



بنك ظفار
BankDhofar

**Unaudited interim condensed financial statements
For the nine month period ended 30th September 2017**

Registered office and principal place of business:

Bank Dhofar Building
Bank Al Markazi street
Post Box 1507, Ruwi
Postal Code 112
Sultanate of Oman

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BANK DHOFAR S.A.O.G.

THE BOARD OF DIRECTORS' REPORT FOR THE QUARTER ENDED

30th September 2017

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's consolidated Financial Performance for the nine months ended 30th September 2017.

The total assets of the Bank crossed the RO 4 billion mark to reach RO 4.07 billion at the end of September 2017 as compared to RO 3.89 billion at the end of September 2016, a growth of 4.63% year on year. The Bank with its main focus on quality lending, recorded a growth of 8.9% in net Customer Loans, Advances and Financing as at 30th September 2017 to reach RO 3.18 billion from RO 2.92 billion at 30th September 2016. To support this loan growth, the Customer Deposits increased by 11.1% to reach RO 3.10 billion at 30th September 2017 compared to RO 2.79 billion at 30th September 2016.

Net interest and financing income declined by 7.5% during the 9-month period ended 30th September 2017, recording RO 68.95 million as compared to RO 74.54 million earned during the same period in 2016.

The total non-funded income such as fees and commissions, foreign exchange profit, investment income etc. grew by 11.77% to reach RO 25.16 million for the 9-month period ended 30th September 2017 as compared to RO 22.51 million in the corresponding period of 2016.

Operating Cost to Operating Income ratio for the first 9 months of 2017 increased to 46.81% from 42.89 % during the corresponding period of 2016.

Net provisions for loan impairment and investment impairments improved by 21.9% to RO 8.783 million year-to-date 30th September 2017 as compared to RO 10.46 million year-to-date 30th September 2016. Impairment of available for sale investments decreased to RO 0.34 million as against RO 1.20 million during last year same period despite domestic market movements.

The Net Profit for the 9-month period ended 30th September 2017 declined by 5.7% to reach RO 34.79 million as compared to RO 36.87 million achieved in the corresponding period of 2016

The earnings per share (EPS) for the 9-month period ended 30th September 2017 are RO 0.015 as compared to RO 0.018 achieved in the corresponding period of 2016.

Maisarah Financial Performance Highlights:-

The total assets have increased by 20.22% to RO 471.55 million at 30 September 2017 from RO 392.24 million at 30 September 2016. The gross financing portfolio has grown 32.35% from RO 289.05 million at 30 September 2016 to RO 382.58 million at 30 September 2017. The strong increase in financing portfolio is supported by a robust growth in customer

deposits which increased by 41.25% from RO 251.28 million at 30 September 2016 to RO 354.94 million at 30 September 2017.

The net income from financing activities increased 17.05% year-on-year reaching RO 6.04 million during nine month period ended 30 September 2017 against RO 5.16 million at same period last year. Non-financing Income such as fees and commissions, foreign exchange profit, investment income and other income have increased by 24.65% to RO 1.77 million as compared RO 1.42 million during the corresponding period in 2016.

Maisarah posted profit before tax of RO 1.69M year to date 30th September 2017, 32.67% below last year first nine months profit before tax of RO 2.51 million.

Awards & Accolades

The Bank has been investing heavily in Technology, Customer initiatives and Training to be able to offer the best services and products in the Sultanate. The following excellence awards won during the 9-month period ended 30th September 2017 are testimony to the Bank's unstinted efforts.

- Best Bank in Oman, Large Banks Categories 2017 – Oman Economic Review Award (OER)
- Top 20 Oman's Largest Corporates Award at the OER Finance Summit & Top 20 Awards
- Best Islamic Bank in Oman at the EMEA Finance's Achievement Awards 2016
- Best Islamic Community Support Bank 2017 by Global Financial Market review
- SME Bank of the Year – Oman by the "Wealth & Finance International Magazine"- UK (Finest in Finance)
- Excellence in SME Financing Award at The Arab Banks Awards & Commendations of Excellence 2017 by World Union of Arab Bankers
- Brand of Excellence in SME Banking Oman 2017 by Finance Digest 2017 Brand of Excellence Program
- Best Mobile Banking Application in Oman 2016 at the World Finance Digital Banking Awards.
- Best Digital Bank in Oman 2016 at the World Finance Digital Banking Awards.

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence reposed in the Bank. I thank the shareholders for the continuous support and the Bank's staff and management for the good performance during the period.

The Board of Directors also thanks the Central Bank of Oman and the Capital Market Authority for their valuable guidance to the local banking sector and the listed companies.

Finally, the Board of Directors and all staff of the Bank would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

	Notes	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited December 2016 RO'000
Assets				
Cash and balances with Central Bank of Oman	3	255,903	383,989	265,889
Loans, advances and financing to banks	4	288,211	294,040	340,060
Loans, advances and financing to customers	5	3,175,026	2,924,496	2,988,592
Available-for-sale investments	6	36,042	37,465	36,236
Held-to-maturity investments	7	242,307	138,510	218,535
Intangible asset	8	1,291	1,688	1,589
Property and equipment	9	8,583	8,749	8,328
Other assets		63,863	99,881	92,814
Total assets		4,071,226	3,888,818	3,952,043
Liabilities				
Due to banks	10	244,292	371,090	350,549
Deposits from customers	11	3,101,549	2,790,577	2,885,189
Other liabilities		98,125	135,614	128,430
Subordinated loans	12	88,875	103,875	53,875
Total liabilities		3,532,841	3,401,156	3,418,043
Shareholders' equity				
Share capital	13	204,164	169,920	189,920
Share premium		59,618	40,018	59,618
Special reserve		18,488	18,488	18,488
Legal reserve	14	45,176	40,214	45,176
Subordinated loan reserve	14	31,550	62,025	31,550
Investment revaluation reserve	14	646	1,713	1,459
Retained earnings		63,243	39,784	72,289
Total equity attributable to the equity holders of the Bank		422,885	372,162	418,500
Perpetual Tier 1 Capital Securities	15(b)	115,500	115,500	115,500
Total equity		538,385	487,662	534,000
Total liabilities and equity		4,071,226	3,888,818	3,952,043
Nt assets per share (Rials Omani)	16	0.207	0.219	0.220
Contingent liabilities	23	997,878	1,093,048	1,045,948

The interim condensed financial statements were approved by the Board of Directors on and signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

The accompanying notes form an integral part of these interim condensed financial statements.

