



**Bank Sohar SAOG**

**BANK SOHAR SAOG**

**INTERIM CONDENSED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 30 JUNE 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 six months ended 30 June 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 June 2017.

The Bank's net profit for the six months ended 30 June 2017 amounted to OMR 11.566 million as compared to OMR 8.813 million during the same period in 2016, a growth of 31.24%. 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 decreased by 1.33% from OMR 36.052 million in the first six months of 2016 to OMR 35.572 million for the same period in 2017. Net operating income decreased by 5.61% from OMR 19.285 million in the first six months of 2016 to OMR 18.204 million in 2017. During the first six months of 2017, other operating income grew by 3.49% to OMR 12 million compared to OMR 11.595 million in the first six 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 12.12% from OMR 1.822 billion as at 30 June 2016 to OMR 2.044 billion as at 30 June 2017. Net loans and advances grew by 11.93% to OMR 1.997 billion as at 30 June 2017 from OMR 1.785 billion as at 30 June 2016. Total assets also grew, achieving an increase of 13.75% from OMR 2.351 billion as of the end of June 2016 to OMR 2.674 billion as of the end of June 2017. Customer deposits grew by 11.36% to OMR 1.660 billion as at 30<sup>th</sup> June 2017 compared to OMR 1.491 billion as at 30<sup>th</sup> June 2016. The Bank's market share of private sector credit was 9.66% as of April 2017 compared to 9.50% as at June 2016, while its share of private sector deposits was higher at 9.08% as of April 2017 compared to 8.35% as of June 2016.

The Bank reaffirms its commitment towards innovation and banking excellence by continuing its tenth year of operations with a successful second quarter. Its contributions towards the industry and the community were recognized with the OER Top 20 Award for the largest MSM listed companies.

The second quarter witnessed operational growth and events to mark the Bank's milestone tenth anniversary, for example continuing its strategy to expand its network with the opening of the Bank's twenty ninth branch in Mabellah. The Bank commemorated its landmark anniversary in a nation-wide celebration across all its branches.

The period also saw the rebranding of the Bank's CSR activities under a new emblem, 'Sohar Al Atta', continuing its profound impact on the local community. The Bank supported nine charity association in the first half of the year, such as Al Noor Association for the Blind (Al Dakhiliya Branch), Dar Al Atta Association and Special Olympics Oman Association.



## Bank Sohar SAOG

The Bank's Islamic banking window – Sohar Islamic – also followed through on its mission to make a positive impact on society. The Sharia compliant banking window sponsored the 12<sup>th</sup> Rattel Wartaqi Quran Competition and the Public Authority for Social Insurance's (PASI) annual football tournament.

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 six months of 2017. It also continues to conduct various Shari'a training programs to the staff. These sessions provide an excellent platform for the 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.

As a result of a renewed focus to develop stronger customer relations and provide better banking services, The Bank's social media identity has witnessed significant growth; it currently has over 50,000 Facebook fans and over 11,000 and 7,250 followers on Instagram and twitter respectively. Such channels allow customers to provide their feedback, concerns and queries, which can then be addressed more effectively. It also allows the Bank to communicate any updates regarding products, services, activities, etc. Further adding to this experience, the Bank regularly conducts competitions across its social media platforms, each of which have proved to be highly successful and grown to be increasingly popular with followers.

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 JUNE 2017

(RO'000)

	Note	30 June 2017 (Unaudited)	31 December 2016 (Audited)	30 June 2016 (Unaudited)
<b>ASSETS</b>				
Cash and balances with Central Bank	B1	119,166	119,613	112,501
Due from banks and other money market placements	B2	105,394	98,642	86,658
Loans, advances and financing, net	B3	1,997,612	1,913,075	1,784,812
Investments	B4	403,115	351,271	319,658
Property, equipment and fixtures		16,744	15,724	13,566
Investment properties		2,900	2,900	2,900
Other assets	B5	29,464	18,876	30,924
<b>TOTAL ASSETS</b>		<b>2,674,395</b>	<b>2,520,101</b>	<b>2,351,019</b>
<b>LIABILITIES</b>				
Due to banks and other money market borrowings	B6	595,369	575,547	460,581
Customers' deposits	B7	1,660,253	1,531,689	1,490,857
Other liabilities	B8	31,858	29,046	38,461
Subordinated loans		86,561	86,615	78,876
Compulsorily convertible bonds	B9	2,402	4,805	4,804
Certificates of deposits		18,511	18,513	18,002
<b>TOTAL LIABILITIES</b>		<b>2,394,954</b>	<b>2,246,215</b>	<b>2,091,581</b>
<b>SHAREHOLDERS' EQUITY</b>				
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
Fair value reserve		(1,145)	(772)	(4,922)
Subordinated loans reserve		50,000	50,000	40,000
Retained earnings		14,621	27,122	28,735
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>279,441</b>	<b>273,886</b>	<b>259,438</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>2,674,395</b>	<b>2,520,101</b>	<b>2,351,019</b>
<b>Net assets per share (in baizas)</b>		<b>156.58</b>	170.70	161.69
<b>CONTINGENT LIABILITIES</b>	B11.a	<b>407,967</b>	432,729	404,376
<b>COMMITMENTS</b>	B11.b	<b>441,089</b>	319,899	420,764

The interim condensed financial statements were approved and authorised for issue by the Board of Directors on 27 July 2017 and signed on their behalf by:

