three months	Four months to 12 months	One to three years	More than three years	Total
Assets					
Cash and balances with Central Bank	27,472	12,048	4,780	13,050	57,350
Due from banks and other money market placements	105,169	14,151	3,502	-	122,822
Loans, advances and financing, net	330,416	261,870	456,198	956,632	2,005,116
Investments	243,977	28,595	58,094	38,778	369,444
Property, equipment and fixtures	-	-	-	17,012	17,012
Investment properties	-	-	-	2,900	2,900
Other assets	22,595	-	-	-	22,595
Total assets	729,629	316,664	522,574	1,028,372	2,597,239
Liabilities and equity					
Due to banks and other money market borrowings	149,919	266,977	143,014	-	559,910
Customers' deposits	423,836	467,211	185,687	486,869	1,563,603
Other liabilities	25,541	4,062	-	127	29,730
Subordinated loans	-	-	-	35,654	35,654
Compulsorily convertible bonds	-	2,429	-	-	2,429
Certificates of deposits	-	-	18,181	505	18,686
Total Equity	-	-	-	387,227	387,227
Total liabilities and equity	599,296	740,679	346,882	910,382	2,597,239
Gap	130,333	(424,015)	175,692	117,990	-
Cumulative Gap	130,333	(293,682)	(117,990)	-	-



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)

D Financial risk management (continued)

D1 Liquidity risk (continued)

D1.1 Exposure to liquidity risk (continued)

31 December 2016 (Audited)	Within three months	Four months to 12 months	One to three years	More than three years	Total
Assets					
Cash and balances with Central Bank	46,045	32,081	12,150	29,337	119,613
Due from banks and other money market placements	69,033	27,027	2,582	-	98,642
Loans, advances and financing, net	261,819	255,426	438,330	957,500	1,913,075
Investments	225,519	33,242	27,068	65,442	351,271
Property, equipment and fixtures	-	-	-	15,724	15,724
Investment properties	-	-	-	2,900	2,900
Other assets	18,876	-	-	-	18,876
Total assets	621,292	347,776	480,130	1,070,903	2,520,101
Liabilities and equity					
Due to banks and other money market borrowings	109,447	142,023	324,077	-	575,547
Customers' deposits	286,844	551,680	209,889	483,276	1,531,689
Other liabilities	29,046	-	-	-	29,046
Subordinated loans	-	51,234	-	35,381	86,615
Compulsorily convertible bonds	-	2,402	2,403	-	4,805
Certificates of deposits	-	-	18,013	500	18,513
Total Equity	-	-	-	273,886	273,886
Total liabilities and equity	425,337	747,339	554,382	793,043	2,520,101
Gap	195,955	(399,563)	(74,252)	277,860	-
Cumulative Gap	195,955	(203,608)	(277,860)	-	-



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)

D Financial risk management (continued)

D1 Liquidity risk (continued)

D1.1 Exposure to liquidity risk (continued)

30 September 2016 (Unaudited)	Within three months	Four months to 12 months	One to three years	More than three years	Total
Assets					
Cash and balances with Central Bank	39,520	21,649	11,106	21,380	93,655
Due from banks and other money market placements	148,374	17,733	-	-	166,107
Loans, advances and financing, net	272,809	220,199	403,746	931,693	1,828,447
Investments	229,992	27,078	30,201	61,650	348,921
Property, equipment and fixtures	-	-	-	14,248	14,248
Investment properties	-	-	-	2,900	2,900
Other assets	19,975	-	-	-	19,975
Total assets	710,670	286,659	445,053	1,031,871	2,474,253
Liabilities and equity					
Due to banks and other money market borrowings	163,210	73,465	251,189	-	487,864
Customers' deposits	346,330	502,587	258,847	474,041	1,581,805
Other liabilities	25,114	3,388	-	-	28,502
Subordinated loans	-	50,731	-	35,415	86,146
Compulsorily convertible bonds	-	2,429	2,429	-	4,858
Certificates of deposits	-	-	18,181	505	18,686
Total Equity	-	-	-	266,392	266,392
Total liabilities and equity	534,654	632,600	530,646	776,353	2,474,253
Gap	176,016	(345,941)	(85,593)	255,518	-
Cumulative Gap	176,016	(169,925)	(255,518)	-	-



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)

D Financial risk management (continued)

D2 Capital management

D2.1 Regulatory capital

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Tier I capital			
Ordinary share capital	178,465	160,450	160,450
Share premium	17,607	17,193	17,193
Legal reserve	18,905	18,905	16,994
General reserve	988	988	988
Subordinated loan reserve	-	50,000	40,000
Retained earnings *	71,029	19,099	32,866
Perpetual bond	100,000	-	-
Fair value losses	(1,210)	(1,210)	(2,243)
Deferred tax asset	-	(170)	(172)
Total	385,784	265,255	266,076
Tier 2 capital			
Impairment allowance on portfolio basis	24,394	23,441	22,514
Fair value gains	250	199	67
Subordinated loan	35,000	35,000	35,000
Compulsorily convertible bonds	2,383	4,767	4,767
Total	62,027	63,407	62,348
Total regulatory capital	447,811	328,662	328,424
Risk weighted assets			
Credit and market risks	2,505,605	2,224,479	2,128,313
Operational risk	130,335	130,335	115,943
Total risk weighted assets	2,635,940	2,354,814	2,244,256
Capital adequacy ratio			
Total regulatory capital expressed as a percentage of total risk weighted assets	16.99%	13.96%	14.63%
Total tier I capital expressed as a percentage of total risk weighted assets	14.64%	11.26%	11.86%

The capital adequacy ratio is calculated in accordance with Basel II & Basel III requirements as adopted by CBO. Disclosures required under Basel III and circular BM-1114 dated 17 November 2013 issued by CBO are available in the Investor Relations section of the Bank's website.