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

		Unaudited 9 months ended 30 September 2017 RO'000	Unaudited 9 months ended 30 September 2016 RO'000	Unaudited 3 months ended 30 September 2017 RO'000	Unaudited 3 months ended 30 September 2016 RO'000
Interest income		119,459	104,074	41,533	36,485
Interest expense		(56,551)	(34,697)	(20,904)	(15,227)
Net interest income	17	62,908	69,377	20,629	21,258
Income from islamic financing		13,555	8,926	4,972	3,363
Unrestricted investment account holders' share of profit		(7,512)	(3,765)	(2,655)	(1,841)
Net income from islamic financing activities		6,043	5,161	2,317	1,522
Fees and commission income		15,186	13,854	5,635	4,249
Fees and commission expense		(2,716)	(2,236)	(1,022)	(983)
Net fees and commission income		12,470	11,618	4,613	3,266
Other income	18	12,693	10,895	4,356	3,713
Operating income		94,114	97,051	31,915	29,759
Staff and administrative costs		(41,559)	(39,077)	(14,020)	(13,236)
Depreciation		(2,498)	(2,551)	(809)	(856)
Operating expenses		(44,057)	(41,628)	(14,829)	(14,092)
Profit from operations		50,057	55,423	17,086	15,667
Provision for loan impairment	5 & 19	(13,195)	(14,751)	(4,190)	(3,323)
Recoveries from allowance for loan impairment	5 & 19	4,412	4,291	1,339	1,232
Impairment of available-for-sale investments	19	(340)	(1,210)	-	(506)
Bad Debts Written/off		(1)	(1)	(1)	(1)
Profit from operations after provision		40,933	43,752	14,234	13,069
Income tax expense		(6,140)	(6,878)	(2,135)	(2,362)
Profit for the period		34,793	36,874	12,099	10,707
Profit for the period		34,793	36,874	12,099	10,707
Other comprehensive income:					
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>					
Net changes in fair value of available-for-sale investment		(983)	438	(229)	(27)
Reclassification adjustment on sale of available-for-sale investments		(170)	(262)	(26)	(161)
Impairment of available-for-sale investments		340	1,210	-	506
Other comprehensive income for the period		(813)	1,386	(255)	318
Total comprehensive income for the period		33,980	38,260	11,844	11,025
Earnings per share (basic and diluted) (Rials Omani)	20	0.015	0.018	0.006	0.006

The accompanying notes form an integral part of these interim condensed financial statements

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

Attributable to equity holders of Bank

	<i>Notes</i>									
	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balances as at 1st January 2017	189,920	59,618	18,488	45,176	31,550	1,459	72,289	418,500	115,500	534,000
Total comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	34,793	34,793	-	34,793
Other comprehensive income for the period										
Net change in fair value of available-for-sale investments	-	-	-	-	-	(983)	-	(983)	-	(983)
Transfer to statement of comprehensive income on sale of available-for-sale investments	-	-	-	-	-	(170)	-	(170)	-	(170)
Impairment of available-for-sale investments	-	-	-	-	-	340	-	340	-	340
Total comprehensive income for the period	-	-	-	-	-	(813)	34,793	33,980	-	33,980
Transactions with owners recorded directly in equity										
Additional Tier 1 coupon	-	-	-	-	-	-	(3,956)	(3,956)	-	(3,956)
Dividend for 2016	13	-	-	-	-	-	(25,639)	(25,639)	-	(25,639)
Bonus shares issued for 2016	13	14,244	-	-	-	-	(14,244)	-	-	-
Balances as at 30 September 2017 (Unaudited)	204,164	59,618	18,488	45,176	31,550	646	63,243	422,885	115,500	538,385

The accompanying notes form an integral part of these interim condensed financial statements.

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (CONTINUED)

Attributable to equity holders of Bank

Notes	Share	Share	Special	Legal	Subordinated	Investment	Retained	Total	Perpetual	Total
	capital	premium	reserve	reserve	loans	revaluation	earnings		Tier I	equity
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balances as at 1 January 2016	154,473	40,018	18,488	40,214	62,025	327	45,484	361,029	115,500	476,529
Total comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	36,874	36,874	-	36,874
Other comprehensive income for the period										
Net change in fair value of available-for-sale investments	-	-	-	-	-	438	-	438	-	438
Transfer to statement of comprehensive income on for-sale investments	-	-	-	-	-	(262)	-	(262)	-	(262)
Impairment of available-for-sale investments	-	-	-	-	-	1,210	-	1,210	-	1,210
Total comprehensive income for the period	-	-	-	-	-	1,386	36,874	38,260	-	38,260
Transactions with owners recorded directly in equity										
Additional Tier 1 coupon	-	-	-	-	-	-	(3,956)	(3,956)	-	(3,956)
Dividend paid for 2015	13	-	-	-	-	-	(23,171)	(23,171)	-	(23,171)
Bonus shares issued for 2015	13	15,447	-	-	-	-	(15,447)	-	-	-
Balances as at 30th September 2016	169,920	40,018	18,488	40,214	62,025	1,713	39,784	372,162	115,500	487,662
(unaudited)										

The accompanying notes form an integral part of these interim condensed financial statements.

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017 (CONTINUED)

Attributable to equity holders of Bank

	Notes	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balances as at 1 January 2016		154,473	40,018	18,488	40,214	62,025	327	45,484	361,029	115,500	476,529
Total comprehensive income for the Year											
Profit for the year		-	-	-	-	-	-	47,622	47,622	-	47,622
Other comprehensive income for the year											
Net change in fair value of available-for-sale investments		-	-	-	-	-	5	-	5	-	5
Transfer to statement of comprehensive income on sale of available-for-sale investments		-	-	-	-	-	(466)	-	(466)	-	(466)
Impairment of available-for-sale investments		-	-	-	-	-	1,593	-	1,593	-	1,593
Total comprehensive income for the year		-	-	-	-	-	1,132	47,622	48,754	-	48,754
Transfer to legal reserve	20	-	-	-	4,762	-	-	(4,762)	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	-	19,525	-	(19,525)	-	-	-
Transfer to retained earnings		-	-	-	-	(50,000)	-	50,000	-	-	-
Increase in share capital	19	20,000	-	-	-	-	-	-	20,000	-	20,000
Increase in share premium	19	-	19,600	-	-	-	-	-	19,600	-	19,600
Increase in legal reserve		-	-	-	200	-	-	-	200	-	200
Additional Tier 1 coupon		-	-	-	-	-	-	(7,912)	(7,912)	-	(7,912)
Transactions with owners recorded directly in equity											
Dividend paid for 2015	38	-	-	-	-	-	-	(23,171)	(23,171)	-	(23,171)
Bonus shares issued for 2015	38	15,447	-	-	-	-	-	(15,447)	-	-	-
Balances as at 31 December 2016		189,920	59,618	18,488	45,176	31,550	1,459	72,289	418,500	115,500	534,000

The accompanying notes form an integral part of these interim condensed financial statements.

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CASH FLOWS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000
Cash flows from operating activities		
Interest, financing income, commission and other receipts	148,351	128,421
Interest payments, return on Islamic Banking deposits	(60,460)	(30,455)
Cash payments to suppliers and employees	(42,944)	(50,704)
	<u>44,947</u>	<u>47,262</u>
Increase in operating assets		
Loans, advances and financing to customers	(195,217)	(205,654)
Loans, advances and financing to banks	23,572	(203,615)
Receipts from treasury bills and certificates of deposits (net)	(52,637)	11,632
	<u>(224,282)</u>	<u>(397,637)</u>
Increase / (decrease) in operating liabilities		
Deposits from customers	216,360	198,206
Due to banks	(106,123)	62,902
	<u>110,237</u>	<u>261,108</u>
Cash flow from/(used in) operating activities	<u>(69,098)</u>	<u>(89,267)</u>
Income tax paid	(5,733)	(6,212)
Net cash from/(used in) operating activities	<u>(74,831)</u>	<u>(95,479)</u>
Cash flows from/(used in) investing activities		
Investment income	5,481	2,604
Purchase of investments	(9,124)	(4,278)
Proceeds from sale of investments	8,165	4,001
Dividend received	352	710
Purchase of property and equipment	(2,498)	(2,728)
Proceeds from sale of property and equipment	56	268
Net cash from/(used in) investing activities	<u>2,432</u>	<u>577</u>
Cash flow used in financing activities		
Dividend	(25,639)	(23,171)
Additional tier 1 coupon	(3,956)	(3,956)
Subordinated debts loan	35,000	-
Net cash used in financing activities	<u>5,405</u>	<u>(27,127)</u>
Net change in cash and cash equivalents	<u>(66,994)</u>	<u>(122,029)</u>
Cash and cash equivalents at the beginning of the period	<u>345,500</u>	<u>518,553</u>
Cash and cash equivalents at the end of the period	<u>278,506</u>	<u>396,524</u>
Cash and balances with Central Bank of Oman (Note 3)	255,903	383,989
Capital deposit with Central Bank of Oman	(500)	(500)
Loans, advances and financing to banks due within 90 days	23,887	14,048
Treasury bills within 90 days	-	-
Due to banks within 90 days	(784)	(1,013)
Cash and cash equivalents for the purpose of the statement of cash flows	<u>278,506</u>	<u>396,524</u>