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Chairman

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Board member



**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
(Unaudited)  
(RO'000)

	Note	For the six months ended		For the three months ended	
		30 June 2017	30 June 2016	30 June 2017	30 June 2016
Interest income	C1	<b>52,090</b>	41,705	<b>26,486</b>	21,358
Interest expense	C2	<b>(30,552)</b>	(18,954)	<b>(15,151)</b>	(10,659)
<b>Net interest income</b>		<b>21,538</b>	22,751	<b>11,335</b>	10,699
Net income from Islamic financing and investing activities	C7	<b>1,596</b>	1,402	<b>844</b>	703
Other operating income	C3	<b>12,000</b>	11,595	<b>5,633</b>	7,388
Gains from available for sale investments		<b>440</b>	304	<b>86</b>	522
<b>TOTAL OPERATING INCOME</b>		<b>35,574</b>	36,052	<b>17,898</b>	19,312
Staff costs		<b>(10,312)</b>	(10,137)	<b>(5,164)</b>	(5,084)
Other operating expenses	C4	<b>(6,044)</b>	(5,707)	<b>(3,082)</b>	(2,862)
Depreciation		<b>(1,012)</b>	(923)	<b>(495)</b>	(471)
<b>TOTAL OPERATING EXPENSES</b>		<b>(17,368)</b>	(16,767)	<b>(8,741)</b>	(8,417)
<b>NET OPERATING INCOME</b>		<b>18,206</b>	19,285	<b>9,157</b>	10,895
Impairment on available for sale investments		<b>(856)</b>	(3,171)	<b>(423)</b>	(1,589)
Portfolio impairment allowance	B3, C5	<b>(862)</b>	(1,333)	<b>(824)</b>	(791)
Specific impairment allowance, net	B3	<b>(2,931)</b>	(4,702)	<b>(1,388)</b>	(3,185)
<b>NET PROFIT BEFORE TAX</b>		<b>13,557</b>	10,079	<b>6,522</b>	5,330
Income tax expense		<b>(1,991)</b>	(1,266)	<b>(948)</b>	(680)
<b>NET PROFIT FOR THE PERIOD</b>		<b>11,566</b>	8,813	<b>5,574</b>	4,650
<b>OTHER COMPREHENSIVE INCOME / (EXPENSE)</b>					
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		<b>(373)</b>	2,286	<b>(384)</b>	2,341
<b>Total other comprehensive income / (expense) for the period, net of income tax</b>		<b>(373)</b>	2,286	<b>(384)</b>	2,341
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>11,193</b>	11,099	<b>5,190</b>	6,991
Basic earnings per share for the period – <b>in baizas</b>	C6	<b>6.481</b>	4.938	<b>3.123</b>	2.606
Basic earnings per share for the period (annualized)– <b>in baizas</b>	C6	<b>13.069</b>	9.931	<b>12.528</b>	10.479
Diluted earnings per share for the period – <b>in baizas</b>	C6	<b>6.448</b>	4.914	<b>3.104</b>	2.586
Diluted earnings per share for the period (annualized)– <b>in baizas</b>	C6	<b>13.002</b>	9.881	<b>12.449</b>	10.401
<b>Net Profit for the period</b>					
Conventional banking		<b>11,414</b>	8,533	<b>5,387</b>	4,504
Islamic banking		<b>152</b>	280	<b>187</b>	146
<b>Total</b>		<b>11,566</b>	8,813	<b>5,574</b>	4,650



**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
**(Unaudited)**  
**(RO'000)**

	Share capital	Share premium	Legal reserve	General reserve	Fair value reserve	Subordinated loans reserve	Retained earnings	Total
<b>Balance as at 1 January 2017</b>	<b>160,450</b>	<b>17,193</b>	<b>18,905</b>	<b>988</b>	<b>(772)</b>	<b>50,000</b>	<b>27,122</b>	<b>273,886</b>
<b>Total comprehensive income for the period</b>								
Net profit for the period	-	-	-	-	-	-	11,566	11,566
<b>Other comprehensive income for the period</b>								
Impairment of available for sale investments, net of tax	-	-	-	-	856	-	-	856
Net change in fair value of available for sale investments, net of tax	-	-	-	-	(1,240)	-	-	(1,240)
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	11	-	-	11
<b>Total other comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(373)</b>	<b>-</b>	<b>-</b>	<b>(373)</b>
Issue of bonus shares for 2016	16,045	-	-	-	-	-	(16,045)	-
Dividends paid for 2016	-	-	-	-	-	-	(8,022)	(8,022)
Conversation of CCB to share capital	1,970	414	-	-	-	-	-	2,384
<b>Balance as at 30 June 2017</b>	<b>178,465</b>	<b>17,607</b>	<b>18,905</b>	<b>988</b>	<b>(1,145)</b>	<b>50,000</b>	<b>14,621</b>	<b>279,441</b>
Balance as at 1 January 2016	144,144	16,702	16,994	988	(7,208)	40,000	41,542	253,162
<b>Total comprehensive income for the period</b>								
Net profit for the period	-	-	-	-	-	-	8,813	8,813
<b>Other comprehensive income for the period</b>								
Impairment of available for sale investments, net of tax	-	-	-	-	3,064	-	-	3,064
Net change in fair value of available for sale investments, net of tax	-	-	-	-	(862)	-	-	(862)
Reclassified to profit or loss on sale of available for sale investments	-	-	-	-	84	-	-	84
<b>Total other comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,286</b>	<b>-</b>	<b>-</b>	<b>2,286</b>
Issue of bonus shares for 2015	-	-	-	-	-	-	(7,206)	(7,206)
Dividends paid for 2015	14,414	-	-	-	-	-	(14,414)	-
Conversation of CCB to share capital	1,892	491	-	-	-	-	-	2,383
<b>Balance as at 30 June 2016</b>	<b>160,450</b>	<b>17,193</b>	<b>16,994</b>	<b>988</b>	<b>(4,922)</b>	<b>40,000</b>	<b>28,735</b>	<b>259,438</b>

Note: Appropriations to legal reserve and sub-ordinated loan reserve are made on an annual basis.