* Retained earnings for 31 December 2016 are stated after excluding cash dividend of RO 8,022,500.



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
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(RO'000)

E Segmental information

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into the following seven operating segments based on products and services as follows:

- Wholesale banking includes loans to and deposits from corporates, small & medium enterprises and trade finance customers.
- Retail banking includes loans to and deposits from retail customers, credit card and fund transfer facilities.
- Government and Project Finance and Syndication include loans to and deposits from government and financial institutions, project finance and syndicated loans.
- Investments include proprietary investments, correspondent and investment banking.
- Treasury includes the treasury function of the bank.
- Head office includes the pool of resources considered for transfer pricing and absorbs the cost of portfolio impairments and income tax.
- Islamic banking includes Islamic financing activities, current accounts, unrestricted investment accounts and other products and services to corporate and individual customers under Shari'a principles.

The CEO monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a Bank basis and are not allocated to operating segments.

Interest income is reported net as the CEO primarily relies on net interest income as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2017 or 2016.



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(RO'000)

E1 Segmental information

30 September 2017 (Unaudited)	<i>Retail banking</i>	<i>Wholesale banking</i>	<i>Government institution, FI & PFS*</i>	<i>Investments</i>	<i>Treasury</i>	<i>Head Office</i>	<i>Islamic banking</i>	<i>Total</i>
Income Statement								
Net interest income	12,854	16,746	3,336	409	1,181	(206)	-	34,320
Net income from Islamic financing and investing activities	-	-	-	-	-	-	2,623	2,623
Other operating income	3,107	10,169	1,885	451	4,030	(2,289)	575	17,928
Operating income	15,961	26,915	5,221	860	5,211	(2,495)	3,198	54,871
Operating expenses	(13,811)	(7,030)	(1,211)	(262)	(1,503)	(201)	(2,081)	(26,099)
Net operating income	2,150	19,885	4,010	598	3,708	(2,696)	1,117	28,772
Impairment on available for sale investments	-	-	-	(1,520)	-	-	-	(1,520)
Portfolio impairment allowance	-	-	-	-	-	(511)	(537)	(1,048)
Specific impairment allowance	(2,343)	(1,405)	-	-	-	-	(93)	(3,841)
Segment profit / (loss) for the period	(193)	18,480	4,010	(922)	3,708	(3,207)	487	22,363
Income tax expense	-	-	-	-	-	(3,314)	(73)	(3,387)
Profit / (loss) for the period	(193)	18,480	4,010	(922)	3,708	(6,521)	414	18,976
Segment Assets	576,476	1,018,744	291,966	21,197	427,620	90,628	170,608	2,597,239
Segment Liabilities & Equity	406,082	294,863	671,609	9,015	614,810	430,045	170,815	2,597,239

30 September 2016 (Unaudited)	<i>Retail banking</i>	<i>Wholesale banking</i>	<i>Government institution, FI & PFS*</i>	<i>Investments</i>	<i>Treasury</i>	<i>Head Office</i>	<i>Islamic banking</i>	<i>Total</i>
Income Statement								
Net interest income	15,090	14,406	3,574	739	497	(535)	-	33,771
Net income from Islamic financing and investing activities	-	-	-	-	-	-	2,021	2,021
Other operating income	2,079	11,074	952	2,100	2,954	(2,255)	373	17,277
Operating income	17,169	25,480	4,526	2,839	3,451	(2,790)	2,394	53,069
Operating expenses	(12,871)	(5,048)	(1,126)	(2,083)	(1,400)	(317)	(1,795)	(24,640)
Net operating income	4,298	20,432	3,400	756	2,051	(3,107)	599	28,429
Impairment on available for sale investments	-	-	-	(5,652)	-	-	-	(5,652)
Portfolio impairment allowance	-	-	-	-	-	(1,611)	(205)	(1,816)
Specific impairment allowance	(2,855)	(3,210)	-	-	-	-	9	(6,056)
Segment profit / (loss) for the period	1,443	17,222	3,400	(4,896)	2,051	(4,718)	403	14,905
Income tax expense	-	-	-	-	-	(1,961)	-	(1,961)
Profit / (loss) for the period	1,443	17,222	3,400	(4,896)	2,051	(6,679)	403	12,944
Segment Assets	534,292	956,792	283,251	23,996	444,575	116,479	114,868	2,474,253
Segment Liabilities & Equity	324,190	385,751	720,678	27,512	535,226	365,174	115,722	2,474,253

* Financial Institutions & Project Finance and Syndication.

E2 Comparative figures

Certain comparative figures for 2016 have been reclassified in order to conform with the presentation for the current period. Such reclassifications do not affect previously reported net profit or shareholders' equity.