The accompanying notes form an integral part of these interim condensed financial statements.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the "Bank") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank's Islamic Banking Window, Maisarah Islamic Banking Services has an allocated capital of RO 55 million from the core paid up capital of the shareholders. The Bank has a primary listing on the Muscat Securities Market ("MSM") and the Bank's Perpetual Tier 1 Capital Securities are listed on Irish Stock Exchange. The principal place of business is the Head Office, Capital Business District ("CBD"), Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman.

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of CBO. The IBW's financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial instruments at fair value through profit and loss and available-for-sale financial assets which are measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

2.3 Functional and presentation currency

Items included in the Bank's financial statements are measured using Rial Omani which is the currency of the primary economic environment in which the Bank operates, rounded off to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

2 BASIS OF PREPARATION (*continued*)

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

For the year ended 31 December 2016, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2016.

Adoption of new and revised International Financial Reporting Standards ("IFRS")

The following new standards and amendments became effective as of 1 January 2016:

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
- Annual Improvements 2012-2014 Cycle
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
 - IFRS 7 Financial Instruments: Disclosures,
 - IAS 19 Employee Benefits
 - IAS 34 Interim Financial Reporting

The adoption of those standards and interpretations has not resulted in any major changes to the Bank's accounting policies and has not affected the amounts reported for the current and prior periods.

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

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2016:

- IFRS 9, Financial Instruments - Hedge accounting: effective for annual periods commencing 1 January 2018;
- IFRS 15, Revenue from Contracts with Customers: effective for annual periods commencing 1 January 2018;
- IFRS 16, Leases: effective for annual periods commencing 1 January 2019;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 12 Income Taxes
- Amendments to IAS 7 Statement of Cash Flows

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

2 BASIS OF PREPARATION (*continued*)

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The application of IFRS 9 may have significant impact on amounts reported in the financial statements and will result in more extensive disclosures in the financial statements. The Bank plans to adopt the new standard on the required effective date. However, the Bank is currently in the process of evaluating and implementing the required changes in its systems, policies and processes to comply with IFRS 9 and regulatory requirements, and hence it is not practical to disclose a reliable quantitative impact until the implementation programme is further advanced.

(a) Classification and measurement

The Bank does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and there will be no material change to the accounting for these assets. Equity instruments currently classified as AFS for which a FVOCI election is available. Debt instruments currently classified as held-to-maturity and measured at amortised cost which appear to meet the conditions for classification at amortised cost under IFRS 9.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Bank expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Bank expects that these will continue to be measured at amortised cost under IFRS 9.

There will be no material impact on the Bank accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities.

(b) Impairment

The Bank completed initial impact assessment and overall, the Bank expect no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. While the Bank has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses and provisions would be more volatile.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

2 BASIS OF PREPARATION (*continued*)

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

IFRS 9 Financial Instruments (*continued*)

(c) Hedge accounting

The Bank believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9. The Bank will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 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. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plan to adopt the new standard on the required effective date. The Bank is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

IFRS 16 Leases

The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The Bank will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

3. Cash and balances with Central Bank of Oman

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Cash on hand	27,710	37,846	29,919
Balances with the Central Bank of Oman	198,933	99,743	131,961
Placements with Central Bank of Oman	29,260	246,400	104,009
	<u>255,903</u>	<u>383,989</u>	<u>265,889</u>

At 30 September 2017 cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (30 September 2016- RO 500,000 and 31 December 2016 – RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

4. Loans, advances and financing to banks

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Syndicated loans to other banks	51,205	64,238	51,590
Less: impairment allowance (collective)	<u>(409)</u>	<u>(409)</u>	<u>(409)</u>
	50,796	63,829	51,181
Placements with other banks	228,928	222,708	271,355
Current clearing accounts	8,487	7,503	17,524
Net loans, advances and financing	<u>288,211</u>	<u>294,040</u>	<u>340,060</u>

At 30 September 2017 No Placements with any Bank's represent 20% or more of the Bank's placements (30 September 2016: Nil) and 31 December 2016 – one local bank).

Movement of the impairment allowance is set out below:

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Balance at beginning of the period / year	409	409	409
Add: Additions during the period / year	-	-	-
Less: Reversal during the period / year	-	-	-
	<u>409</u>	<u>409</u>	<u>409</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

5. Loans, advances and financing to customers

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Overdrafts	169,318	161,987	146,303
Loans	2,542,960	2,381,329	2,431,536
Loans against trust receipts	131,814	118,371	113,992
Bills discounted	17,577	11,331	20,817
Advance against credit cards	8,295	7,890	7,746
Others	55,772	67,561	75,522
Islamic Banking Window financing	382,577	289,049	311,558
Gross Loans, advances and financing	3,308,313	3,037,518	3,107,474
Less: Impairment allowance	(133,287)	(113,022)	(118,882)
Net loans, advances and financing	3,175,026	2,924,496	2,988,592

The movement in the impairment allowance is analysed below:

(a) Allowance for loan impairment

Balance at beginning of the period / year	79,242	64,810	64,810
Allowance made during the period / year	13,195	14,751	19,925
Released to the statement of comprehensive income during the period / year	(4,412)	(4,291)	(5,364)
Written off during the period / year	(36)	(114)	(129)
Balance at the end of the period / year	87,989	75,156	79,242

(b) Reserved interest

Balance at beginning of the period / year	39,640	33,808	33,808
Reserved during the period / year	6,328	5,050	7,004
Released to the statement of comprehensive income during the period / year	(562)	(701)	(824)
Written-off during the period / year	(108)	(291)	(348)
Balance at the end of the period / year	45,298	37,866	39,640

Total impairment allowance

	133,287	113,022	118,882
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As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

Proposals for waivers/write-off are not formula driven and are decided on a case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Bank aims to recover the maximum value through enforcement of collaterals/guarantees of guarantors, etc.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

5. Loans, advances and financing to customers (continued)

Interest/financial income is reserved by the Bank against loans, advances and finances which are impaired.

Out of the total provisions of RO **133,287** thousand (30 September 2016 – RO 113,022 thousand (31 December 2016 – RO 118,882 thousand), a collective provision was recorded on a portfolio basis amounting to RO **42,180** thousand as of 30 September 2017 (30 September 2016 - RO 40,048 thousand, 31 December 2016 - RO 41,700 thousand).

At 30 September 2017, impaired loans and advances on which interest has been reserved amount to RO **97,946** thousand (30 September 2016 – RO 78,464 thousand, 31 December 2016 - RO 83,644 thousand and loans and advances on which interest is not being accrued amount to **RO 1,592** thousand (30 September 2016 - RO 1,612 thousand, 31 December 2016 – RO 1,531 thousand).