**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
(Unaudited)  
(RO'000)

	30 June 2017	30 June 2016
<b>OPERATING ACTIVITIES</b>		
Net profit, before tax	13,557	10,079
Adjustments for:		
Depreciation	1,012	923
Impairment for credit losses	3,793	6,035
Impairment on available for sale investments	856	3,171
Gains on sale of available for sale investments	(440)	(304)
Loss on sale of fixed assets	-	(17)
Income from Islamic investment activities	(250)	(227)
Interest on investments	(3,386)	(2,077)
Interest accrued on subordinated loans and compulsorily convertible bonds	2,915	1,916
<b>Cash from operating activities before changes in operating assets and liabilities</b>	<b>18,057</b>	<b>19,499</b>
Due from banks and other money market placements	4,192	15,460
Loans, advances and financing	(88,352)	(143,653)
Investment in held for trading securities	(25,373)	-
Other assets	(11,290)	(14,915)
Due to banks and other money market borrowings	261,784	(160,756)
Customers' deposits	128,564	26,378
Certificate of deposits	(2)	(6)
Other liabilities	4,744	9,761
<b>Cash from / (used in) operating activities</b>	<b>292,324</b>	<b>(248,232)</b>
Income tax paid	(3,222)	(3,975)
<b>Net cash from / (used in) operating activities, net of tax</b>	<b>289,102</b>	<b>(252,207)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments, net	(9,300)	(2,369)
Proceeds from sale/redemption of investments	12,264	7,161
Acquisition of property, equipment and fixtures	(2,032)	(1,067)
Proceeds from sale of property, equipment and fixtures	-	17
Income from Islamic investment activities	231	231
Interest received on investments	3,386	2,077
<b>Net cash from investing activities</b>	<b>4,549</b>	<b>6,050</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(8,022)	(7,206)
Interest paid on subordinated loans and compulsorily convertible bonds	(2,989)	(1,794)
Issue of subordinated loans	-	27,500
<b>Net cash (used in) / from financing activities</b>	<b>(11,011)</b>	<b>18,500</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>282,640</b>	<b>(227,657)</b>
<b>CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD</b>	<b>120,071</b>	<b>266,690</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>402,711</b>	<b>39,033</b>
<b>REPRESENTING:</b>		
Cash and balances with Central Bank (other than capital deposit)	118,666	112,501
Due from banks and other money market placements due within 90 days	80,078	56,875
Investments securities maturing within 90 days	225,356	168,993
Due to banks and other money market borrowings within 90 days	(21,389)	(299,336)
	<b>402,711</b>	<b>39,033</b>

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 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 through a network of 28 conventional banking branches 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, Salam and providing commercial banking services, investment and other activities permitted under the Islamic Banking Regulatory Framework (IBRF).

The Bank employed 696 employees as at 30 June 2017 (31 December 2016: 702; 30 June 2016: 710).

**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, and 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.





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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 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 June 2017, 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 and 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 new and revised standards and interpretations has not resulted in any major changes 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 June 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 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 SIX MONTHS ENDED 30 JUNE 2017**  
**(RO'000)**

**B1 Cash and balances with Central Bank**

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Cash	17,394	16,883	16,487
Capital deposit with CBO	507	505	502
Balance with CBO	<b>101,265</b>	102,225	95,512
	<b>119,166</b>	119,613	112,501

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

**B2 Due from banks and other money market placements**

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
<i>Local currency:</i>			
Money market placements	-	10,159	5,014
	-	10,159	5,014
<i>Foreign currency:</i>			
Money market placements	55,842	42,354	44,275
Lending to banks	25,427	29,654	29,918
Demand balances	24,252	16,623	7,600
	<b>105,521</b>	88,631	81,793
	<b>105,521</b>	98,790	86,807
Portfolio impairment allowance on lending to banks	(127)	(148)	(149)
	<b>105,394</b>	98,642	86,658

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

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Balance at beginning of the period	148	110	110
Provided / (release) during the period (note C5)	(21)	38	39
Balance at the end of the period	<b>127</b>	148	149



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
**(RO'000)**

**B3 Loans, advances and financing, net**

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Corporate loans	<b>1,411,215</b>	1,351,878	1,238,123
Retail loans	<b>632,457</b>	602,625	584,761
	<hr/>	<hr/>	<hr/>
Gross loans, advances and financing	<b>2,043,672</b>	1,954,503	1,822,884
Portfolio impairment allowance	<b>(24,177)</b>	(23,294)	(21,882)
Specific impairment allowance, including contractual interest not recognised	<b>(21,883)</b>	(18,134)	(16,190)
	<hr/>	<hr/>	<hr/>
Net loans, advances and financing	<b>1,997,612</b>	1,913,075	1,784,812
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Gross loans, advances and financing include RO 131,150,020 (31 December 2016: RO 96,835,189; 30 June 2016: RO 82,719,997) under Islamic mode of financing through Sohar Islamic financing activities.

Loans, advances and financing comprise:

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Loans	<b>1,768,603</b>	1,715,199	1,618,735
Overdrafts	<b>125,064</b>	111,674	92,426
Loan against trust receipts	<b>101,549</b>	85,816	80,878
Bills discounted	<b>48,456</b>	41,814	30,845
	<hr/>	<hr/>	<hr/>
Gross loans, advances and financing	<b>2,043,672</b>	1,954,503	1,822,884
Portfolio impairment allowance	<b>(24,177)</b>	(23,294)	(21,882)
Specific impairment allowance, including contractual interest not recognised	<b>(21,883)</b>	(18,134)	(16,190)
	<hr/>	<hr/>	<hr/>
Net loans, advances and financing	<b>1,997,612</b>	1,913,075	1,784,812
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
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**B3 Loans, advances and financing, net (continued)**

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

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
<b>Portfolio impairment allowance</b>			
Balance at beginning of period	<b>23,294</b>	20,588	20,588
Provided during the period (note C5)	<b>883</b>	2,706	1,294
Balance at the end of the period	<b>24,177</b>	23,294	21,882
<b>Specific impairment allowance</b>			
<b>1) Loan loss provision</b>			
Balance at beginning of period	<b>12,923</b>	10,861	10,861
Provided during the period	<b>6,780</b>	13,551	11,369
Written back due to recovery	<b>(3,849)</b>	(7,816)	(6,667)
Written off during the period	<b>(21)</b>	(41)	(41)
Transfer (to) / from memoranda accounts	<b>182</b>	(3,632)	(3,788)
Balance at the end of the period (a)	<b>16,015</b>	12,923	11,734
<b>2) Contractual interest not recognised</b>			
Balance at beginning of period	<b>5,211</b>	4,598	4,598
Not recognised during the period	<b>1,531</b>	2,275	1,096
Written back due to recovery	<b>(874)</b>	(828)	(1,238)
Transfer to memoranda accounts	<b>-</b>	(834)	-
Balance at end of the period (b)	<b>5,868</b>	5,211	4,456
Total impairment (a) + (b)	<b>21,883</b>	18,134	16,190

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 reprice prior to maturity. Interest reserve account is maintained to comply with rules, regulations and guidelines issued by CBO against loans, advances and financing that are impaired. As of 30 June 2017, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 38,743,329 (31 December 2016: RO 33,082,070; 30 June 2016: RO 28,591,028).

**B4 Investments**

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Held for trading investments	<b>85,644</b>	60,271	44,257
Available for sale investments	<b>258,589</b>	237,784	222,922
Held to maturity investments	<b>58,882</b>	53,216	52,479
	<b>403,115</b>	351,271	319,658

In the case of equity investments classified as available for sale, a significant or prolonged decline in the value of the security below its cost is evidence that the assets are impaired. A decline in the value of a security below its cost of 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 June 2017, the Bank recorded an impairment charge of RO 856 thousands (31 December 2016: 7,305 thousand; 30 June 2016: RO 3,171 thousands) and disposed of investments on which impairment charges totalling RO 3,119 thousands (31 December 2016: 4,332 thousand; 30 June 2016: RO 3,759 thousands) were recorded earlier.



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**B4 Investments (continued)**

**B4.a Held-for-trading investments includes:**

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Government development bonds – Oman	<b>80,299</b>	54,926	38,912
Sukuk trust certificates – secured	<b>5,345</b>	5,345	5,345
	<b>85,644</b>	60,271	44,257

**B4.b Available for sale investments include:**

	<b>Carrying / fair value 30 June 2017 (Unaudited)</b>	<b>Cost 30 June 2017 (Unaudited)</b>	Carrying / fair value 31 December 2016 (Audited)	Cost 31 December 2016 (Audited)	Carrying / fair value 30 June 2016 (Unaudited)	Cost 30 June 2016 (Unaudited)
Unquoted securities	<b>1,915</b>	<b>1,915</b>	1,390	1,390	1,390	1,390
Quoted securities	<b>31,735</b>	<b>36,282</b>	41,628	48,093	52,567	60,260
Treasury bills	<b>224,939</b>	<b>224,568</b>	194,766	194,820	168,965	168,970
	<b>258,589</b>	<b>262,765</b>	237,784	244,303	222,922	230,620

- The carrying / fair value of available for sale investment are stated after reclassifying RO 3.718 million to the interim condensed statement of comprehensive income as impairments (31 December 2016: RO 5.981 million; 30 June 2016: RO 2.420 million).
- Unquoted securities include an investment of RO 1,881,519 (31 December 2016: RO 1,356,095; 30 June 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 16.9% stake in the Fund (31 December 2016: 16.9%; 30 June 2016: 16.9%). The bank has an Investment Management Agreement with the Fund.
- Treasury bills include investments in USD Treasury bills of RO 185 million (31 December 2016: RO 184.88 million; 30 June 2016: RO 129 million) assigned as collaterals against the Bank’s borrowings.

**B4.c Held to maturity investments include:**

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Quoted	<b>55,850</b>	50,184	46,930
Unquoted	<b>3,032</b>	3,032	5,549
	<b>58,882</b>	53,216	52,479



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**B5 Other assets**

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Acceptances	14,939	8,989	20,105
Prepayments	3,062	2,506	3,043
Receivables	4,220	1,813	2,441
Deferred tax asset	-	170	273
Positive fair value of derivatives	2,161	3,185	2,334
Others	5,082	2,213	2,728
	<u>29,464</u>	<u>18,876</u>	<u>30,924</u>

**B6 Due to banks and other money market borrowings**

	<b>30 June 2017 RO'000 (Unaudited)</b>	31 December 2016 RO'000 (Audited)	30 June 2016 RO'000 (Unaudited)
<i>Local currency:</i>			
Money market borrowings	39,653	22,001	13,000
Demand balances	7,169	2,549	1,580
	<u>46,822</u>	<u>24,550</u>	<u>14,580</u>
<i>Foreign currency:</i>			
Money market borrowings	353,784	454,401	343,482
Demand balances	1,712	-	5,955
Syndicated borrowings	193,051	96,596	96,564
	<u>548,547</u>	<u>550,997</u>	<u>446,001</u>
	<u>595,369</u>	<u>575,547</u>	<u>460,581</u>

**B7 Customers' deposits**

	<b>30 June 2017 (Unaudited)</b>			31 December 2016 (Audited)			30 June 2016 (Unaudited)		
	Conventional banking	Islamic banking	Total	Conventional banking	Islamic banking	Total	Conventional banking	Islamic banking	Total
<i>Retail customers:</i>									
Term deposits	80,445	5,651	86,096	61,896	5,697	67,593	52,872	5,042	57,914
Demand deposits	27,753	2,644	30,397	17,753	1,853	19,606	16,518	1,928	18,446
Saving deposits	251,364	11,837	263,201	249,425	11,240	260,665	254,844	10,661	265,505
<i>Corporate customers:</i>									
Term deposits	705,733	79,875	785,608	791,292	45,844	837,136	709,091	20,655	729,746
Demand deposits	456,476	4,048	460,524	305,258	5,944	311,202	375,190	5,605	380,795
Saving deposits	-	21,151	21,151	-	22,578	22,578	-	21,892	21,892
Margin deposits	9,568	3,708	13,276	7,656	5,253	12,909	6,876	9,683	16,559
	<u>1,531,339</u>	<u>128,914</u>	<u>1,660,253</u>	<u>1,433,280</u>	<u>98,409</u>	<u>1,531,689</u>	<u>1,415,391</u>	<u>75,466</u>	<u>1,490,857</u>



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**B8 Other liabilities**

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Acceptances	<b>14,939</b>	8,989	20,105
Staff entitlements	<b>2,501</b>	3,350	1,981
Income tax payable	<b>1,691</b>	3,219	1,382
Negative fair value of derivatives	<b>1,143</b>	2,982	2,969
Deferred tax liabilities	<b>155</b>	-	-
Other accruals and provisions	<b>11,429</b>	10,506	12,024
	<b>31,858</b>	29,046	38,461

**B9 Compulsorily convertible bonds**

The 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 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 June 2017 amounts to RO 2,402 million (31 December 2016: RO 4,805 million; 30 June 2016: RO 4,804 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 June 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 June 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 compulsorily convertible bonds amounting to RO 2.38 million have been converted into ordinary shares of the Bank resulting in issuance of 19,696,967 shares of RO 1.97 million. The balance of RO 0.41 million has been credited to share premium account.