6. Available-for-sale investments

	Unaudited 30 September 2017		Unaudited 30 September 2016		Audited 31 December 2016	
	Cost RO'000	Fair value RO'000	Cost RO'000	Fair value RO'000	Cost RO'000	Fair value RO'000
A) Equity instruments Quoted on the Muscat Securities Market						
Financial	447	429	720	726	655	657
Industrial	2,124	2,033	5,645	6,455	4,631	5,191
Services	2,060	2,221	8,240	8,313	7,343	7,676
Equity Funds – Quoted – Foreign	-	-	-	-	-	-
Quoted debt/sukuk	-	-	193	190	308	269
Foreign fixed income & bonds	5,545	5,570	2,719	2,793	3,619	3,542
Local fixed income & bonds	963	977	13	32	13	32
Total quoted investments	11,139	11,230	17,530	18,509	16,569	17,367
Un-quoted equity						
Local securities	1	1	3	3	3	3
Unit funds	2,118	2,475	1,856	2,392	1,842	2,305
Total Un-Quoted Investments	2,119	2,476	1,859	2,395	1,845	2,308
Total available-for-sale	13,258	13,706	19,389	20,904	18,414	19,675
B) Quoted Debt/Sukuk						
Local listed sukuk	10,000	10,198	10,000	10,198	10,000	10,198
Sovereign sukuk	12,138	12,138	6,363	6,363	6,363	6,363
Total Quoted Investments	35,396	36,042	35,752	37,465	34,777	36,236

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

7. Held-to-maturity investments

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Treasury bills with maturity of above 90 days	24,944	-	28,865
Government Development Bonds	207,363	128,510	179,670
	232,307	128,510	208,535
Local quoted sukuk Govt.	10,000	10,000	10,000
	242,307	138,510	218,535

8. Intangible asset

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Goodwill net of impairment	1,291	1,688	1,589

Intangible asset represents goodwill which resulted from the acquisition of branches of the Commercial Bank of Oman in the year 2001 and merger with Majan International Bank in the year 2003. Goodwill is tested for impairment each year. An assessment has been made to establish projected future cash flows associated with the cash generating unit (CGU) by using discount rate equivalent to cost of funds of the Bank.

9. Property and equipment

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Conventional	7,261	7,252	6,854
Islamic window	1,322	1,497	1,474
	8,583	8,749	8,328

10. Due to banks

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Interbank borrowings	243,508	369,987	349,631
Payable on demand	784	1,103	918
	244,292	371,090	350,549

At 30 September 2017, **no** borrowing with any banks represented 20% or more of the Bank's total inter-bank borrowings (30 September 2016: Nil) 31 December 2016: one bank). The Bank has not had any defaults of principal, interest or other breaches during the period / year on its borrowed funds.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

11. Deposits from customers

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Current accounts	659,164	633,008	625,947
Savings accounts	437,171	431,817	431,312
Time deposits / certificate of deposits	1,600,298	1,415,273	1,487,674
Margin accounts	49,974	59,198	54,582
Islamic Banking Window deposits	354,942	251,281	285,674
	<u>3,101,549</u>	<u>2,790,577</u>	<u>2,885,189</u>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,280,537 thousand (30 September 2016 - RO 1,131,492 thousand, 31 December 2016 – RO 1,148,429 thousand).

12. Subordinated loan

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Subordinated loan - US Dollar	28,875	28,875	28,875
Subordinated loan - RO	60,000	75,000	25,000
	<u>88,875</u>	<u>103,875</u>	<u>53,875</u>

In May 2017, the Bank availed RO 35 million unsecured subordinated loan for a tenor of 66 months. This facility carries a fixed rate of interest payable half yearly with principle being repaid on maturity.

In December 2016, the bank has repaid the unsecured subordinated loan amounting to RO 50 million upon maturity.

In September 2014, the Bank availed USD 75 million (RO 28.875 million) unsecured subordinated loan for a tenor of 66 months. This facility carries a fixed rate of interest payable half yearly, with principal being repaid on maturity.

In December 2012, the Bank availed RO 25 million unsecured subordinated loan from the major shareholders for a tenor of 5 years and one month. This facility carries a fixed rate of interest payable half yearly with principle being repaid on maturity.

13. Share capital

The authorised share capital consists of 5,000,000,000 ordinary shares of RO 0.100 each (2016: 2,200,000,000,000 shares of RO 0.100 each).

The shareholders of the Bank in the annual general meeting held during March 2017 approved the issuance of 7.5% bonus shares comprising 142,440,105 shares of par value RO 0.100 each (2016: 154,472,855 shares of par value RO 0.100 each) and 13.5% (2016 – 15%) as cash dividend of the paid share capital of the Bank amounting to RO 25,639 thousand for the year ended 31 December 2016 (2016 – RO 23,171 thousand for the year ended 31 December 2015).

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

13. Share capital (continued)

The shareholders of Bank in Extraordinary General Meeting held during March 2017 approved increase of authorised Capital from 2,200,000,000 shares of RO. 0.100 each total RO 220million to 5,000,000,000 shares of RO 0.100 each total RO 500million.

Shareholders

The following shareholders of the Bank own 10% or more of the Bank's share capital:

	Unaudited 30 September 2017		Unaudited 30 September 2016		Audited 31 December 2016	
	No of shares	%	No of shares	%	No. of shares	%
Dhofar International Development and Investment Company SAOG	571,659,616	28.0%	475,776,389	28.0%	531,776,387	28.0%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	429,497,049	21.0%	354,091,345	20.8%	399,532,141	21.0%
Civil Service Employees Pension Fund	212,083,566	10.4%	175,757,262	10.4%	197,232,693	10.4%
Total	1,213,240,231	59.4%	1,005,624,996	59.2%	1,128,541,221	59.4%
Others	828,401,275	40.6%	693,576,405	40.8%	770,660,180	40.6%
	2,041,641,506	100.0%	1,699,201,401	100.0%	1,899,201,401	100%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 55 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 30th September 2017.

On 21st of February 2016 Maisarah's paid-up capital was increased from RO 40 million to RO 55 Million from Banks its shareholders core capital.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

14. Reserves (continued)

(a) Legal reserve

In the year 2016 the Bank has received RO 400 thousand towards share issue expenses and the Bank has incurred RO 200 thousand for the same. Accordingly, excess of receipts over expenses amounting to RO 200 thousand towards share issue expenses was transferred to legal reserve. In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

(b) Subordinated loan reserves

Consistent with the Bank for International Settlement ("BIS") Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan. The amount of the reserve will be transferred to retained earnings through the statement of changes in equity upon settlement of the subordinated loan.