As of 30 June 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	<b>276,013,306</b>	<b>15.47%</b>
The Royal Court of Affairs	<b>260,005,713</b>	<b>14.57%</b>



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
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**B11 Contingent liabilities and commitments**

**B11.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 the contract.

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Guarantees	<b>365,169</b>	378,092	363,746
Documentary letters of credit	<b>42,798</b>	54,637	40,630
	<b>407,967</b>	432,729	404,376

**B11.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 contract amounts do not necessarily represent future cash obligations.

	<b>31 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Capital commitments	<b>1,332</b>	2,653	2,389
Credit related commitments	<b>439,757</b>	317,246	418,375
	<b>441,089</b>	319,899	420,764





**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
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**B12 Related party transactions**

In the ordinary course of business the Bank conducts 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:

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
<b>Key management personnel</b>			
Loans, advances and financing at the end of the period	<b>2,697</b>	3,502	3,885
Loans disbursed during the period	<b>213</b>	472	349
Loans repaid during the period	<b>(1,002)</b>	(765)	(656)
Deposits at the end of the period	<b>838</b>	610	850
Deposits received during the period	<b>1,368</b>	333	389
Deposits repaid during the period	<b>(1,120)</b>	(786)	(754)
Interest income during the period	<b>72</b>	154	82
<b>Other related parties</b>			
Loans, advances and financing at the end of the period	<b>5,823</b>	4,967	11,975
Loans disbursed during the period	<b>7,087</b>	30,987	24,564
Loans repaid during the period	<b>(6,194)</b>	(42,408)	(34,309)
Deposits at the end of the period	<b>11,394</b>	12,631	12,464
Deposits received during the period	<b>10,821</b>	19,323	17,172
Deposits repaid during the period	<b>(12,112)</b>	(13,089)	(11,135)
Interest income during the period	<b>173</b>	322	224
Interest expense during the period	<b>348</b>	339	96
<b>Key management personnels' compensation</b>			
Salaries and other short term benefits	<b>1,703</b>	3,192	1,916
Post-employment benefits	<b>48</b>	162	74
Directors' sitting fees and remuneration	<b>176</b>	202	180
Shari'a Supervisory Board members	<b>20</b>	52	28

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

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
Loans, advances and financing at the end of the period	<b>19</b>	7,002	10,303
Loans disbursed during the period	<b>5,599</b>	87,393	36,441
Loans repaid during the period	<b>(23,765)</b>	(79,205)	(36,137)
Deposits at the end of the period	<b>4</b>	5,595	7
Deposits received during the period	<b>4</b>	1,477	1
Deposits repaid during the period	<b>(5,595)</b>	-	(4,118)
Interest income during the period	<b>58</b>	326	146
Interest expense during the period	<b>10</b>	-	7

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



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
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**B13 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:

<b>At 30 June 2017 (Unaudited )</b>	<b>Loans and receivables</b>	<b>Held to maturity</b>	<b>Available for sale</b>	<b>Held for trading</b>	<b>Total carrying (including accrued interest)/fair value</b>
<b>Assets</b>					
Cash and balances with CBO	119,166	-	-	-	119,166
Due from banks and other money market placements	105,394	-	-	-	105,394
Loans, advances and financing	1,997,612	-	-	-	1,997,612
Investments	-	58,882	258,589	85,644	403,115
Other assets (excluding prepayments)	26,402	-	-	-	26,402
<b>Total</b>	<b>2,248,574</b>	<b>58,882</b>	<b>258,589</b>	<b>85,644</b>	<b>2,651,689</b>
<b>Liabilities</b>					
Due to banks and other money market borrowings					595,369
Customers' deposits					1,660,253
Other liabilities (excluding other accruals & provisions)					20,692
Compulsorily convertible bonds					2,402
Certificates of deposits					18,511
Subordinated loans					86,561
<b>Total</b>					<b>2,383,788</b>



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**B13 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
<b>Assets</b>					
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)	16,159	-	-	-	16,159
<b>Total</b>	<b>2,147,489</b>	<b>53,216</b>	<b>237,784</b>	<b>60,271</b>	<b>2,498,760</b>
<b>Liabilities</b>					
Due to banks and other money market borrowings					575,547
Customers' deposits					1,531,689
Other liabilities (excluding other accruals & provisions)					18,982
Compulsorily convertible bonds					4,805
Certificates of deposits					18,513
Subordinated loans					86,615
<b>Total</b>					<b>2,236,151</b>

At 30 June 2016 (Unaudited)	Loans and receivables	Held to maturity	Available for sale	Held for trading	Total carrying (including accrued interest)/fair value
<b>Assets</b>					
Cash and balances with CBO	112,501	-	-	-	112,501
Due from banks and other money market placements	86,658	-	-	-	86,658
Loans, advances and financing	1,784,812	-	-	-	1,784,812
Investments	-	52,479	222,922	44,257	319,658
Other assets (excluding prepayments)	27,881	-	-	-	27,881
<b>Total</b>	<b>2,011,852</b>	<b>52,479</b>	<b>222,922</b>	<b>44,257</b>	<b>2,331,510</b>
<b>Liabilities</b>					
Due to banks and other money market borrowings					460,581
Customers' deposits					1,490,857
Other liabilities (excluding other accruals & provisions)					27,355
Compulsorily convertible bonds					4,804
Certificates of Deposits					18,002
Subordinated loans					78,876
<b>Total</b>					<b>2,080,475</b>



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**B13 Fair value of financial instruments (continued)**

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

<b>30 June 2017 (Unaudited)</b>	<b>Investment securities</b>	<b>Positive fair value of derivatives</b>	<b>Negative fair value of derivatives</b>	<b>Total</b>
Level 1	<b>91,056</b>	-	-	<b>91,056</b>
Level 2	<b>251,295</b>	<b>2,161</b>	<b>(1,143)</b>	<b>252,313</b>
Level 3	<b>1,882</b>	-	-	<b>1,882</b>
	<b>344,233</b>	<b>2,161</b>	<b>(1,143)</b>	<b>345,251</b>

  

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

  

<b>30 June 2016 (Unaudited)</b>	<b>Investment securities</b>	<b>Positive fair value of derivatives</b>	<b>Negative fair value of derivatives</b>	<b>Total</b>
Level 1	60,250	-	-	60,250
Level 2	205,298	2,334	(2,969)	204,663
Level 3	1,356	-	-	1,356
	<b>267,179</b>	<b>2,334</b>	<b>(2,969)</b>	<b>266,544</b>



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
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**B14 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 June 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	673	467	651,980	382,564	228,990	40,425
Interest rate swaps	2	2	5,775	5,775	-	-
Options	405	405	155,211	130,690	24,522	-
Forward foreign exchange sales contracts	1,488	676	652,256	383,188	227,942	41,126
Interest rate swaps	2	2	5,775	5,775	-	-
Options	405	405	155,211	130,690	24,522	-

  

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 June 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	29	2,877	406,128	159,845	209,708	13,475
Interest rate swaps	1	1	10,395	4,620	-	5,775
Options	143	143	194,837	26,831	168,006	-
Forward foreign exchange sales contracts	2,305	92	409,549	160,238	212,412	13,799
Interest rate swaps	1	1	10,395	4,620	-	5,775
Options	143	143	194,837	26,831	168,006	-

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
**(Unaudited)**  
**(RO'000)**

**C1 Interest income**

	For the six months ended		For the three months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Loans and advances to customers	47,621	39,261	24,083	20,147
Due from banks and other money market placements	1,083	367	515	149
Investments	3,386	2,077	1,888	1,062
	<u>52,090</u>	<u>41,705</u>	<u>26,486</u>	<u>21,358</u>

**C2 Interest expense**

	For the six months ended		For the three months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Customers' deposits	(20,471)	(12,214)	(9,936)	(7,271)
Subordinated loans	(2,827)	(1,774)	(1,422)	(964)
Due to banks and other money market borrowings	(7,166)	(4,824)	(3,758)	(2,362)
Compulsorily convertible bonds	(88)	(142)	(35)	(62)
	<u>(30,552)</u>	<u>(18,954)</u>	<u>(15,151)</u>	<u>(10,659)</u>

**C3 Other operating income**

	For the six months ended		For the three months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Fees and commission	8,573	7,917	4,560	5,641
Net gains from foreign exchange dealings	2,828	2,277	1,002	1,387
Profit on sale of fixed assets	-	17	-	17
Bad debt recovery written off earlier	30	14	22	10
Dividends income	569	1,370	49	333
	<u>12,000</u>	<u>11,595</u>	<u>5,633</u>	<u>7,388</u>

**C4 Other operating expenses**

	For the six months ended		For the three months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Operating and administration costs	(4,601)	(4,316)	(2,424)	(2,214)
Occupancy cost	(1,247)	(1,183)	(624)	(604)
Directors sitting fees *	(176)	(180)	(21)	(29)
Shari'a supervisory board remuneration and sitting fees	(20)	(28)	(13)	(15)
	<u>(6,044)</u>	<u>(5,707)</u>	<u>(3,082)</u>	<u>(2,862)</u>

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

**C5 Portfolio impairment allowance**

	For the six months ended		For the three months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
(Provided) / released during the period:				
- on loans and advances	(883)	(1,294)	(847)	(792)
- on lending to banks	21	(39)	23	1
	<u>(862)</u>	<u>(1,333)</u>	<u>(824)</u>	<u>(791)</u>



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
(Unaudited)  
(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.

	<b>For the six months ended</b>		<b>For the three months ended</b>	
	<b>30 June</b>	30 June	<b>30 June</b>	30 June
	<b>2017</b>	2016	<b>2017</b>	2016
Net profit for the period	<b>11,566</b>	8,813	<b>5,574</b>	4,650
Weighted average number of shares outstanding during the period (in thousands)	<b>1,784,646</b>	1,784,646	<b>1,784,646</b>	1,784,646
Basic earnings per share (in baizas)	<b>6.481</b>	4.938	<b>3.123</b>	2.606
Basic earnings per share annualized (in baizas)	<b>13.069</b>	9.931	<b>12.528</b>	10.479

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 convertible bonds, net of tax) for the period by the weighted average number of ordinary shares including dilutive potential ordinary shares that would be issued on the conversion of convertible bonds into ordinary shares.

	<b>For the six months ended</b>		<b>For the three months ended</b>	
	<b>30 June</b>	30 June	<b>30 June</b>	30 June
	<b>2017</b>	2016	<b>2017</b>	2016
Net profit for the period	<b>11,566</b>	8,813	<b>5,574</b>	4,650
Interest on convertible bonds, net of taxation	<b>75</b>	125	<b>29</b>	54
	<b>11,641</b>	8,938	<b>5,603</b>	4,704
Weighted average number of shares outstanding during the period after dilution (in thousands)	<b>1,805,371</b>	1,818,939	<b>1,805,371</b>	1,818,939
Diluted earnings per share (in baizas)	<b>6.448</b>	4.914	<b>3.104</b>	2.586
Diluted earnings per share annualized (in baizas)	<b>13.002</b>	9.881	<b>12.449</b>	10.401

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

	<b>For the six months ended</b>		<b>For the three months ended</b>	
	<b>30 June</b>	30 June	<b>30 June</b>	30 June
	<b>2017</b>	2016	<b>2017</b>	2016
Weighted average number of shares outstanding during the period	<b>1,784,646</b>	1,784,646	<b>1,784,646</b>	1,784,646
Dilutive potential ordinary shares to be issued on the conversion of convertible bonds	<b>20,725</b>	34,293	<b>20,725</b>	34,293
Weighted average number of shares outstanding during the period after dilution	<b>1,805,371</b>	1,818,939	<b>1,805,371</b>	1,818,939