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Balance at beginning of the period / year	1,459	327	327
Increase/decrease in fair value	(983)	438	5
Net transfer to profit or loss on sale of available-for-sale investments	(170)	(262)	(466)
Impairment of available-for-sale investment	340	1,210	1,593
Balance at the end of the period / year	<u>646</u>	<u>1,713</u>	<u>1,459</u>

15. Perpetual Tier 1 Capital Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000.

The Tier 1 Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

The Bank at its sole discretion may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 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 Securities unless and until it has paid one interest payment in full on the Tier 1 Securities. The Tier 1 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.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

16. Net assets per share

Net assets per share are calculated by dividing the net assets attributable to equity holders of the bank at the period / year end by the number of shares outstanding at period / year end as follows:

	Unaudited 30 September 2017	Unaudited 30 September 2016	Audited 31 December 2016
Net assets (RO'000)	422,885	372,162	418,500
Number of shares outstanding during of the period / year	2,041,641,506	1,699,201,401	1,899,201,401
Net assets per share (RO)	0.207	0.219	0.220

17. Net interest income

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000
Loans, advances and financing to customers	113,827	101,057
Debt investments	128	61
Money market placements	5,489	2,948
Others	15	8
Total interest income	119,459	104,074
Deposits from customers	(50,736)	(31,127)
Money market deposits	(5,815)	(3,570)
Total interest expense	(56,551)	(34,697)
Net interest income	62,908	69,377

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

18. Other income

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000
Foreign exchange	3,474	4,030
Investment income (a)	7,040	4,688
Miscellaneous income	<u>2,179</u>	<u>2,177</u>
	<u>12,693</u>	<u>10,895</u>

(a) Investment income

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000
Investment income		
Dividend income- available-for-sale investments	352	710
Income on Sukuk	892	810
Gain on disposal of available-for-sale investments	188	460
Interest income on Government Development Bonds/Other bonds	<u>5,608</u>	<u>2,708</u>
	<u>7,040</u>	<u>4,688</u>

19. Impairment of financial assets

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000
Provision for loan impairment	13,195	14,751
Impairment of available-for-sale investments	<u>340</u>	<u>1,210</u>
	13,535	15,961
Recoveries from provision for loan impairment	<u>(4,412)</u>	<u>(4,291)</u>
	<u>9,123</u>	<u>11,670</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

20. Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the nine month period ended 30 September 2017 attributable to ordinary shareholders as follows:

	Unaudited 30 September 2017	Unaudited 30 September 2016
Profit for the year (RO)	34,793	36,874
Less : Additional Tier 1 Coupon	(3,956)	(3,956)
	<u>30,837</u>	<u>32,918</u>
Profit for the period attributable to equity holders of the bank after coupon and issuance cost on Tier 1 capital securities		
	2,070,044,003	1,870,044,003
Number of shares outstanding at the end of the period	<u>0.015</u>	<u>0.018</u>
Earnings per share basic and diluted (RO)	<u>0.015</u>	<u>0.018</u>

Earnings per share (basic and diluted) have been derived by dividing the profit for the period attributable to equity holders of the bank after coupon on Tier I capital securities by the number of shares outstanding. As there are no dilutive potential shares issued by Bank, the diluted earnings per share is identical to the basic earnings per share.

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding to include the 7.5% bonus shares of 142,440,105 shares issued in the first quarter of 2017.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

21. Related parties transactions

In the ordinary course of business, the Bank conducts transactions with certain of its Directors, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Loans, advances and financing			
Directors and shareholders holding 10% or more interest in the Bank	38,250	45,831	52,880
Other related parties	15,459	12,185	11,667
	53,709	58,016	64,547
Subordinated loans			
Directors and shareholders holding 10% or more interest in the Bank	36,663	48,663	21,663
Other related parties	31,775	40,775	17,775
	68,438	89,438	39,438
Deposits and other accounts			
Directors and shareholders holding 10% or more interest in the Bank	185,246	139,149	264,633
Other related parties	153,236	100,352	139,414
	338,482	239,501	404,047
Contingent liabilities and commitments			
Directors and shareholders holding 10% or more interest in the Bank	856	153	793
Other related parties	2,696	1,932	2,210
	3,552	2,085	3,003
Remuneration paid to Directors			
Chairman			
– remuneration paid	16	16	16
– sitting fees paid	9	10	10
Other Directors			
– remuneration paid	107	103	107
– sitting fees paid	58	61	67
	190	190	200
Other transactions			
Rental payment to related parties	363	355	471
Other transactions	66	71	84
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	46	36	43

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

22. Senior member borrowing

The details of senior member borrowings as per the guidance available in regulatory requirements of Central Bank of Oman are set out as follows:

Senior member of the bank

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Total exposure:			
Direct	58,910	62,308	69,126
Indirect	<u>3,523</u>	<u>2,085</u>	<u>3,003</u>
	62,433	64,393	72,129
Number of members	33	28	29

23. Contingent liabilities

Letters of credit and guarantees for which there are corresponding customer liabilities:

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Letters of credit	131,459	141,709	125,671
Guarantees and performance bonds	866,419	951,339	920,277
	997,878	1,093,048	1,045,948

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

24. Risk Management

The interim disclosures prepared as per guidance available in regulatory requirements of the Central Bank of Oman are set out as follows:

(i) Liquidity risk

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
30 September 2017						
Cash and balances with Central Bank of Oman	255,403	-	-	-	500	255,903
Loans, advances and financing to banks	104,423	134,242	49,546	-	-	288,211
Loans, advances and financing to customers	263,849	377,309	144,428	771,249	1,618,191	3,175,026
Available-for-sale investments	-	-	13,706	16,561	5,775	36,042
Held-to-maturity investments	24,944	12,204	-	99,355	105,804	242,307
Intangible asset	-	-	-	-	1,291	1,291
Property and equipment	-	-	-	-	8,583	8,583
Other assets	13,339	34,358	7,857	88	8,221	63,863
Total assets	661,958	558,113	215,537	887,253	1,748,365	4,071,226
Due to banks	28,884	61,408	154,000	-	-	244,292
Deposits from customers	284,102	524,332	505,806	1,118,705	668,604	3,101,549
Other liabilities	38,290	35,112	14,751	9,033	939	98,125
Subordinated loans	-	25,000	-	28,875	35,000	88,875
Total equity	-	34,793	-	115,500	388,092	538,385
Total liabilities and equity	351,276	680,645	674,557	1,272,113	1,092,635	4,071,226

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

24. Risk Management (continued)

(i) Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
30 September 2016						
Cash and balances with Central Bank of Oman	383,489	-	-	-	500	383,989
Loans, advances and financing to banks	54,623	159,248	70,388	9,781	-	294,040
Loans, advances and financing to customers	252,094	353,090	151,273	722,399	1,445,640	2,924,496
Available-for-sale investments	-	-	20,904	16,561	-	37,465
Held-to-maturity investments	-	7,186	-	102,580	28,744	138,510
Intangible asset	-	-	-	-	1,688	1,688
Property and equipment	-	-	-	-	8,749	8,749
Other assets	64,111	18,114	9,136	29	8,491	99,881
Total assets	754,317	537,638	251,701	851,350	1,493,812	3,888,818
Due to banks	88,929	39,611	23,100	219,450	-	371,090
Deposits from customers	284,044	557,395	365,069	1,009,094	574,975	2,790,577
Other liabilities	88,344	25,837	9,981	9,682	1,770	135,614
Subordinated loans	-	50,000	-	25,000	28,875	103,875
Total equity	-	36,874	-	-	450,788	487,662
Total liabilities and equity	461,317	709,717	398,150	1,263,226	1,056,408	3,888,818

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

24. Risk Management (continued)

(i) Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2016						
Cash and balances with Central Bank of Oman	265,389	-	-	-	500	265,889
Loans and advances to banks	93,107	178,227	58,971	9,755	-	340,060
Loans and advances to customers	302,854	335,752	170,409	742,836	1,436,741	2,988,592
Available-for-sale investments	-	-	19,675	16,561	-	36,236
Held-to-maturity investments	9,615	19,250	12,251	89,523	87,896	218,535
Intangible asset	-	-	-	-	1,589	1,589
Property and equipment	-	-	-	-	8,328	8,328
Other assets	17,540	67,387	480	60	7,347	92,814
Total assets	688,505	600,616	261,786	858,735	1,542,401	3,952,043
Due to banks	68,708	81,641	200,200	-	-	350,549
Deposits from customers	361,007	457,994	434,291	1,027,239	604,658	2,885,189
Other liabilities	38,239	79,003	1,298	6,707	3,183	128,430
Subordinated loans	-	-	-	53,875	-	53,875
Total equity	-	47,622	-	115,500	370,878	534,000
Total liabilities and shareholders' equity	467,954	666,260	635,789	1,203,321	978,719	3,952,043

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

24. Risk Management (continued)

(ii) Market risk

(a) Interest rate risk

Interest rate sensitivity gap

	EIR	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
30 September 2017								
Cash and balances with Central Bank of Oman	0.1%	29,260	-	-	-	500	226,143	255,903
Loans, advances and financing to banks	1.7%	106,946	180,787	-	-	-	478	288,211
Loans, advances and financing to customers	5.5%	589,401	1,124,670	117,903	713,416	629,636	-	3,175,026
Available-for-sale investments	4.7%	-	-	-	16,561	5,775	13,706	36,042
Held-to-maturity investments	3.5%	24,944	12,204	-	99,354	105,805	-	242,307
Intangible asset	-	-	-	-	-	-	1,291	1,291
Property and equipment	-	-	-	-	-	-	8,583	8,583
Other assets	-	-	-	-	-	-	63,863	63,863
Total assets		750,551	1,317,661	117,903	829,331	741,716	314,064	4,071,226
Due to banks	2.6%	242,559	1,733	-	-	-	-	244,292
Deposits from customers	2.4%	149,536	413,647	469,265	979,375	42,443	1,047,283	3,101,549
Other liabilities	-	-	-	-	-	-	98,125	98,125
Subordinated loans	5.5%	-	25,000	-	28,875	35,000	-	88,875
Total equity	-	-	34,793	-	115,500	-	388,092	538,385
Total liabilities and equity		392,095	475,173	469,265	1,123,750	77,443	1,533,500	4,071,226
On-balance sheet gap		358,456	842,488	(351,362)	(294,419)	664,273	(1,219,436)	
Cumulative interest sensitivity gap		358,456	1,200,944	849,582	555,163	1,219,436	-	

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

24. Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

(b) Interest rate sensitivity gap (continued)

	EIR	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
30 September 2016								
Cash and balances with Central Bank of Oman	0.4%	246,400	-	-	-	500	137,089	383,989
Loans, advances and financing to banks	0.9%	54,623	239,417	-	-	-	-	294,040
Loans, advances and financing to customers	5.2%	529,344	1,057,265	100,545	662,648	574,694	-	2,924,496
Available-for-sale investments	4.7%	-	-	-	16,561	-	20,904	37,465
Held-to-maturity investments	2.6%	-	7,186	-	102,581	28,743	-	138,510
Intangible asset	-	-	-	-	-	-	1,688	1,688
Property and equipment	-	-	-	-	-	-	8,749	8,749
Other assets	-	-	-	-	-	-	99,881	99,881
Total assets		830,367	1,303,868	100,545	781,790	603,937	268,311	3,888,818
Due to banks	1.5%	342,259	24,981	3,850	-	-	-	371,090
Deposits from customers	1.6%	149,639	426,724	322,781	826,536	40,657	1,024,240	2,790,577
Other liabilities	-	-	-	-	-	-	135,614	135,614
Subordinated loans	5.2%	-	50,000	-	53,875	-	-	103,875
Total equity	-	-	36,874	-	115,500	-	335,288	487,662
Total liabilities and equity		491,898	538,579	326,631	995,911	40,657	1,495,142	3,888,818
On-balance sheet gap		338,469	765,288	(226,085)	(214,121)	563,280	(1,226,831)	
Cumulative interest sensitivity gap		338,469	1,103,757	877,672	663,551	1,226,831	-	

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

24. Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

	EIR	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2016								
Cash and balances with Central Bank of Oman	0.05 %	104,009	-	-	-	500	161,380	265,889
Loans, advances and financing to banks	1.0%	95,582	243,103	-	-	-	1,375	340,060
Loans, advances and financing to customers	5.2%	557,530	1,067,794	104,217	684,477	574,574	-	2,988,592
Available-for-sale Investments	4.8%	-	-	-	16,561	-	19,675	36,236
Held-to-maturity investments	2.5%	9,615	19,250	12,251	89,523	87,896	-	218,535
Intangible asset		-	-	-	-	-	1,589	1,589
Property and equipment		-	-	-	-	-	8,328	8,328
Other assets		-	-	-	-	-	92,814	92,814
Total assets		766,736	1,330,147	116,468	790,561	662,970	285,161	3,952,043
Due to banks	1.7%	314,338	36,211	-	-	-	-	350,549
Deposits from customers	1.8%	208,345	337,152	428,310	853,439	30,110	1,027,833	2,885,189
Other liabilities		-	-	-	-	-	128,430	128,430
Subordinated loan	5.3%	-	-	-	53,875	-	-	53,875
Shareholders' equity		-	47,622	-	115,500	-	370,878	534,000
Total liabilities and equity		522,683	420,985	428,310	1,022,814	30,110	1,527,141	3,952,043
On-balance sheet gap		244,053	909,162	(311,842)	(232,253)	632,860	(1,241,980)	
Cumulative interest sensitivity gap		244,053	1,153,215	841,373	609,120	1,241,980	-	

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

24. Risk Management (continued)

(ii) Market risk (continued)

(b) Foreign currency exposures

	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Net assets denominated in US Dollars	86,974	77,781	22,165
Net assets denominated in other foreign currencies	705	15,923	4,845
	<u>87,679</u>	<u>93,704</u>	<u>27,010</u>

(iii) Credit Risk

Customer concentrations

	Assets			Liabilities		
	Gross loans and advances to banks RO'000	Gross loans and advances RO'000	Investment Securities RO'000	Deposits from customers RO'000	Deposits to banks RO'000	Contingent liabilities RO'000
30 September 2017						
Personal	-	1,485,697	-	608,843	-	211
Corporate	288,620	1,647,948	22,958	1,212,169	244,292	981,559
Government	-	174,668	255,391	1,280,537	-	16,108
	<u>288,620</u>	<u>3,308,313</u>	<u>278,349</u>	<u>3,101,549</u>	<u>244,292</u>	<u>997,878</u>
30 September 2016						
Personal	-	1,371,892	-	585,257	-	252
Corporate	294,449	1,665,524	27,267	1,073,828	371,090	1,081,418
Government	-	102	148,708	1,131,492	-	11,378
	<u>294,449</u>	<u>3,037,518</u>	<u>175,975</u>	<u>2,790,577</u>	<u>371,090</u>	<u>1,093,048</u>
31 December 2016						
Personal	-	1,393,700	-	601,045	-	195
Corporate	340,469	1,593,796	58,738	1,135,715	350,549	1,039,701
Government	-	119,978	196,033	1,148,429	-	6,052
	<u>340,469</u>	<u>3,107,474</u>	<u>254,771</u>	<u>2,885,189</u>	<u>350,549</u>	<u>1,045,948</u>

25. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year.

The capital base of the Bank consists of debt, which includes borrowings and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

25. Capital risk management (continued)

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for Nine month period ended 30 September 2017 is **14.61%** (30 September 2016 – 13.84%, 31 December 2016 - 14.41%).