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
(Unaudited)  
(RO'000)

**C7 Net income from Islamic financing and investing activities**

**C7.a Income earned from Islamic financing and investing activities**

	For the six months ended		For the three months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Financing to customers	2,914	1,725	1,622	898
Due from banks and other money market placements	19	3	6	2
Investments	250	227	136	112
	<u>3,183</u>	<u>1,955</u>	<u>1,764</u>	<u>1,012</u>

**C7.b Profit paid to depositors / money market borrowings**

	For the six months ended		For the three months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Profit paid to depositors	1,476	450	846	268
Profit paid to banks and other money market borrowings	111	103	74	41
	<u>1,587</u>	<u>553</u>	<u>920</u>	<u>309</u>
<b>Net income from Islamic financing and investing activities</b>	<u><u>1,596</u></u>	<u><u>1,402</u></u>	<u><u>844</u></u>	<u><u>703</u></u>



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 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.

<b>30 June 2017 (Unaudited)</b>	<b>Within three months</b>	<b>Four months to 12 months</b>	<b>One to three years</b>	<b>More than three years</b>	<b>Total</b>
<b>Assets</b>					
Cash and balances with Central Bank	42,094	31,126	13,138	32,808	119,166
Due from banks and other money market placements	88,624	14,816	1,954	-	105,394
Loans, advances and financing, net	322,832	243,205	471,132	960,443	1,997,612
Investments	284,433	30,220	17,284	71,178	403,115
Property, equipment and fixtures	-	-	-	16,744	16,744
Investment properties	-	-	-	2,900	2,900
Other assets	29,464	-	-	-	29,464
<b>Total assets</b>	<b>767,447</b>	<b>319,367</b>	<b>503,508</b>	<b>1,084,073</b>	<b>2,674,395</b>
<b>Liabilities and equity</b>					
Due to banks and other money market borrowings	72,591	267,821	254,957	-	595,369
Customers' deposits	429,246	501,690	216,262	513,055	1,660,253
Other liabilities	29,127	2,731	-	-	31,858
Subordinated loans	51,208	-	-	35,353	86,561
Compulsorily convertible bonds	-	2,402	-	-	2,402
Certificates of deposits	-	-	18,011	500	18,511
Shareholders' funds	-	-	-	279,441	279,441
<b>Total liabilities and equity</b>	<b>582,172</b>	<b>774,644</b>	<b>489,230</b>	<b>828,349</b>	<b>2,674,395</b>
<b>Gap</b>	<b>185,275</b>	<b>(455,277)</b>	<b>14,278</b>	<b>255,724</b>	<b>-</b>
<b>Cumulative Gap</b>	<b>185,275</b>	<b>(270,002)</b>	<b>(255,724)</b>	<b>-</b>	<b>-</b>



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 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
<b>Assets</b>					
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
<b>Total assets</b>	<b>621,292</b>	<b>347,776</b>	<b>480,130</b>	<b>1,070,903</b>	<b>2,520,101</b>
<b>Liabilities and equity</b>					
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
Shareholders' funds	-	-	-	273,886	273,886
<b>Total liabilities and equity</b>	<b>425,337</b>	<b>747,339</b>	<b>554,382</b>	<b>793,043</b>	<b>2,520,101</b>
<b>Gap</b>	<b>195,955</b>	<b>(399,563)</b>	<b>(74,252)</b>	<b>277,860</b>	<b>-</b>
<b>Cumulative Gap</b>	<b>195,955</b>	<b>(203,608)</b>	<b>(277,860)</b>	<b>-</b>	<b>-</b>



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
**(RO'000)**

**D Financial risk management (continued)**

**D1 Liquidity risk (continued)**

**D1.1 Exposure to liquidity risk (continued)**

30 June 2016 (Unaudited)	Within three months	Four months to 12 months	One to three years	More than three years	Total
<b>Assets</b>					
Cash and balances with Central Bank	52,700	24,522	13,300	21,979	112,501
Due from banks and other money market placements	56,790	29,868	-	-	86,658
Loans, advances and financing, net	309,845	241,811	371,228	861,928	1,784,812
Investments	198,930	21,215	37,629	61,884	319,658
Property, equipment and fixtures	-	-	-	13,566	13,566
Investment properties	-	-	-	2,900	2,900
Other assets	30,924	-	-	-	30,924
<b>Total assets</b>	<b>649,189</b>	<b>317,416</b>	<b>422,157</b>	<b>962,257</b>	<b>2,351,019</b>
<b>Liabilities and equity</b>					
Due to banks and other money market borrowings	90,527	144,091	225,963	-	460,581
Customers' deposits	345,346	477,576	259,028	408,907	1,490,857
Other liabilities	36,316	2,145	-	-	38,461
Subordinated loans	-	-	51,222	27,654	78,876
Compulsorily convertible bonds	-	2,402	2,402	-	4,804
Certificates of deposits	-	-	18,002	-	18,002
Shareholders' funds	-	-	-	259,438	259,438
<b>Total liabilities and equity</b>	<b>472,189</b>	<b>626,214</b>	<b>556,617</b>	<b>695,999</b>	<b>2,351,019</b>
<b>Gap</b>	<b>177,000</b>	<b>(308,798)</b>	<b>(134,460)</b>	<b>266,258</b>	<b>-</b>
<b>Cumulative Gap</b>	<b>177,000</b>	<b>(131,798)</b>	<b>(266,258)</b>	<b>-</b>	<b>-</b>



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 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:

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)	30 June 2016 (Unaudited)
<b>Tier I capital</b>			
Ordinary share capital	<b>178,465</b>	160,450	160,450
Share premium	<b>17,607</b>	17,193	17,193
Legal reserve	<b>18,905</b>	18,905	16,994
General reserve	<b>988</b>	988	988
Subordinated loan reserve	<b>50,000</b>	50,000	40,000
Retained earnings *	<b>14,621</b>	19,099	28,735
Fair value losses	<b>(1,231)</b>	(1,210)	(5,141)
Deferred tax asset	<b>-</b>	(170)	(273)
<b>Total</b>	<b>279,355</b>	265,255	258,946
<b>Tier 2 capital</b>			
Impairment allowance on portfolio basis	<b>24,304</b>	23,441	22,031
Fair value gains	<b>41</b>	199	102
Subordinated loan	<b>35,000</b>	35,000	37,500
Compulsorily convertible bonds	<b>2,383</b>	4,767	4,767
<b>Total</b>	<b>61,728</b>	63,407	64,400
<b>Total regulatory capital</b>	<b>341,083</b>	328,662	323,346
<b>Risk weighted assets</b>			
Credit and market risks	<b>2,397,216</b>	2,224,479	2,129,116
Operational risk	<b>130,335</b>	130,335	115,943
<b>Total risk weighted assets</b>	<b>2,527,551</b>	2,354,814	2,245,059
<b>Capital adequacy ratio</b>			
Total regulatory capital expressed as a percentage of total risk weighted assets	<b>13.49%</b>	13.96%	14.40%
Total tier I capital expressed as a percentage of total risk weighted assets	<b>11.05%</b>	11.26%	11.53%

The capital adequacy ratio is calculated in accordance with the Basel II & Basel III norms 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)**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2017**  
**(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 SIX MONTHS ENDED 30 JUNE 2017**  
**(RO'000)**

**E1 Segmental information**

<b>30 June 2017 (Unaudited)</b>	<i>Retail banking</i>	<i>Wholesale banking</i>	<i>Government institution, FI &amp; PFS*</i>	<i>Investments</i>	<i>Treasury</i>	<i>Head Office</i>	<i>Islamic banking</i>	<i>Total</i>
<b>Income Statement</b>								
Net interest income	7,965	11,124	2,209	279	644	(683)	-	21,538
Net income from Islamic financing and investing activities	-	-	-	-	-	-	1,596	1,596
Other operating income	1,626	7,614	1,207	202	2,666	(1,335)	460	12,440
Operating income	9,591	18,738	3,416	481	3,310	(2,018)	2,056	35,574
Operating expenses	(9,292)	(4,618)	(796)	(177)	(961)	(128)	(1,396)	(17,368)
	299	14,120	2,620	304	2,349	(2,146)	660	18,206
Impairment on available for sale investments	-	-	-	(856)	-	-	-	(856)
Portfolio impairment allowance	-	-	-	-	-	(502)	(360)	(862)
Specific impairment allowance	(1,661)	(1,149)	-	-	-	-	(121)	(2,931)
<b>Segment profit / (loss) for the period</b>	<b>(1,362)</b>	<b>12,971</b>	<b>2,620</b>	<b>(552)</b>	<b>2,349</b>	<b>(2,648)</b>	<b>179</b>	<b>13,557</b>
Income tax expense	-	-	-	-	-	(1,964)	(27)	(1,991)
<b>Profit / (loss) for the period</b>	<b>(1,362)</b>	<b>12,971</b>	<b>2,620</b>	<b>(552)</b>	<b>2,349</b>	<b>(4,612)</b>	<b>152</b>	<b>11,566</b>
<b>Segment Assets</b>	<b>561,909</b>	<b>1,021,461</b>	<b>309,892</b>	<b>19,697</b>	<b>445,350</b>	<b>159,903</b>	<b>156,183</b>	<b>2,674,395</b>
<b>Segment Liabilities &amp; Equity</b>	<b>440,222</b>	<b>348,786</b>	<b>707,738</b>	<b>11,505</b>	<b>629,187</b>	<b>380,227</b>	<b>156,730</b>	<b>2,674,395</b>

<b>30 June 2016 (Unaudited)</b>	<i>Retail banking</i>	<i>Wholesale banking</i>	<i>Government institution, FI &amp; PFS*</i>	<i>Investments</i>	<i>Treasury</i>	<i>Head Office</i>	<i>Islamic banking</i>	<i>Total</i>
<b>Income Statement</b>								
Net interest income	10,446	9,514	2,274	495	328	(306)	-	22,751
Net income from Islamic financing and investing activities	-	-	-	-	-	-	1,402	1,402
Other operating income	1,367	7,248	701	1,815	2,171	(1,658)	255	11,899
Operating income	11,813	16,762	2,975	2,310	2,499	(1,964)	1,657	36,502
Operating expenses	(9,436)	(3,571)	(727)	(889)	(925)	-	(1,219)	(16,767)
	2,377	13,191	2,248	1,421	1,574	(1,964)	438	19,285
Impairment on available for sale investments	-	-	-	(3,171)	-	-	-	(3,171)
Portfolio impairment allowance	-	-	-	-	-	(1,175)	(158)	(1,333)
Specific impairment allowance	(2,054)	(2,648)	-	-	-	-	-	(4,702)
<b>Segment profit / (loss) for the period</b>	<b>323</b>	<b>10,543</b>	<b>2,248</b>	<b>(1,750)</b>	<b>1,574</b>	<b>(3,139)</b>	<b>280</b>	<b>10,079</b>
Income tax expense	-	-	-	-	-	(1,266)	-	(1,266)
<b>Profit / (loss) for the period</b>	<b>323</b>	<b>10,543</b>	<b>2,248</b>	<b>(1,750)</b>	<b>1,574</b>	<b>(4,405)</b>	<b>280</b>	<b>8,813</b>
<b>Segment Assets</b>	<b>524,682</b>	<b>938,402</b>	<b>239,858</b>	<b>53,765</b>	<b>342,436</b>	<b>135,049</b>	<b>116,827</b>	<b>2,351,019</b>
<b>Segment Liabilities &amp; Equity</b>	<b>325,671</b>	<b>336,690</b>	<b>710,363</b>	<b>25,344</b>	<b>469,581</b>	<b>366,242</b>	<b>117,128</b>	<b>2,351,019</b>

\* Financial Institutions & Project Finance and Syndication.

**E2 Comparative figures**

Certain corresponding 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.