Capital structure	Unaudited 30 September 2017 RO'000	Unaudited 30 September 2016 RO'000	Audited 31 December 2016 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL			
Paid up capital	204,164	169,920	189,920
Legal reserve	45,176	40,214	45,176
Share premium	59,618	40,018	59,618
Special reserve	18,488	18,488	18,488
Subordinated bonds and loan reserve	31,550	62,025	31,550
Retained earnings	28,450	2,910	32,406
Proposed bonus shares	-	-	14,244
CET I/Tier I Capital	387,446	333,575	391,402
Additional Tier I regulatory adjustments:			
Deferred tax Assets	(62)	(62)	(62)
Goodwill	(1,291)	(1,688)	(1,589)
Negative investment revaluation reserve	(218)	(329)	(196)
Total CET 1 capital	385,875	331,496	389,555
additional Tier I capital (AT1)	115,500	115,500	115,500
Total Tier 1 Capital (T1=CET1+AT1)	501,375	446,996	505,055
TIER II CAPITAL			
Investment revaluation reserve	282	788	682
Collective provision	42,589	40,456	42,109
Subordinated loan	57,325	33,100	22,325
Total Tier II capital	100,196	74,344	65,116
Total eligible capital	601,571	521,340	570,171
Risk weighted assets			
Banking book	3,843,363	3,605,102	3,674,545
Trading book	48,471	63,801	56,817
Operational risk	224,316	198,703	224,316
Total	4,116,150	3,867,606	3,955,678
Total Tier 1 Capital (T1=CET1+AT1)	501,375	446,996	505,055
Tier II capital	100,196	74,344	65,116
Tier III capital	-	-	-
Total regulatory capital	601,571	521,340	570,171
Common Equity Tier 1 ratio	9.37%	8.57%	9.85%
Tier I capital ratio	12.18%	11.56%	12.77%
Total capital ratio	14.61%	13.48%	14.41%

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THENINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

26. Fair value information

The fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values and the related details are set out below:

As of 30 September 2017	Loans and receivables RO'000	Available- for-sale RO'000	Held-to- maturity RO'000	Other amortised cost RO'000	Total carrying value RO'000	Fair value RO'000
Cash and balances with Central Bank of Oman	255,903	-	-	-	255,903	255,903
Loan, advances and financing to banks	288,211	-	-	-	288,211	288,211
Loan, advances and financing to customers	3,175,026	-	-	-	3,175,026	3,175,026
Available-for-sale investments	-	36,042	-	-	36,042	36,042
Held-to-maturity investments	-	-	242,307	-	242,307	242,307
	3,719,140	36,042	242,307	-	3,997,489	3,997,489
Due to banks	-	-	-	-	244,292	244,292
Deposits from customers	-	-	-	-	3,101,549	3,101,549
Subordinated loans	-	-	-	-	88,875	88,875
	-	-	-	-	3,434,716	3,434,716
As of 30 September 2016	Loans and receivables RO'000	Available-for- sale RO'000	Held-to- maturity RO'000	Other amortised cost RO'000	Total carrying value RO'000	Fair value RO'000
Cash and balances with Central Bank of Oman	383,989	-	-	-	383,989	383,989
Loan, advances and financing to banks	294,040	-	-	-	294,040	294,040
Loan, advances and financing to customers	2,924,496	-	-	-	2,924,496	2,924,496
Available-for-sale investments	-	37,465	-	-	37,465	37,465
Held-to-maturity investments	-	-	138,510	-	138,510	138,510
	3,602,525	37,465	138,510	-	3,778,500	3,778,500
Due to banks	-	-	-	371,090	371,090	371,090
Deposits from customers	-	-	-	2,790,577	2,790,577	2,790,577
Subordinated loans	-	-	-	103,875	103,875	103,875
	-	-	-	3,265,542	3,265,542	3,265,542

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

26. Fair value information (continued)

As of 31 December 2016	Loans and receivables	Available- for-sale	Held-to- maturity	Other amortised cost	Total carrying value	Fair value
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	265,889	-	-	-	265,889	265,889
Loan, advances and financing to banks	340,060	-	-	-	340,060	340,060
Loan, advances and financing to customers	2,988,592	-	-	-	2,988,592	2,988,592
Available-for-sale investments	-	36,236	-	-	36,236	36,236
Held-to-maturity investments	-	-	218,535	-	218,535	218,535
	<u>3,594,541</u>	<u>36,236</u>	<u>218,535</u>	<u>-</u>	<u>3,849,312</u>	<u>3,849,312</u>
Due to banks	-	-	-	350,549	350,549	350,549
Deposits from customers	-	-	-	2,885,189	2,885,189	2,885,189
Subordinated loans	-	-	-	53,875	53,875	53,875
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,289,613</u>	<u>3,289,613</u>	<u>3,289,613</u>

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 September 2017	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Assets				
Available-for-sale investments				
Equity/ fixed income instruments	10,550	3,156	-	13,706
Sukuk	12,138	10,198	-	22,336
Total assets	<u>22,688</u>	<u>13,354</u>	<u>-</u>	<u>36,042</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

26. Fair value information (continued)

At 30 September 2016	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Assets				
<i>Available-for-sale investments</i>				
Equity instruments	18,509	2,395	-	20,904
Sukuk	6,363	10,198	-	16,561
Total assets	<u>24,872</u>	<u>12,593</u>	<u>-</u>	<u>37,465</u>
At 31 December 2016	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Assets				
<i>Available-for-sale investments</i>				
Equity instruments	17,367	-	2,308	19,675
Sukuk	6,363	10,198	-	16,561
Total assets	<u>23,730</u>	<u>10,198</u>	<u>2,308</u>	<u>36,236</u>

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index process and expected price volatilities and correlations.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

26. (b) Derivative financial instruments

At 30 September 2017

	Contract / notional amount RO'000	Fair value increase / decrease	
		Assets RO'000	Liabilities RO'000
Derivatives:			
Currency forward - purchase contracts	700,762	-	229
Currency forward - sales contracts	696,228	564	-
Interest rate swaps	97,509	6,611	6,766
Currency options – bought	1,358	1	-
Currency options – sold	1,358	-	1

At 30 September 2016

	Contract / notional amount RO'000	Fair value increase / decrease	
		Assets RO'000	Liabilities RO'000
Derivatives:			
Currency forward - purchase contracts	505,423	1,280	-
Currency forward - sales contracts	501,626	-	317

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

26. (b) Derivative financial instruments

At 31 December 2016	Contract / notional amount RO'000	Fair value increase / decrease	
		Assets RO'000	Liabilities RO'000
<i>Derivatives:</i>			
Currency forward - purchase contracts	493,998	175	-
Currency forward - sales contracts	490,450	-	791
Forward rate agreements	9,625	-	2
Interest rate swaps	15,400	167	154
Currency options – bought	4,474	215	-
Currency options – sold	4,474	-	215

27. Segmental information

The Bank is organised into three main business segments:

- Retail banking – incorporating private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and
- Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and borrowings.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

27. Segmental information (continued)

At 30 September 2017	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	63,560	63,524	5,930	133,014
Other revenues	4,063	10,383	10,717	25,163
Segment operating revenues	<u>67,623</u>	<u>73,907</u>	<u>16,647</u>	<u>158,177</u>
Interest, Islamic Window Deposit expenses	<u>(25,929)</u>	<u>(33,607)</u>	<u>(4,527)</u>	<u>(64,063)</u>
Net operating income	41,694	40,300	12,120	94,114
Segment cost				
Operating expenses including depreciation	(21,251)	(19,390)	(3,416)	(44,057)
Impairment for loans and investment net recoveries from allowance for loans impairment	(7,020)	(1,764)	(340)	(9,124)
Profit from operations after provision	<u>13,423</u>	<u>19,146</u>	<u>8,364</u>	<u>40,933</u>
Tax expenses	<u>(2,013)</u>	<u>(2,872)</u>	<u>(1,255)</u>	<u>(6,140)</u>
Profit for the period	<u>11,410</u>	<u>16,274</u>	<u>7,109</u>	<u>34,793</u>
Segment assets	1,605,283	1,982,452	617,060	4,204,795
Less: Impairment allowance	<u>(63,543)</u>	<u>(69,617)</u>	<u>(409)</u>	<u>(133,569)</u>
Total segment assets	<u>1,541,740</u>	<u>1,912,835</u>	<u>616,651</u>	<u>4,071,226</u>
Segment liabilities	<u>640,405</u>	<u>2,558,991</u>	<u>333,445</u>	<u>3,532,841</u>

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30th SEPTEMBER 2017

27. Segmental information (continued)

Included in the above segment information the results of Islamic Banking Window as below:

At 30 September 2017	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	5,274	8,191	90	13,555
Other revenues	145	483	1,142	1,770
	<u>5,419</u>	<u>8,674</u>	<u>1,232</u>	<u>15,325</u>
Segment operating revenues	5,419	8,674	1,232	15,325
Profit expenses	(320)	(6,916)	(276)	(7,512)
holders' share of profit				
Net operating income	5,099	1,758	956	7,813
Segment cost				
Operating expenses including depreciation	(1,557)	(2,453)	(659)	(4,669)
Impairment allowance	(341)	(1,109)	-	(1,450)
Profit for the period	<u>3,201</u>	<u>(1,804)</u>	<u>297</u>	<u>1,694</u>
Segment assets	154,690	231,492	60,575	446,757
Less: Impairment allowance	<u>(1,740)</u>	<u>(2,727)</u>	-	<u>(4,467)</u>
Total segment assets	<u>152,950</u>	<u>228,765</u>	<u>60,575</u>	<u>442,290</u>
Segment liabilities	<u>38,286</u>	<u>323,405</u>	<u>28,378</u>	<u>390,069</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

27. Segmental information (continued)

At 30 September 2016	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	59,285	50,618	3,097	113,000
Other revenues	4,721	8,985	8,808	22,514
	<u>64,006</u>	<u>59,603</u>	<u>11,905</u>	<u>135,514</u>
Interest, Islamic Window Deposit expenses	(13,301)	(18,056)	(7,106)	(38,463)
Net operating income	50,705	41,547	4,799	97,051
Segment cost				
Operating expenses including depreciation	(20,485)	(18,469)	(2,673)	(41,627)
Impairment for loans and investment net recoveries from allowance for loans impairment	(4,419)	(6,043)	(1,210)	(11,672)
	<u>25,801</u>	<u>17,035</u>	<u>916</u>	<u>43,752</u>
Tax expenses	(4,056)	(2,678)	(144)	(6,878)
Profit for the period	<u>21,745</u>	<u>14,357</u>	<u>772</u>	<u>36,874</u>
Segment assets	1,443,592	1,824,594	734,062	4,002,248
Less: Impairment allowance	(50,984)	(62,037)	(409)	(113,430)
Total segment assets	<u>1,392,608</u>	<u>1,762,557</u>	<u>733,653</u>	<u>3,888,818</u>
Segment liabilities	<u>613,565</u>	<u>2,310,907</u>	<u>476,684</u>	<u>3,401,156</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

27. Segmental information (continued)

Included in the above segment information the results of Islamic Banking Window as below:

At 30 September 2016	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	3,626	5,290	10	8,926
Other revenues	71	538	807	1,416
	<u>3,697</u>	<u>5,828</u>	<u>817</u>	<u>10,342</u>
Segment operating revenues	3,697	5,828	817	10,342
Profit expenses	(242)	(3,027)	(496)	(3,765)
holders' share of profit	<u>(242)</u>	<u>(3,027)</u>	<u>(496)</u>	<u>(3,765)</u>
Net operating income	3,455	2,801	321	6,577
Segment cost				
Operating expenses including depreciation	(1,423)	(2,076)	(4)	(3,503)
Impairment allowance	(218)	(346)	-	(564)
Profit for the period	<u>1,814</u>	<u>379</u>	<u>317</u>	<u>2,510</u>
Segment assets	118,844	173,535	102,852	395,231
Less: Impairment allowance	<u>(1,383)</u>	<u>(1,611)</u>	<u>-</u>	<u>(2,994)</u>
Total segment assets	<u>117,461</u>	<u>171,924</u>	<u>102,852</u>	<u>392,237</u>
Segment liabilities	<u>18,459</u>	<u>239,127</u>	<u>76,346</u>	<u>333,932</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

27. Segmental information (continued)

At 31 December 2016	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	79,782	70,000	4,528	154,310
Other revenues	6,074	11,557	12,060	29,691
Segment operating revenues	<u>85,856</u>	<u>81,557</u>	<u>16,588</u>	<u>184,001</u>
Interest, Islamic Window Deposit expenses	<u>(21,088)</u>	<u>(28,355)</u>	<u>(7,207)</u>	<u>(56,650)</u>
Net operating income	64,768	53,202	9,381	127,351
Segment cost				
Operating expenses including depreciation	(27,872)	(25,272)	(3,623)	(56,767)
Impairment for loans and investment net recoveries from allowance for loans impairment	(7,696)	(6,866)	(1,593)	(16,155)
Profit from operations after provision	<u>29,200</u>	<u>21,064</u>	<u>4,165</u>	<u>54,429</u>
Tax expenses	<u>(3,653)</u>	<u>(2,635)</u>	<u>(519)</u>	<u>(6,807)</u>
Net profit for the year	<u>25,547</u>	<u>18,429</u>	<u>3,646</u>	<u>47,622</u>
Segment assets	1,463,020	1,851,082	757,232	4,071,334
Less: Impairment allowance	<u>(54,838)</u>	<u>(64,044)</u>	<u>(409)</u>	<u>(119,291)</u>
Total segment assets	<u>1,408,182</u>	<u>1,787,038</u>	<u>756,823</u>	<u>3,952,043</u>
Segment liabilities	<u>1,050,501</u>	<u>1,962,844</u>	<u>404,698</u>	<u>3,418,043</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2017

27. Segmental information (continued)

Included in the above segment information the results of Islamic Banking Window as below:

At 31 December 2016	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	5,100	7,661	13	12,774
Other revenues	105	673	1,201	1,979
	<u>5,205</u>	<u>8,334</u>	<u>1,214</u>	<u>14,753</u>
Segment operating revenues	5,205	8,334	1,214	14,753
Profit expenses share of profit	(307)	(4,940)	(653)	(5,900)
Net operating income	<u>(307)</u>	<u>(4,940)</u>	<u>(653)</u>	<u>(5,900)</u>
Segment cost	4,898	3,394	561	8,853
Operating expenses including depreciation	(1,723)	(2,445)	(917)	(5,085)
Impairment allowance	(234)	(353)	-	(587)
Net profit for the year	<u>2,941</u>	<u>596</u>	<u>(356)</u>	<u>3,181</u>
Segment assets	127,480	191,598	134,645	453,723
Less: Impairment allowance	(1,399)	(1,618)	-	(3,017)
Total segment assets	<u>126,081</u>	<u>189,980</u>	<u>134,645</u>	<u>450,706</u>
Segment liabilities	<u>9,136</u>	<u>270,321</u>	<u>97,034</u>	<u>376,491</u>